

SEVIER SOLID WASTE, INC.

**Financial Statements
With Required and Other Supplementary Information**

June 30, 2009

and

INDEPENDENT AUDITOR'S REPORT

SEVIER SOLID WASTE, INC.

Financial Statements
With Supplementary Information

June 30, 2009

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Independent Auditor's Report

To the Board of Directors
Sevier Solid Waste, Inc.

We have audited the accompanying statement of net assets of Sevier Solid Waste, Inc. (a nonprofit organization) as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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. 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 the 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 Sevier Solid Waste, Inc. as of June 30, 2009, and the respective changes in its net assets 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 November 30, 2009 on our consideration of Sevier Solid Waste, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

The Management's Discussion and Analysis on pages 3 - 5 and the Statement of Revenues and Expenses - Budget and Actual (Budgetary Basis) on pages 20 - 21 are not a required part of the basic financial statements but are 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 of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sevier Solid Waste, Inc.'s basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements of Sevier Solid Waste, Inc. The Schedule of Expenditures of Federal and State Awards and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brown Lake & McDaniel, PC

November 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. Sevier Solid Waste, Inc. (SSWI) provides solid waste disposal services to citizens of Sevier County and is jointly owned by the City of Gatlinburg, the City of Sevierville, the City of Pigeon Forge and Sevier County (the entities).

FINANCIAL STATEMENT REVIEW

The financial statements herein are comprised of the statement of net assets, the statement of revenues, 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 of SSWI'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:

Table 1
Net Assets

	FY 2009	FY 2008	Increase (Decrease)	
			Amount	%
Assets:				
Current and other assets	\$ 4,174,138	\$ 9,715,015	\$ (5,540,877)	-57.0%
Capital assets	<u>22,096,877</u>	<u>16,618,034</u>	<u>5,478,843</u>	33.0%
Total assets	<u>\$ 26,271,015</u>	<u>\$ 26,333,049</u>	<u>\$ (62,034)</u>	-0.2%
Liabilities:				
Current	\$ 1,421,438	\$ 2,683,295	\$ (1,261,857)	-47.0%
Long-term	<u>5,135,516</u>	<u>11,223,294</u>	<u>(6,087,778)</u>	-54.2%
Total liabilities	<u>\$ 6,556,954</u>	<u>\$ 13,906,589</u>	<u>\$ (7,349,635)</u>	-52.9%
Net assets (deficit):				
Invested in capital assets, net of related debt	\$ 21,033,060	\$ 9,041,946	\$ 11,991,114	132.6%
Unrestricted	<u>(1,318,999)</u>	<u>3,384,514</u>	<u>(4,703,513)</u>	-139.0%
Total net assets	<u>\$ 19,714,061</u>	<u>\$ 12,426,460</u>	<u>\$ 7,287,601</u>	58.6%

The Statement of Revenues and Expenses presents SSWI's results of operations. The table below is a condensed statement of revenues and expenses:

Table 2
Condensed Statement of Revenues and Expenses

	FY 2009	FY 2008	Increase (Decrease)	
			Amount	%
Operating revenues	\$ 4,526,355	\$ 5,404,451	\$ (878,096)	-16.2%
Total revenues	4,526,355	5,404,451	(878,096)	-16.2%
Operating expense	2,750,384	3,151,242	(400,858)	-12.7%
Depreciation and amortization	1,780,669	857,734	922,935	107.6%
Total expenses	4,531,053	4,008,976	522,077	13.0%
Operating income (loss)	(4,698)	1,395,475	(1,400,173)	-100.3%
Non-operating income (expense)	7,292,299	2,987,774	4,304,525	144.1%
Change in net assets	\$ 7,287,601	\$ 4,383,249	\$ 2,904,352	66.3%

RESULTS OF OPERATIONS

Solid waste operating revenue for 2009 decreased due to reduced tipping fees to the entities as they were not required to pay the debt portion after the entities paid SSWI bonds off. See non-operating increase for entities pay-off.

