



KELLEY, THOMASON & COMPANY, P. C.  
CERTIFIED PUBLIC ACCOUNTANTS

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1993

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 1993

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Loudon County Solid Waste Disposal Commission as of June 30, 1993, and the related statements of income, retained earnings, and 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 generally accepted auditing standards and *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 Loudon County Solid Waste Disposal Commission as of June 30, 1993, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

*Kelley, Thomason & Company, P.C.*

November 19, 1993

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
BALANCE SHEET  
JUNE 30, 1993

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ASSETS

Current assets:

Cash	\$ 20,334	
Cash investments	632,012	
Accounts receivable, net of allowance for uncollectible accounts of \$1,234	230,170	
Prepaid expenses	<u>26,264</u>	

Total current assets \$ 908,780

Property and equipment:

Land and improvements	282,499	
Equipment	<u>78,408</u>	
	360,907	
Less accumulated depreciation	<u>(67,444)</u>	<u>293,463</u>

Total assets \$ 1,202,243

LIABILITIES AND RETAINED EARNINGS

Current liabilities:

Accounts payable	\$ 113,620	
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Other liabilities:

Customer deposits	<u>9,502</u>	
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Total liabilities 123,122

Retained earnings:

Appropriated	\$ 437,968	
Unappropriated	<u>641,153</u>	<u>1,079,121</u>

Total liabilities and  
retained earnings \$ 1,202,243

The accompanying notes are an integral part of these financial statements.

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
STATEMENT OF RETAINED EARNINGS  
YEAR ENDED JUNE 30, 1993

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APPROPRIATED

Balance, July 1, 1992	\$ -
Transfer from unappropriated retained earnings for Poplar Springs post-closure costs	<u>437,968</u>
Balance, June 30, 1993	<u>\$ 437,968</u>

UNAPPROPRIATED

Balance, July 1, 1992	\$ 314,109
Net income	765,012
Transfer to appropriated retained earnings	<u>(437,968)</u>
Balance, June 30, 1993	<u>\$ 641,153</u>

The accompanying notes are an integral part of these financial statements.

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
STATEMENT OF INCOME  
YEAR ENDED JUNE 30, 1993

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Operating revenue:		
Landfill charges		\$ 1,869,535
Operating expenses:		
Landfill management fees	\$ 970,940	
Engineering and laboratory fees	59,293	
State registration fees	12,533	
Depreciation	4,834	
Administrative fees	6,000	
Board of Commissioners - compensation	500	
Insurance and office expense	2,507	
Development costs - Phase II	<u>3,595</u>	
Total operating expenses		<u>1,060,202</u>
Operating income		809,333
Other income (expense):		
Interest income	8,107	
Service charges	6,964	
Interest expense	<u>(59,392)</u>	
Total other income (expense)		<u>(44,321)</u>
Net income		<u>\$ 765,012</u>

The accompanying notes are an integral part of these financial statements.

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 1993

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Cash flows from operating activities:	
Net income	\$ 765,012
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	4,834
Increase in accounts receivable	(134,168)
Decrease in prepaid expenses	21,469
Increase in accounts payable	23,485
Increase in customer deposits	<u>100</u>
Net cash provided by operating activities	680,732
 Cash flows from investing activities:	
Capital expenditures	<u>(243,982)</u>
 Net increase in cash	436,750
Cash at beginning of year	<u>215,596</u>
Cash at end of year	<u>\$ 652,346</u>
 Supplementary cash flow information:	
Interest paid	<u>\$ 59,392</u>
Taxes paid	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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

Organization and Operations

The Loudon County Solid Waste Disposal Commission exists under an intergovernmental agreement executed by the City of Loudon, City of Lenoir City and Loudon County. The agreement gives the Commission the authority and responsibility for overall supervision of the Loudon County Landfill. The Commission is also charged with the powers and responsibilities of a municipal solid waste region board under Tennessee State law.

