SEVIER SOLID WASTE, INC.

Pigeon Forge, Tennessee

FINANCIAL STATEMENTS

June 30, 2010

SEVIER SOLID WASTE, INC.

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INTRODUCTORY SECTION

SEVIER SOLID WASTE, INC.

ROSTER OF OFFICIALS

June 30, 2010

Larry Waters	Board of Director - Chairman
Earlene Teaster	Board of Director - Vice Chairman
Steve Hendrix	Board of Director - Secretary/Treasurer
Cindy Cameron Ogle	Board of Director - Member
Tom Leonard	Manager

FINANCIAL SECTION

PUGH & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

WILL J. PUGH, CPA
RONNIE G. CATE, CPA
C. LARRY ELMORE, CPA
W. JAMES PUGH, JR., CPA
DANIEL C. FRANKLIN, CPA
JAMES H. JONES, CPA
LISA W. HILL, CPA
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TENNESSEE SOCIETY OF
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
Sevier Solid Waste, Inc.
Pigeon Forge, Tennessee

We have audited the accompanying balance sheet of Sevier Solid Waste, Inc. (a nonprofit organization) as of June 30, 2010, 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, 2010, and the respective changes in its net assets and 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 December 14, 2010 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 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 4 - 6 and the schedule of funding progress for PSPP administered by TCRS on page 18 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 supplementary information as of and for the year ended June 30, 2010, consisting of those items listed in the table of contents on pages 19 through 21 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information presented on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on it.

Pugh & Company, P.C.
Certified Public Accountants
December 14, 2010

Sevier Solid Waste, Inc.

Fiscal Year Ending June 30, 2010

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 balance sheet, 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 shown below 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

Statement of Net Assets

	FY 2010	FY 2009*	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets:				
Current and Other Assets	$ 4,566,387	$ 4,174,138	$ 392,249	9.4%
Capital Assets	21,764,858	22,096,877	(332,019)	-1.5%
Total Assets	26,331,245	26,271,015	60,230	0.2%
Liabilities:				
Current	874,564	1,376,071	(501,507)	-36.4%
Long-Term	5,568,413	5,135,516	432,897	8.4%
Total Liabilities	6,442,977	6,511,587	(68,610)	-1.1%
Net Assets (deficit):				
Invested in Capital Assets,				
Net of Related Debt	20,953,363	21,033,060	(79,697)	-0.4%
Unrestricted	(1,065,095)	(1,273,632)	208,537	-16.4%
Total Net Assets	$ 19,888,268	$ 19,759,428	$ 128,840	0.7%

* Restated. See disclosure within the financial statements.

FINANCIAL HIGHLIGHTS AS OF JUNE 30: (Continued)

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 2010	FY 2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Operating Revenues	$ 3,992,214	$ 4,526,355	$ (534,141)	-11.8%
Total Revenues	3,992,214	4,526,355	(534,141)	-11.8%
Operating Expense	2,535,619	2,750,384	(214,765)	-7.8%
Depreciation and Amortization	1,365,078	1,780,669	(415,591)	-23.3%
Total Expenses	3,900,697	4,531,053	(630,356)	-13.9%
Operating Income (Loss)	91,517	(4,698)	96,215	-2048.0%
Non-Operating Income (Expense), Net	37,323	7,292,299	(7,254,976)	-99.5%
Change in Net Assets	$ 128,840	$ 7,287,601	$ (7,158,761)	-98.2%

RESULTS OF OPERATIONS

Solid waste operating revenue for 2010 decreased due to reduced tipping fees charged to the entities as they were not required to pay the debt portion after the entities paid off SSWI bonds.