The increase in operating expenses was primarily attributable to an increase in closure and post-closure expenses. Sevier Solid Waste, Inc. has shown a positive change in net assets for the last five years. However, in the current year there was a significant change in the mix of net assets. Unrestricted decreased \$4,703,513 and invested in capital assets, net of related debt increased \$11,991,114. This was caused by the construction and purchase of assets to rebuild and replace the composting facility. This is also reflected in Table 1 in the increase in capital assets.

Other expenses in total, including operations, were similar with the prior year. Depreciation and amortization increased due to the rebuilding of the compost facility and it being put in use in the current year.

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 Cash Flows Statement are classifications for non-capital related financing, capital related financing and investing activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

In the current year, Sevier Solid Waste, Inc. continued construction on several new buildings to replace the buildings that were destroyed by the fire. Also, certain equipment that was destroyed in the compost facility was replaced. Capital asset additions in fiscal year 2009, net of reclassifications totaled \$6,909,347.

REQUEST FOR INFORMATION

Questions concerning this report or other requests for additional information should be directed to Tom Leonard, Manager at (865) 453-5676 or at his office located at 1826 Ridge Road, Pigeon Forge, Tennessee 37876.

Respectfully submitted,

Tom Leonard
General Manager

SEVIER SOLID WASTE, INC.

Statement of Net Assets

June 30, 2009

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,600,866
Receivables -	
Accounts receivable	485,994
Due from other governments	20,401
Insurance recovery receivable	2,036,853
Prepaid expenses	<u>30,024</u>
Total current assets	<u>4,174,138</u>
Capital assets:	
Land	2,020,163
Buildings	6,716,731
Composting facility	15,458,364
Improvements other than buildings	7,221,840
Furniture, fixtures and equipment	2,235,497
Vehicles	<u>133,284</u>
Total capital assets	33,785,879
Less accumulated depreciation	<u>11,689,002</u>
Net capital assets	<u>22,096,877</u>
Total assets	<u>\$ 26,271,015</u>

(Continued)

SEVIER SOLID WASTE, INC.

Statement of Net Assets
(Continued)

June 30, 2009

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable -	
Trade	\$ 173,937
Construction retainages	410,697
Accrued expenses	156
Current maturities of capital lease obligations	330,604
Reserve for closure and post-closure maintenance	415,000
Compensated absences	<u>91,044</u>
 Total current liabilities	 <u>1,421,438</u>

Long-term liabilities:

Capital lease obligations, less current maturities	322,516
Reserve for closure and post-closure maintenance, less current portion	<u>4,813,000</u>
 Total long-term liabilities	 <u>5,135,516</u>

Total liabilities	<u>6,556,954</u>
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Net assets:

Invested in capital assets, net of related debt	21,033,060
Unrestricted	<u>(1,318,999)</u>
 Total net assets	 <u>19,714,061</u>

Total liabilities and net assets	<u>\$ 26,271,015</u>
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The accompanying notes are an integral part of these financial statements.

SEVIER SOLID WASTE, INC.

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2009

Operating revenues:	
Tipping fees	\$ 4,452,194
Other income	<u>74,161</u>
Total operating revenues	<u>4,526,355</u>
Operating expenses:	
Personnel costs	893,449
Supplies	80,237
Maintenance	352,792
General services	154,437
Other (including state surcharge)	167,338
Recycling expenses	53,290
Closure and post-closure expenses	896,003
Other composting expenses	<u>152,838</u>
Total operating expenses	<u>2,750,384</u>
Operating income before depreciation and amortization	1,775,971
Depreciation	(1,418,312)
Amortization	<u>(362,357)</u>
Operating income (loss)	<u>(4,698)</u>
Non-operating income (expense):	
Grant income	76,874
Interest income	30,002
Interest expense	(282,980)
Loss on disposal of equipment	(12,192)
Insurance recoveries	229,308
Contribution from government	<u>7,251,287</u>
Net non-operating income (expense)	<u>7,292,299</u>
Change in net assets	7,287,601
Net assets, beginning of year	<u>12,426,460</u>
Net assets, end of year	<u>\$ 19,714,061</u>

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

SEVIER SOLID WASTE, INC.