The Commission is governed by a Board of Commissioners appointed by the respective governmental bodies as follows:

County Executive - 5 members  
Mayor of Lenoir City - 1 member  
Mayor of Loudon - 1 member

Basis of Accounting

The Commission uses the accrual method of accounting. Under this method, revenues are recognized when the service is performed and expenses are recognized when incurred.

Statement of Cash Flows

For purposes of the statement of cash flows, the Commission considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash.

Allowance for Uncollectible Accounts Receivable

The Commission provides an allowance for uncollectible accounts receivable equal to the estimated collection losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience coupled with review of the current status of the existing receivables.

Property and depreciation

Property is 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. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets over their five or fifteen year estimated useful lives.

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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**NOTE B - CASH AND CASH INVESTMENTS**

Deposits held by the Loudon County Solid Waste Disposal Commission at June 30, 1993 are summarized as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Covered by federal deposit insurance	\$ 100,000	\$ 100,000
Collateralized by securities pledged by the financial institution and held under a safe-keeping Escrow Agreement in the City of Loudon's name	552,331	551,259
Cash on hand	<u>15</u>	<u>-</u>
	<u>\$ 652,346</u>	<u>\$ 651,259</u>

Under the inter-governmental agreement which created the Loudon County Solid Waste Disposal Commission, the City of Loudon, Tennessee acts as custodian of the Commission's accounts. The City of Loudon's current policy limits deposits of funds to accounts with commercial banks which are required to pledge securities as collateral for deposits in excess of Federal Deposit Insurance Corporation coverage.

**NOTE C - CONCENTRATION OF CREDIT RISK**

The Loudon County Solid Waste Disposal Commission provides sanitary landfill services to Loudon County. The Commission grants credit to its customers, substantially all of whom are local governments and businesses, by requiring payment generally within 15 days of billing. A significant portion of the operations are attributable to a relatively small number of industrial plant and governmental entities.

**NOTE D - NET WORKING CAPITAL**

The Commission's net working capital (current assets less current liabilities) at June 30, 1993 is as follows:

Current assets	\$ 908,780
Current liabilities	<u>(113,620)</u>
Net working capital	<u>\$ 795,160</u>

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
NOTES TO FINANCIAL STATEMENTS

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**NOTE E - CHANGES IN PROPERTY AND EQUIPMENT**

	<u>Land and Improvements</u>	<u>Equipment</u>
Balance, July 1, 1992	\$ 38,516	\$ 78,408
Reimbursement to Loudon County for Matlock Bend	<u>243,983</u>	<u>-</u>
Balance, June 30, 1993	<u>\$ 282,499</u>	<u>\$ 78,408</u>

**NOTE F - APPROPRIATED RETAINED EARNINGS**

During the current year, the Commission appropriated retained earnings in the amount of \$437,968. This appropriation is to provide for landfill postclosure costs for the Poplar Springs Landfill, which is no longer in use. There is no provision in these financial statements for landfill closure or postclosure costs for the Matlock Bend Landfill.

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INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Loudon County Solid Waste Disposal Commission as of and for the year ended June 30, 1993, and have issued our report thereon dated November 19, 1993.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the Loudon County Solid Waste Disposal Commission is the responsibility of the Commission's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Loudon County Solid Waste Disposal Commission complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Commission had not complied, in all material respects, with those provisions. We noted certain immaterial instances of noncompliance that we have reported to the management of the Commission in a separate letter dated November 19, 1993.

This report is intended for the information of the Board of Commissioners. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Kelley, Thomason & Company, P.C.*

November 19, 1993

Members

American Institute of CPAs & Tennessee Society of CPAs

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INDEPENDENT AUDITORS' REPORT  
ON THE INTERNAL CONTROL STRUCTURE BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Loudon County Solid Waste Disposal Commission as of and for the year ended June 30, 1993 and have issued our report thereon dated November 19, 1993.

We conducted our audit in accordance with generally accepted auditing standards and *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.