The decrease in operating expenses was primarily attributable to a decrease in closure and post-closure expenses recorded in 2010 in comparison to 2009. In 2009, the entities contributed approximately $7.2 million to SSWI to pay-off its outstanding bonds. These amounts were included in non-operating income. With the pay-off, SSWI also wrote off approximately $360,000 in bond issue costs which was recorded to depreciation and amortization in 2009. Other expenses included in operations were similar with the prior 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 2009, 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 2010 were approximately $1.3 million which included site preparation costs for the new Class III/IV Landfill of approximately $800,000 and the acquisition of a caterpillar truck and a caterpillar loader for approximately $430,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt

Currently, Sevier Solid Waste, Inc. has no outstanding debt. For financial reporting purposes, SSWI has capitalized leases related to certain heavy equipment. As of June 30, 2010, SSWI has four capitalized leases in place with outstanding capital lease obligations totaling approximately $625,000.

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.

SEVIER SOLID WASTE, INC.

BALANCE SHEET

As of June 30, 2010

ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$	3,320,908
Receivables:		
Accounts Receivable		499,564
Due From Other Governments		25,396
Insurance Recovery Receivable		686,853
Prepaid Expenses		33,666
Total Current Assets		4,566,387
CAPITAL ASSETS:		
Land		2,020,163
Buildings		6,716,731
Composting Facility		15,552,262
Improvements Other Than Buildings		8,008,608
Furniture, Fixtures, and Equipment		2,117,268
Vehicles		133,284
		34,548,316
Accumulated Depreciation		(12,783,458)
Net Capital Assets		21,764,858
TOTAL ASSETS	$	26,331,245
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable:		
Trade	$	85,472
Construction Retainages		186,442
Compensated Absences		50,010
Current Maturities of Capital Lease Obligations		138,640
Current Portion of Reserve for Closure and Post-Closure Costs		414,000
Total Current Liabilities		874,564
LONG-TERM LIABILITIES:		
Capital Lease Obligations, Less Current Maturities		486,413
Reserve for Closure and Post-Closure Costs, Less Current Portion		5,082,000
Total Long-Term Liabilities		5,568,413
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		20,953,363
Unrestricted		(1,065,095)
Total Net Assets		19,888,268
TOTAL LIABILITIES AND NET ASSETS	$	26,331,245

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

SEVIER SOLID WASTE, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

OPERATING REVENUES:	
Tipping Fees	$ 3,910,885
Other Income	81,329
Total Operating Revenues	3,992,214
OPERATING EXPENSES:	
Personnel Costs	1,029,749
General Services	150,503
Maintenance	145,539
Supplies	83,403
Composting Expenses	724,966
Recycling Expenses	48,840
Other Operating Expenses	33,645
Closure and Post-Closure Costs	318,974
Total Operating Expenses	2,535,619
OPERATING INCOME BEFORE DEPRECIATION	1,456,595
Depreciation	(1,365,078)
OPERATING INCOME	91,517
NONOPERATING INCOME (EXPENSE):	
Grant Income	50,559
Interest Income	12,134
Interest Expense	(29,111)
Gain on the Sale of Capital Assets	3,741
Net Nonoperating Income	37,323
CHANGE IN NET ASSETS	128,840
TOTAL NET ASSETS - BEGINNING OF YEAR, AS RESTATED	19,759,428
TOTAL NET ASSETS - END OF YEAR	$ 19,888,268

SEVIER SOLID WASTE, INC.

STATEMENT OF CASH FLOWS

For the Year Eneded June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Forming Entities	$	2,935,887
Cash Received from Customers		1,037,762
Cash Paid to Employees		(821,089)
Cash Paid to Suppliers		(1,535,065)
Net Cash Provided by Operating Activities		1,617,495
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grant Proceeds Received		50,559
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions and Construction of Capital Assets		(1,104,921)
Insurance Recoveries Received		1,350,000
Interest Paid on Capital Lease Obligations		(28,506)
Repayment of Capital Lease Obligations		(186,719)
Proceeds from the Sale of Capital Assets		10,000
Net Cash Provided by Capital and Related Financing Activities		39,854
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received		12,134
NET INCREASE IN CASH		1,720,042
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		1,600,866
CASH AND CASH EQUIVALENTS, END OF YEAR	$	3,320,908
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$	91,517
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		1,365,078
(Increase) Decrease in Assets:		
Receivables		(18,565)
Prepaid Expenses		(3,642)
Increase (Decrease) in Liabilities:		
Accounts Payable		(89,471)
Accrued Expenses		245
Reserve for Closure and Post-Closure Costs		268,000
Compensated Absences		4,333
Total Adjustments		1,525,978
Net Cash Provided by Operating Activities	$	1,617,495
Supplementary Schedule of Noncash Capital and Related Financing Activities:		
Acquisition of Equipment through Capital Lease	$	317,061
Exchange of Equipment on Capital Leases	$	158,409
Gain on Disposal of Capital Assets	$	3,741