Statement of Cash Flows

Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from forming entities	\$ 3,298,377
Cash received from customers	1,005,949
Cash payments to employees for services	(652,905)
Cash payments to suppliers and contractors	<u>(2,422,968)</u>
Net cash provided by operating activities	<u>1,228,453</u>
Cash flows from capital and related financing activities:	
Interest paid on bonds, notes payable and capital leases	(317,758)
Acquisition and construction of capital assets, net	(6,493,906)
Principal payments on bonds	(7,450,000)
Principal payments on notes payable and capital lease obligations	(221,462)
Insurance recoveries received	500,000
Capital contributions	76,874
Contributions from local government	<u>7,281,630</u>
Net cash used by capital and related financing activities	<u>(6,624,622)</u>
Cash flows from investing activities:	
Interest and dividends received	<u>30,002</u>
Net cash provided by investing activities	<u>30,002</u>
Net decrease in cash and cash equivalents	(5,366,167)
Cash and cash equivalents, beginning of year	<u>6,967,033</u>
Cash and cash equivalents, end of year	<u>\$ 1,600,866</u>
<u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>	
Operating income (loss)	\$ (4,698)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,780,669
(Increase) decrease in operating assets:	
Accounts receivable	(222,029)
Prepaid expenses	66,400
Increase (decrease) in operating liabilities:	
Accounts payable	(1,247,645)
Accrued expenses	118
Landfill closure/post-closure	850,000
Compensated absences	<u>5,638</u>
Net cash provided by operating activities	<u>\$ 1,228,453</u>
Supplemental disclosures:	
Non-cash investing and financing transaction:	
Lease of equipment -	
Equipment purchases	\$ 415,441
Capital lease obligation	(415,441)
Loss on disposal of plant and equipment	(12,192)

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

SEVIER SOLID WASTE, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The following items set forth the significant accounting policies, not disclosed elsewhere in the notes to the financial statements, which the Sevier Solid Waste, Inc. ("SSWI" or the "Organization") follows in presenting its financial statements.

Reporting Entity

Sevier Solid Waste, Inc. ("SSWI") is a non-profit organization formed by Sevier County and the Cities of Sevierville, Gatlinburg and Pigeon Forge, Tennessee, to develop a comprehensive program for disposal of solid waste. In addition to providing for the disposal of solid waste for these entities, SSWI also oversees the operations of disposal and recycling of solid waste. Each of the four government entities, which created SSWI, pays a pro rata share based on their percentage of the total waste brought to the disposal facility during the previous year and is given a place on the board of directors with voting interest directly proportionate to their pro rata shares for the year. None of the entities has a voting interest or financial responsibility greater than 50 percent. The criteria for including organizations with SSWI's reporting entity, as set forth in GASB No. 14, *The Financial Reporting Entity*, is financial accountability. Financial accountability is defined as appointment of a voting majority of a component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. SSWI's financial statements do not include the operations of these member governments because none of the criteria for inclusion as set forth in GASB No. 14 have been met. See Note 5 for funding responsibilities. As none of the four entities has a controlling interest in the Organization, SSWI is not included as a component unit of any of the four entities.

Net assets are classified into the following three components, as defined below:

- Invested in capital net assets, net of related debt — This component of net assets 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)Reporting Entity (Continued)

- Restricted — This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted — This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Basis of Presentation

SSWI maintains its books and records on an accrual basis, whereby support and revenue are recognized in the accounting period in which they are contributed or earned and expenses in the accounting period in which the liability is incurred.

SSWI applies Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board ("GASB") pronouncements, in which case GASB prevails. The Organization has elected not to adopt FASB statements and interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting."

Income Tax

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Budgetary Control

SSWI's budget is prepared on a detailed line item basis using a modified cash basis of accounting. Revenues are budgeted by source. Expenditures are budgeted by class as follows: personnel costs, supplies, maintenance and repairs, general services, capital expenditures, utilities, contracted services, debt service, license fees, depreciation and other expenses. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the Board of Directors. Within these control levels, management may transfer appropriations without Board approval.