In planning and performing our audit of the financial statements of the Loudon County Solid Waste Disposal Commission for the year ended June 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Loudon County Solid Waste Disposal Commission is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Members

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For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls

- ◀Receipts and revenue
- ◀Disbursements and purchases
- ◀Financing, investments, and debt
- ◀Financial reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those conditions are identified in the accompanying Schedule of Material Internal Control Weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of the Board of Commissioners. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Kelley, Thomason & Company, P.C.*

November 19, 1993

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
SCHEDULE OF MATERIAL INTERNAL  
CONTROL WEAKNESSES  
YEAR ENDED JUNE 30, 1993

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Finding #1 - Segregation of Duties

An important feature of internal accounting control is the segregation of duties assigned to employees so that no individual controls a transaction from its initiation to its final disposition. Such segregation of duties is not maintained in the following areas:

1. Same person who processes invoices, writes checks and maintains subsidiary records, also posts entries to the general ledger.
2. Purchasing and receiving functions are performed by the same person.
3. Cash accounts are reconciled by persons performing either cash collection or disbursement functions.

Recommendation

Each of these duties should be studied to determine which may be shifted to obtain the desired segregation and still maintain a reasonable workload for each person.

Management's Comments

*Due to the small size of the Commission, this segregation of duties would be hard to accomplish. In addition, it appears that the control benefits gained by adding another accounting position would not offset the related costs.*

Finding #2 - Review of Accounting Functions

With a small office staff, it is essential that there be a review of various accounting functions which are generally performed over and over by the same person. Special consideration should be given to journal entries, payrolls, and bank reconciliations.

Recommendation

Journal entries should be reviewed and approved by someone other than the person preparing the entry. Bank reconciliations should be periodically reviewed and tested by someone not involved in the initiation of these documents.

Management's Comments

*We intend to review all accounting functions and during this process we hope to develop new guidelines as suggested.*

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION  
SOLID WASTE DISPOSAL FUND  
BALANCE SHEET  
MARCH 31, 1994

ASSETS

Current Assets

Cash with Trustee	\$1,368,786
Receivables:	
Accounts Receivable - Customers	242,401
Allowance for Uncollectibles - Customers	(1,212)
Grant Reimbursement for Ten Year Plan	8,400
Interest Receivable (March)	2,549
Prepaid Expense	14,533 *

Total Current Assets ----- \$1,635,457

Fixed Assets

Property, Plant and Equipment	\$344,643 *
Less: Accumulated Depreciation	(57,483) *
Construction in Progress - Phase II	66,837 *

Total Fixed Assets ----- 353,997

TOTAL ASSETS ----- \$1,989,454  
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LIABILITIES AND RETAINED EARNINGS

Liabilities

Current Liabilities

Accounts Payable:	
March Santek Contract Fee	\$103,783
State Surcharge 1st Quarter 94	28,700
Audit Contract	1,250

Total Current Liabilities ----- \$133,733

Long-Term Liabilities

Customer Deposits	\$9,702
Estimated Closure and Postclosure Care Cost	880,715 *

Total Long-Term Liabilities ----- 890,417

Total Liabilities ----- \$1,024,150  
-----

Retained Earnings

Reserved for Closure and Postclosure Care Cost - Poplar Springs Landfill	\$437,968 *
Unreserved	527,336

Total Retained Earnings ----- 965,304

Total Liabilities and Retained Earnings ----- \$1,989,454  
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\* = AMOUNTS REFLECTED PULLED FROM AUDIT REPORT FOR PERIOD ENDED DECEMBER 31, 1993

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION  
SCHEDULE OF MATERIAL INTERNAL  
CONTROL WEAKNESSES  
YEAR ENDED JUNE 30, 1993

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Finding #3 - Review and Approval of Cash Disbursements

The physical act of signing checks is an appropriate control point for cash disbursements. Currently, the Commission does not require that invoices and/or other supporting documentation be submitted to check signers for their review while signing checks.

Recommendation

Invoices and/or other supporting documentation should be submitted to check signers for review. This would allow the check signer to indicate approval by physically marking the supporting documentation.

Management's Comments

*We intend to review all accounting functions and during this process we hope to develop new guidelines as suggested.*