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

SEVIER SOLID WASTE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE 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 (the "Entities"), which created SSWI, 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 6 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.

Basis of Presentation - The financial statements of SSWI have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Organization has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." Accordingly, SSWI applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Organization has elected not to adopt FASB pronouncements issued subsequent to that date.

SSWI has adopted the provisions of Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *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.

- *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."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Structure and Basis of Accounting - The accounts of SSWI are organized on the basis of a proprietary fund type and are considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, and revenues and expenses, as appropriate. Government resources are allocated to and accounted for in the fund based on the purposes for which they are to be spent and the means by which spending activities are controlled. The fund, in the financial statements of this report, is as follows:

PROPRIETARY FUND TYPE:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of SSWI are tipping fees charged to customers. Operating expenses for SSWI include personnel costs, supplies and maintenance, recycling expenses, composting expenses, closure and post-closure costs related to landfills, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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 - Formal budgetary integration is employed as a management control device during the year for the fund. 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.

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.

Accounts Receivable - Accounts receivable represents billed and uncollected amounts. Management considers all accounts receivable at year end to be collectible. Accounts receivable deemed by management to be uncollectible are written off after sufficient collection efforts.

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	5 years
Other Improvements	3 - 15 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Vacation leave may be accumulated to a maximum of 240 hours with the excess at year-end 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 attributable to SSWI is recorded as an expenditure when earned and as a liability until used by the employee.

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits - In the case of cash and cash equivalents, this is the risk that in the event of a bank failure, SSWI's deposits will not be returned or SSWI will not be able to recover collateral securities in the possession of an outside party. SSWI follows state law regarding collateralization of deposits, which requires collateral to be obtained on any deposits exceeding insurance coverage of the Federal Deposit Insurance Corporation (FDIC). At June 30, 2010, the book balances of SSWI's cash and cash equivalents were $3,320,908 and the bank balances were $3,222,375. Of the bank balances, $277,537 was covered by FDIC insurance and $2,944,838 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee (the "State") Treasury Department.

NOTE 3 – CAPITAL ASSETS / SUBSEQUENT EVENT

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance July 1, 2009	Additions (Reclassifications)	Decreases	Balance June 30, 2010
Land (nondepreciable)	$ 2,020,163	$ 0	$ 0	$ 2,020,163
Buildings	6,716,731	0	0	6,716,731
Composting Facility	15,458,364	93,898	0	15,552,262
Other Improvements	7,221,840	786,768	0	8,008,608
Furniture, Fixtures and Equipment	2,235,497	429,068	547,297	2,117,268
Vehicles	133,284	0	0	133,284
Total Capital Assets	33,785,879	1,309,734	547,297	34,548,316
Buildings	(320,108)	(225,224)	0	(545,332)
Composting Facility	(4,833,378)	(562,287)	0	(5,395,665)
Other Improvements	(5,640,519)	(349,948)	0	(5,990,467)
Furniture, Fixtures and Equipment	(769,001)	(220,331)	(270,622)	(718,710)
Vehicles	(125,996)	(7,288)	0	(133,284)
Total Accumulated Depreciation	(11,689,002)	(1,365,078)	(270,622)	(12,783,458)
Net Capital Assets	$ 22,096,877	$ (55,344)	$ 276,675	$ 21,764,858

At June 30, 2010, the Organization did not have any contractual commitments for construction.