Fiscal Year

The Organization operates on a fiscal year from July 1 to June 30. Any references to a year in these financial statements or notes are in reference to the fiscal year then ended.

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)Accounts Receivable

Accounts receivable represents billed amounts uncollected prior to June 30, 2009. All accounts receivable are considered collectible and no provision for uncollectible accounts has been made. All accounts receivable at year end appear to be collectible.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, SSWI considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are stated at cost less accumulated depreciation, computed on the straight-line basis over the estimated useful life of that asset. Estimated useful lives are as follows:

Buildings	10 - 30 years
Furniture and fixtures	7 - 10 years
Equipment	5 - 10 years
Vehicles	3 - 5 years
Other improvements	3 - 15 years

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Full-time permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with SSWI. Sick leave accrues to full-time, permanent employees to specified maximums. The specified benefits are listed below:

<u>Vacation Leave Accrual Per Month</u>	<u>Years of Service</u>	<u>Sick Leave Accrual Per Month</u>
6-2/3 hours	1	8 hours
8 hours	2 - 5	8 hours
10 hours	6 - 10	8 hours
12 hours	11 - 15	8 hours
13-1/3 hours	16 or more	8 hours

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)Compensated Absences (Continued)

Vacation leave may be accumulated to a maximum of 240 hours. The excess at year-end will be converted to sick leave. An employee who is separated from the employment of SSWI shall be paid for his/her unused vacation leave on a regular pay period basis. Sick leave may be accumulated without a maximum limitation.

Upon retirement, an employee's accumulated sick leave will be credited to his length of service, if it is advantageous to the employee in calculating retirement benefits. Dismissal or resignation will result in loss of accrued sick leave benefits.

The liability for vested vacation and sick leave benefits attributable to SSWI is recorded as an expenditure when earned and as a liability until used by the employee.

(2) Deposits and Investments

Deposits totaled \$1,644,905 as of June 30, 2009 and are included in SSWI's financial statements as "cash and cash equivalents". Deposits in excess of federally insured amounts as of June 30, 2009 were covered by the bank's participation in the bank collateral pool administered by the Treasurer of the State of Tennessee (the "State"). Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Public fund accounts covered by the pool are considered entirely insured.

Statutes authorize SSWI to invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; and the Local Government Investment Pool ("LGIP").

(3) Capital Assets

Changes in capital assets in 2009 were as follows:

	Balance July 1, 2008	Additions (Reclassifications)	Decreases	Balance June 30, 2009
Land (nondepreciable)	\$ 2,020,163	\$ -	\$ -	\$ 2,020,163
Buildings	539,465	6,177,266	-	6,716,731
Composting facility	15,615,984	(157,620)	-	15,458,364
Other improvements	7,176,585	45,255	-	7,221,840
Furniture, fixtures and equipment	1,582,286	844,446	191,235	2,235,497
Vehicles	133,284	-	-	133,284
Total capital assets	<u>27,067,767</u>	<u>6,909,347</u>	<u>191,235</u>	<u>33,785,879</u>
Buildings	(267,013)	(53,095)	-	(320,108)
Composting facility	(4,359,152)	(474,226)	-	(4,833,378)
Other improvements	(4,956,903)	(683,616)	-	(5,640,519)
Furniture, fixtures and equipment	(762,526)	(185,518)	(179,043)	(769,001)
Vehicles	(104,139)	(21,857)	-	(125,996)
Total accumulated depreciation	<u>(10,449,733)</u>	<u>(1,418,312)</u>	<u>(179,043)</u>	<u>(11,689,002)</u>
Net capital assets	<u>\$ 16,618,034</u>	<u>\$ 5,491,035</u>	<u>\$ 12,192</u>	<u>\$ 22,096,877</u>

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(4) Pension PlanPlan Description

Employees of SSWI are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Sevier Solid Waste, Inc. participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

SSWI has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll.

SSWI is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 13.33% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for SSWI is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2009, SSWI's annual pension cost of \$68,691 to the TCRS was equal to SSWI's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuations using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuations include (a) rate of return on investment of present and future assets of 7.5% a year compounded

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(4) Pension Plan (Continued)Annual Pension Cost (Continued)

annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. SSWI's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period as of July 1, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2009	\$ 68,691	100%	\$ -
2008	72,703	100%	-
2007	69,878	100%	-
2006	56,788	100%	-
2005	49,514	100%	-
2004	40,230	100%	-

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the Plan was 74.88% funded. The actuarial accrued liability for benefits was \$0.82 million, and the actuarial value of assets was \$0.62 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.20 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$1 million, and the ratio of the UAAL to the covered payroll was 37.89%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the Plan.

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(4) Pension Plan (Continued)Funded Status and Funding Progress (Continued)

Schedule of Funding Progress for SSWI:

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 620	\$ 828	\$ 208	74.88%	\$ 549	37.89%
July 1, 2005	434	504	70	86.06%	422	16.63%
July 1, 2003	313	388	75	80.67%	412	18.20%

(5) Long-Term Liabilities

Long-term liabilities payable as of June 30, 2009 include the following obligations:

	July 1, 2008	Additions	Retirements	June 30, 2009	Due Within One Year
Bonds Payable:					
Series III-E-3	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -	\$ -
Series V1-E-1	4,950,000	-	4,950,000	-	-
Total bonds payable	7,450,000	-	7,450,000	-	-
Capital Leases:					
963C Track Loader	55,876	-	55,876	-	-
826G Landfill Compactor	76,718	-	27,128	49,590	49,590
Articulated Truck	123,258	-	25,405	97,853	97,853
D6RXL Dozer	42,919	-	42,919	-	-
950H Wheel Loader	160,370	-	48,805	111,565	111,565
938H Wheel Loader	-	165,225	2,976	162,249	37,800
D6TXW Dozer	-	250,216	18,353	231,863	33,796
Total capital leases	459,141	415,441	221,462	653,120	330,604
	7,909,141	\$ 415,441	\$ 7,671,462	653,120	\$ 330,604
Less current maturities	715,794			330,604	
	7,193,347			322,516	
Less unamortized reacquisition costs	333,053			-	
Total long-term liabilities	\$ 6,860,294			\$ 322,516	

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)

Sevier County and the cities of Pigeon Forge, Sevierville and Gatlinburg had pledged their full faith and credit severally, but not jointly, to repayment of bond obligations. During the year, each entity refinanced their respective portions of SSWI bonds into their name. A contribution was recorded equal to the cost to retire the bonds net of the unamortized reacquisition costs and the bond issuance costs.

Future maturities of long-term liabilities are as follows:

	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$330,604	\$27,397
2011	75,858	15,723
2012	121,134	10,706
2013	38,925	5,060
2014	<u>86,599</u>	<u>1,568</u>
	<u>\$653,120</u>	<u>\$60,454</u>

(6) Operating Leases

The Organization leases certain equipment under noncancelable operating leases expiring on various dates through 2014. Total rental expense for all noncancelable operating leases totaled \$76,167 in 2009. There will be no future minimum lease payments on this equipment.

(7) Closure and Post-Closure Care Costs

Sevier Solid Waste, Inc. is responsible for landfill closure and post-closure maintenance according to state law. A portion of the estimated total future cost of this care is allocated to each period that the landfill is operated. Total future cost is an estimate based on a first year cost and adjusted by an inflationary rate over the required years of post-closure maintenance and is periodically adjusted by management for changes in technology, applicable laws or regulations. Cost allocation starts at the date solid waste is accepted at the landfill site and is based on capacity filled each year.