NOTE 3 – CAPITAL ASSETS / SUBSEQUENT EVENT (Continued)

In August 2010, the Organization purchased two pieces of adjoining property on Ridge Road for a price of approximately $1,900,000 to be used for future expansion of the Class III landfill. No additional debt was incurred for this purchase.

NOTE 4 – CAPITAL LEASE OBLIGATIONS

Changes in capital lease obligations for the year ended June 30, 2010 are as follows:

	July 1, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
826G Landfill Compactor	$ 49,590	$ 0	$ 49,590	$ 0	$ 0
Articulated Truck	97,853	0	97,853	0	0
950H Wheel Loader	111,565	0	111,565	0	0
938H Wheel Loader	162,249	0	37,817	124,432	40,450
D6TXW Dozer	231,863	0	33,887	197,976	35,522
Articulated Truck	0	141,734	14,416	127,318	25,690
950H Wheel Loader	0	175,327	0	175,327	36,978
Total Capital Lease Obligations	653,120	$ 317,061	$ 345,128	625,053	$ 138,640
Less Current Maturities	330,604			138,640	
Capital Lease Obligations, Less Current Maturities	$ 322,516			$ 486,413	

The capital lease obligations as of June 30, 2010 are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2010
938H Wheel Loader	6.75%	5/29/2009	5/29/2012	$ 165,225	$ 124,432
D6TXW Dozer	4.72%	11/10/2008	11/10/2013	250,216	197,976
Articulated Truck	4.90%	11/23/2009	11/23/2013	141,734	127,318
950H Wheel Loader	4.15%	5/27/2010	5/27/2013	175,327	175,327
					$ 625,053

Annual debt service requirements to maturity of the capital lease obligations are as follows for the years ending June 30:

	Principal	Interest
2011	$ 138,640	$ 28,343
2012	183,834	20,208
2013	170,073	11,222
2014	132,506	3,321
	$ 625,053	$ 63,094

Equipment totaling $817,667 as of June 30, 2010, with associated accumulated depreciation of $78,005, has been recorded under capital leases and has been included in furniture, fixtures, and equipment on the balance sheet. This equipment is pledged as collateral for the above capital lease obligations. Amortization expense for the equipment recorded under capital leases has been included in depreciation expense.

NOTE 5 – OPERATING LEASE

The Organization also leases certain equipment under a noncancellable operating lease expiring on December 1, 2010. Total rental expense for all noncancellable operating leases totaled $65,228 in 2010. Future minimum lease payments on this equipment total $20,255.

NOTE 6 – CLOSURE AND POST-CLOSURE 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.

Following is a schedule of phases of the landfills and their related reserves as of June 30, 2010:

	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	$ 101,000	100%	$ 0	0
Phase I Extension	113,000	100%	0	0
Phase IV A	347,000	100%	0	0
Phase IV B & C	4,363,000	95%	230,000	1 - 3
Class IV Landfill	541,000	100%	0	0
Class III/IV Landfill	31,000	7%	417,000	5 - 7
Total (including $414,000 classified as current)	$ 5,496,000		$ 647,000	

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 and Class III/IV as the remaining estimated capacity is filled. Given the difficulties inherent in estimating 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 contracts in lieu of performance bonds on behalf of SSWI in the sum of $1,926,710 to meet the financial assurance requirements as set forth by the Tennessee Department of Environment and Conservation.

NOTE 7 – PENSION PLAN

Plan 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 the age of 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 Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 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 5.0 percent of annual covered payroll.

SSWI is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 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, 2010, SSWI's annual pension cost of $79,680 to TCRS was equal to SSWI's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent 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 at July 1, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	$ 79,680	100%	$ 0
2009	68,691	100%	0
2008	72,703	100%	0

NOTE 7 – PENSION PLAN (Continued)

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date, the plan was 74.65% percent funded. The actuarial accrued liability for benefits was $1.02 million, and the actuarial value of assets was $0.76 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.26 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.52 million, and the ratio of the UAAL to the covered payroll was 50.04%percent.