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(7) Closure and Post-Closure Care Costs (Continued)

Following is a schedule of phases of the landfills and their related reserves as of June 30, 2009:

	Reserve for Closure and Post-Closure Maintenance	Percentage of Capacity Used	Remaining Estimated Cost of Closure and Post-Closure Maintenance	Estimated Remaining Useful Life (Years)
Phase II & III	\$ 108,000	100%	\$ -	0
Phase I Extension	119,000	100%	-	0
Demolition	1,000	100%	-	0
Phase IV A	331,000	100%	-	0
Phase IV B & C	4,155,000	95%	208,000	1 - 3
Class IV Landfill	<u>514,000</u>	95%	<u>26,000</u>	0 - 1
Total (including \$91,765) classified as current)	<u>\$ 5,228,000</u>		<u>\$ 234,000</u>	

Although closure and post-closure care maintenance costs will be paid only near or after the date the landfill stops accepting waste, the Organization reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The Organization will recognize the remaining estimated cost of closure and post-closure maintenance of Phases IV B&C as the remaining estimated capacity is filled. Given the difficulties inherent in estimated closure and post-closure reserves, it is reasonably possible that the projections used by management in arriving at the estimated reserve could change in the near term based on actual results, and that such changes could result in the future recognition of additional costs.

Sevier County has signed four contracts in lieu of performance bonds on behalf of SSWI in the sum of \$1,832,849 to meet the financial assurance requirements as set forth by the Tennessee Department of Environment and Conservation.

(8) Risk Management

SSWI 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. Because of this exposure, the Organization purchases commercial insurance for claims arising from these risks of loss. (See the Other Supplementary Information section for a schedule of insurance in force and related coverage). There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SEVIER SOLID WASTE, INC.

Notes to Financial Statements
(Continued)(9) Related Party Transactions

In addition to the bond principal and interest reimbursements described in Note 5, the Organization received the following tipping and tonnage fees from the four entities as follows:

	2009 Tipping/Tonnage Fees	June 30, 2009 Accounts Receivable
	<u> </u>	<u> </u>
Sevier County	\$ 1,164,171	\$ 100,396
Pigeon Forge	981,682	107,141
Gatlinburg	551,090	56,074
Sevierville	500,832	66,735
	<u> </u>	<u> </u>
	<u>\$ 3,197,775</u>	<u>\$ 330,346</u>

REQUIRED SUPPLEMENTARY INFORMATION

SEVIER SOLID WASTE, INC.

Statement of Revenues and Expenses - Budget and Actual
(Budgetary Basis)

Year Ended June 30, 2009

	2009 Original Budget	2009 Final Budget	2009 Actual	2008 Actual
Revenues:				
Governmental assessments and contributions for bond repayment	\$ 1,150,475	\$ 1,150,475	\$ 7,251,288	\$ 1,150,475
Governmental tipping fees and assessments	891,275	891,275	3,205,700	2,523,491
Tipping fees - private	1,300,000	1,300,000	1,221,162	1,317,085
Sludge	92,750	92,750	25,332	248,631
Grants	80,000	80,000	76,874	54,886
Recycling revenue	75,000	75,000	55,648	120,525
Earned interest	35,000	35,000	30,002	85,383
Rents	6,000	6,000	4,396	7,024
Insurance recoveries	2,307,545	2,307,545	229,308	3,303,611
Other revenues	-	-	14,116	37,221
Prior year fund balance	6,604,429	6,604,429	-	-
Total revenues	12,542,474	12,542,474	12,113,826	8,848,332
Expenses:				
Salaries and related costs:				
Salaries, classified	655,000	655,000	611,802	629,329
Salaries, other	50,000	50,000	36,775	38,765
Uniforms	7,500	7,500	5,897	7,253
Car allowance	5,220	5,220	5,220	5,220
Payroll taxes	61,000	61,000	48,485	49,877
Retirement	79,000	79,000	68,691	72,340
Benefits	177,500	177,500	112,976	137,602
Employee expense	2,500	2,500	2,921	2,992
Travel	2,500	2,500	683	20
Total salaries and related costs	1,040,220	1,040,220	893,450	943,398
Supplies:				
Office supplies	3,500	3,500	5,025	3,119
Operating equipment, gasoline and diesel fuel	169,500	169,500	102,771	217,899
Equipment leasing, compost plant	200,000	200,000	63,067	61,034
Safety equipment and tools	6,000	6,000	-	326
Chemicals	2,000	2,000	500	-
Total supplies	381,000	381,000	171,363	282,378
Maintenance:				
Machinery maintenance	610,000	610,000	129,727	117,899
Repair and maintenance, compost plant	175,000	175,000	110,881	84,142
Wood grinding contract	50,000	50,000	70,825	34,670
Total maintenance	835,000	835,000	311,433	236,711

(Continued)

SEVIER SOLID WASTE, INC.

Statement of Revenues and Expenses - Budget and Actual
(Budgetary Basis)Year Ended June 30, 2009
(Continued)

	2009 Original Budget	2009 Final Budget	2009 Actual	2008 Actual
Expenses (continued):				
General services:				
Telephone	\$ 8,000	\$ 8,000	\$ 7,882	\$ 7,794
Contracted services	90,500	90,500	72,581	83,007
Education	1,450	1,450	446	544
Utilities	7,500	7,500	7,624	7,054
Insurance	<u>180,000</u>	<u>180,000</u>	<u>98,806</u>	<u>112,851</u>
Total general services	<u>287,450</u>	<u>287,450</u>	<u>187,339</u>	<u>211,250</u>
Miscellaneous:				
State landfill fees	45,000	45,000	119,124	77,315
Miscellaneous	7,830	7,830	42,195	12,866
Tire grant	<u>54,000</u>	<u>54,000</u>	<u>53,290</u>	<u>54,858</u>
Total miscellaneous	<u>106,830</u>	<u>106,830</u>	<u>214,609</u>	<u>145,039</u>
Other expenses:				
Compost hauling	50,000	50,000	-	-
Compost digester	-	-	5,781	-
Compost plant utilities	150,000	150,000	61,906	23,043
Bond principal and interest	1,300,000	1,300,000	7,732,980	1,328,990
Landfill expansions - buildings and grounds	80,000	80,000	41,359	42,233
Equipment purchases	8,336,974	8,336,974	6,909,347	7,114,575
Capital lease payments	<u>-</u>	<u>-</u>	<u>247,085</u>	<u>363,482</u>
Total other expenses	<u>9,916,974</u>	<u>9,916,974</u>	<u>14,998,458</u>	<u>8,872,323</u>
Total expenditures	<u>12,567,474</u>	<u>12,567,474</u>	<u>16,776,652</u>	<u>10,691,099</u>
Total revenues less expenditures	<u>\$ (25,000)</u>	<u>\$ (25,000)</u>	<u>\$ (4,662,826)</u>	<u>\$ (1,842,767)</u>

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

SEVIER SOLID WASTE, INC.

Schedule of Insurance in Force

June 30, 2009

Description	Coverage	Amount
Property, equipment and crime	Buildings and personal property	\$ 11,853,653
Worker's compensation	All compensation damages and other benefits required by law	Statutory
	Employer liability:	
	Bodily injury by accident per occurrence	300,000
	Bodily injury by disease per employee	300,000
	Bodily injury by disease policy limit	700,000
Liability errors & omissions	Public officials errors and omissions	1,000,000
Automobile	Public officials liability and automotive liability:	
	Tort coverage:	
	Bodily injury, per person	300,000
	Bodily injury, per occurrence	700,000
	Property damage, per occurrence	100,000
Employee dishonesty		100,000

See independent auditor's report.

SEVIER SOLID WASTE, INC.

Schedule of Long-Term Debt Principal and Interest Requirements

June 30, 2009

Fiscal Year	Caterpillar Financial Services 938H Wheel Loader 6.75%		Caterpillar Financial Services D6TXW Dozer 4.72%		Caterpillar Financial Services 950H Wheel Loader 3.50%		Caterpillar Financial Services 826G Landfill Compactor 4.95%		Caterpillar Financial Services Articulated Truck 4.25%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 37,800	\$ 9,796	\$ 33,796	\$ 10,189	\$ 111,565	\$ 3,670	\$ 49,590	\$ 1,861	\$ 97,853	\$ 1,881	\$ 330,604	\$ 27,397
2011	40,432	7,164	35,426	8,559	-	-	-	-	-	-	75,858	15,723
2012	84,017	3,838	37,117	6,868	-	-	-	-	-	-	121,134	10,706
2013	-	-	38,925	5,060	-	-	-	-	-	-	38,925	5,060
2014	-	-	86,599	1,568	-	-	-	-	-	-	86,599	1,568
	\$ 162,249	\$ 20,798	\$ 231,863	\$ 32,244	\$ 111,565	\$ 3,670	\$ 49,590	\$ 1,861	\$ 97,853	\$ 1,881	\$ 653,120	\$ 60,454

See independent auditor's report.