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.

Schedule of Funding Progress for SSWI (Dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2009	$ 759	$ 1,017	$ 258	74.65%	$ 515	50.04%
July 1, 2007	$ 620	$ 828	$ 208	74.88%	$ 549	37.89%

NOTE 8 – RELATED PARTY TRANSACTIONS

The Organization received the following tipping and tonnage fees from the four Entities as follows:

	2010 Tipping/Tonnage Fees	June 30, 2010 Accounts Receivable
Sevier County	$ 880,469	$ 81,289
Pigeon Forge	834,211	82,891
Gatlinburg	535,092	49,245
Sevierville	630,615	61,420
	$ 2,880,387	$ 274,845

NOTE 9 – 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. There have been no significant reductions in insurance coverage from coverage in the previous year, and settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

In the normal course of conducting its business, the Organization may be involved in legal proceedings. Due to the nature and scope of the Organization's business which brings it into regular contact with the general public, a variety of businesses, and multiple governmental entities which regulate and examine its operations, the Organization is inherently subject to the hazards of potential litigation, claims and assessments. Additionally, routine examination performed by the Organization's federal and state oversight agencies could result in findings and violations which have an adverse effect on the Organization. Currently, management is not aware of any such conditions which would have a material adverse effect on the Organization.

NOTE 11 – RESTATEMENT

As described in Note 1, SSWI employees are entitled to certain benefits including paid vacation and sick leave. Through the year ended June 30, 2009, SSWI had recorded a liability for a portion of its sick leave. Management has determined that since unused sick leave is not paid to the employee upon retirement or termination no accrued liability is necessary for unused sick leave. As a result of this determination, an adjustment of $45,367 was made to beginning Net Assets to properly account for unused sick leave.

REQUIRED SUPPLEMENTARY INFORMATION

SEVIER SOLID WASTE, INC.

SCHEDULE OF FUNDING PROGRESS FOR PSPP ADMINISTERED BY TCRS

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2009	$ 759	$ 1,017	$ 258	74.65%	$ 515	50.04%
July 1, 2007	$ 620	$ 828	$ 208	74.88%	$ 549	37.89%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

OTHER SUPPLEMENTARY INFORMATION

SEVIER SOLID WASTE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2010

Grantor or Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
Federal Awards						
None	N/A	N/A	$ 0	$ 0	$ 0	$ 0
State Financial Assistance						
Tennessee Department of Environment and Conservation						
Waste Tire Grant	N/A	Z-08-213004-02	$ (20,401)	$ 49,880	$ 50,559	$ (21,080)
TOTAL FEDERAL AND STATE AWARDS			$ (20,401)	$ 49,880	$ 50,559	$ (21,080)

See Independent Auditor's Report.

SEVIER SOLID WASTE, INC.

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of Sevier Solid Waste, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

SEVIER SOLID WASTE, INC.

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2010

	Caterpillar Financial Services 938H Wheel Loader 6.75%		Caterpillar Financial Services D6TXW Dozer 4.72%		Caterpillar Financial Services Articulated Truck 4.90%		Caterpillar Financial Services 950H Wheel Loader 4.15%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	40,450	7,145	35,522	8,463	25,690	5,634	36,978	7,101	138,640	28,343
2012	83,982	4,063	37,235	6,750	26,979	4,345	35,638	5,050	183,834	20,208
2013	0	0	39,031	4,954	28,331	2,993	102,711	3,275	170,073	11,222
2014	0	0	86,188	2,527	46,318	794	0	0	132,506	3,321
	$ 124,432	$ 11,208	$ 197,976	$ 22,694	$ 127,318	$ 13,766	175,327	$ 15,426	$ 625,053	$ 63,094

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 and Management
Sevier Solid Waste, Inc.
Pigeon Forge, Tennessee

We have audited the financial statements of Sevier Solid Waste, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated December 14, 2010. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider all deficiencies described in the accompanying schedule of findings and responses 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* described in the accompanying schedule of findings and responses as item 2009-4.