SEVIER SOLID WASTE, INC.

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2009

Name of Grant	Grantor Agency	Program Identification or Contract Number	CFDA Number	Balance July 1, 2008		Receipts	Expenditures (Grantor Portion)	Refunds or Transfers to (from) New Program Year	Balance June 30, 2009	
				Receivable	Unexpended				Receivable	Unexpended
FEDERAL AWARDS:										
None	N/A	N/A	N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
STATE AWARDS:										
Recycling Equipment Grant	Department of Environment & Conservation	Z-05-020903-00	N/A	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ -
Waste Tire Options Grant	Department of Environment & Conservation	Z-08-213004-00	N/A	-	-	31,473	51,874	-	-	20,401
Waste Tire Options Grant	Department of Environment & Conservation	Z-08-020267-00	N/A	15,966	-	15,966	-	-	-	-
Total State Awards				\$ 15,966	\$ -	\$ 72,439	\$ 76,874	\$ -	\$ -	\$ 20,401

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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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*

To the Board of Directors
 Sevier Solid Waste, Inc.

We have audited the financial statements of Sevier Solid Waste, Inc. (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sevier Solid Waste, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sevier Solid Waste, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sevier Solid Waste, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Sevier Solid Waste, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Sevier Solid Waste, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Sevier Solid Waste, Inc.'s internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described as follows:

Cash Disbursements

Finding (#09-1): During our audit, we noted the following:

- Seven instances of paying from a faxed invoice with no original present.
- Five instances of capital item being posted to expense accounts.
- Two instances of purchase orders not being properly completed.
- One instance of only one signature on the disbursement check.

Recommendation: We recommend an original invoice be used for all disbursements. We also recommend that all purchase orders be properly completed and care be taken to post all disbursement to proper accounts.

Management Response: We concur.

Accounts Payable

Finding (#09-2): During our audit, we noted several payables were not on the accounts payable listing.

Recommendation: We recommend care be taken to insure that all payables are properly recorded at year-end.

Management Response: We concur.

Long-Term Debt and Leases Payable

Finding (#09-3): During our audit, we noted the payment on long-term debt was not properly recorded. We also noted that several financing leases were not properly recorded.

Recommendation: We recommend care be taken to insure that all debt payments and financing leases are properly recorded.

Management Response: We concur.

Adjusting Journal Entries

Finding (#09-4): During our audit, we had to make material journal entries so that the financial statements would conform to generally accepted accounting principles.

Recommendation: Management should evaluate the cost and benefits of employing personnel with the technical expertise to detect and correct misstatements of financial statements so that they conform to generally accepted accounting principles.

Management Response: We concur. We have evaluated the cost and benefits of employing such personnel. Our determination was that the benefits do not outweigh the cost.

Financial Statement Preparation

Finding (#09-5): The Organization does not employ personnel that have the technical expertise to prepare annual financial reports in accordance with generally accepted accounting principles.

Recommendation: The Organization should evaluate the cost and benefits of employing personnel with the technical expertise to prepare annual financial reports in accordance with generally accepted accounting principles.

Management Response: We concur. We have evaluated the cost and benefits of employing such personnel. Our determination was that the benefits do not outweigh the cost. Instead, we will contract the preparation of the Organization's annual financial report out to our auditors and will retain the responsibility of reviewing and accepting the financial report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Sevier Solid Waste, Inc.'s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items #09-1 through #09-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sevier Solid Waste, Inc.'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*.

Sevier Solid Waste, Inc.'s responses to the findings identified in our audit are described above. We did not audit Sevier Solid Waste, Inc.'s responses and, accordingly, we express no opinion on them.

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

Brown Lake & McDaniel, PC

CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2009