Sevier Solid Waste, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 the Board of Directors, management, the Division of County Audit of the Comptroller of the Treasury for the State of Tennessee, and grantor awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
December 14, 2010

SEVIER SOLID WASTE, INC.

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2010

2009-1 Criteria or Specific Requirement – Management should prepare all required journal entries to present the financial statements in conformity with generally accepted accounting principles.

Condition – As noted in prior years, journal entries were made during the course of the audit so that the financial statements would conform to generally accepted accounting principles (GAAP), including entries related capital assets, payables, compensated absences, capital lease obligations, closure/post-closure, and expenses.

Cause and Effect – Management does not have the technical expertise to detect and correct misstatements of financial statements. This allows misstatements to occur and go undetected.

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's Response – Upon management's recommendation, the Board of Directors approved for the Organization to hire an outside party to assist management in maintaining the financial statements in conformity with generally accepted accounting principles.

2009-2 Criteria or Specific Requirement – Auditing standards require an entity being audited to have sufficient internal control to allow management to prepare their own financial statements and footnotes in accordance with GAAP.

Condition – As noted in prior years, management requires assistance in the preparation of financial statements and footnotes in accordance with GAAP.

Cause and Effect - The Organization does not employ personnel that have the technical expertise to prepare annual financial reports in accordance with GAAP.

Recommendation – The Organization should evaluate the cost and benefits of employing personnel that have the technical expertise to prepare annual financial reports in accordance with GAAP.

Management's Response - Upon management's recommendation, the Board of Directors approved for the Organization to hire an outside party to assist management in maintaining the financial statements in conformity with generally accepted accounting principles.

2009-3 **Criteria or Specific Requirement** – Segregation of conflicting duties within accounting functions is a basic internal control. In general, the same person should not be responsible for initiating, recording, and reconciling any area of the accounting function.

Condition – As noted in prior years, the Organization does not have adequate segregation of duties in certain areas, including cash receipts and cash disbursements.

Cause and Effect – The Organization does not have sufficient staff to achieve proper segregation of duties. The danger is that intentional or unintentional errors could be made and not detected.

Recommendation – The Organization should evaluate the cost and benefits of employing additional accounting personnel to allow proper segregation of duties. In areas where duties cannot be redistributed, closer supervision and/or review of transactions by management may be required in order to achieve better control.

Management's Response – Upon management's recommendation, the Board of Directors approved for the Organization to hire an outside party to assist management in maintaining the financial statements in conformity with generally accepted accounting principles. The Board of Directors also approved the addition of two new individuals whose responsibilities will include improving the internal control structure of the Organization.

2009-4 **Criteria or Specific Requirement** – Internal controls should be designed to ensure that all cash receipts and revenue be properly recorded in the general ledger. Deposits should be made intact on a daily basis. State law requires that deposits be made within three days of receipts.

Condition – During our audit and as noted in prior years, we noted the following:

- Several "in-bound passes" were noted for which there were no corresponding "cash sales tickets."
- Cash transaction reports were missing for multiple days' cash sales.
- Deposits were often made in excess of three days after receipts.

Cause and Effect - The procedures for cash sales are not adequate to ensure the completeness of recorded revenue or to ensure all cash received from customers was properly recorded and deposited. This creates both the risk of improper revenue recognition and the risk of fraud through theft of cash. Additionally, deposits are not made in a timely fashion, so that the Organization is not complying with the State law that deposits be made within three days of receipts.

Recommendation – The Organization should develop procedures that ensure that all sales tickets, whether for cash or credit sales, have been received and are appropriately accounted for. Deposits should be made daily to ensure compliance with State law.

Management's Response - Upon management's recommendation, the Board of Directors approved for the Organization to hire an outside party to assist management in maintaining the financial statements in conformity with generally accepted accounting principles. The Board of Directors also approved the addition of two new individuals whose responsibilities will include improving the internal control structure of the Organization.