

SEVIER SOLID WASTE, INC.

Pigeon Forge, Tennessee

FINANCIAL STATEMENTS

June 30, 2012 and 2011

SEVIER SOLID WASTE, INC.

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INTRODUCTORY SECTION

SEVIER SOLID WASTE, INC.

ROSTER OF OFFICIALS

June 30, 2012

Cindy Cameron Ogle
Larry Waters
Earlene Teaster
Russell Treadway
Tom Leonard

Board of Directors - Chairman
Board of Directors - Vice Chairman
Board of Directors - Secretary/Treasurer
Board of Directors - Member
Manager

FINANCIAL SECTION

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Sevier Solid Waste, Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Sevier Solid Waste, Inc. as of June 30, 2012 and 2011, and the respective changes in its net assets and cash flows for the years 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 19, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Our audit was conducted for the purpose of forming an opinion on Sevier Solid Waste, Inc.'s financial statements. The accompanying supplementary information on pages 21-23 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on Sevier Solid Waste, Inc.'s financial statements. The introductory section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 19, 2012

SEVIER SOLID WASTE, INC.

Fiscal Years Ending June 30, 2012 and 2011

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

Statements of Net Assets				
	2012	2011	Increase (Decrease)	
			Amount	Percent
Assets:				
Current and Other Assets	\$ 3,247,490	\$ 3,371,115	\$ (123,625)	-3.7%
Certificate of Deposit	1,507,459	0	1,507,459	N/A
Capital Assets	<u>21,646,800</u>	<u>22,464,647</u>	<u>(817,847)</u>	-3.6%
Total Assets	<u>26,401,749</u>	<u>25,835,762</u>	<u>565,987</u>	2.2%
Liabilities:				
Current	565,297	543,232	22,065	4.1%
Long-Term	<u>5,901,867</u>	<u>5,590,806</u>	<u>311,061</u>	5.6%
Total Liabilities	<u>6,467,164</u>	<u>6,134,038</u>	<u>333,126</u>	5.4%
Net Assets (deficit):				
Invested in Capital Assets, Net of Related Debt	21,011,703	21,813,209	(801,506)	-3.7%
Unrestricted	<u>(1,077,118)</u>	<u>(2,111,485)</u>	<u>1,034,367</u>	-49.0%
Total Net Assets	<u>\$ 19,934,585</u>	<u>\$ 19,701,724</u>	<u>\$ 232,861</u>	1.2%
	2011	2010	Increase (Decrease)	
			Amount	Percent
Assets:				
Current and Other Assets	\$ 3,371,115	\$ 4,566,387	\$ (1,195,272)	-26.2%
Capital Assets	<u>22,464,647</u>	<u>21,764,858</u>	<u>699,789</u>	3.2%
Total Assets	<u>25,835,762</u>	<u>26,331,245</u>	<u>(495,483)</u>	-1.9%
Liabilities:				
Current	543,232	874,564	(331,332)	-37.9%
Long-Term	<u>5,590,806</u>	<u>5,568,413</u>	<u>22,393</u>	0.4%
Total Liabilities	<u>6,134,038</u>	<u>6,442,977</u>	<u>(308,939)</u>	-4.8%
Net Assets (deficit):				
Invested in Capital Assets, Net of Related Debt	21,813,209	20,953,363	859,846	4.1%
Unrestricted	<u>(2,111,485)</u>	<u>(1,065,095)</u>	<u>(1,046,390)</u>	98.2%
Total Net Assets	<u>\$ 19,701,724</u>	<u>\$ 19,888,268</u>	<u>\$ (186,544)</u>	-0.9%

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:

	2012	2011	Increase (Decrease)	
			Amount	Percent
Operating Revenues	\$ 4,013,544	\$ 3,728,006	\$ 285,538	7.7%
Total Revenues	4,013,544	3,728,006	285,538	7.7%
Operating Expenses	2,571,839	2,558,754	13,085	0.5%
Depreciation and Amortization	1,415,162	1,394,939	20,223	1.4%
Total Expenses	3,987,001	3,953,693	33,308	0.8%
Operating Income (Loss)	26,543	(225,687)	252,230	-111.8%
Non-Operating Income (Expense), Net	206,318	39,143	167,175	427.1%
Change in Net Assets	\$ 232,861	\$ (186,544)	\$ 419,405	-224.8%
	2011	2010	Increase (Decrease)	
			Amount	Percent
Operating Revenues	\$ 3,728,006	\$ 3,992,214	\$ (264,208)	-6.6%
Total Revenues	3,728,006	3,992,214	(264,208)	-6.6%
Operating Expenses	2,558,754	2,535,619	23,135	0.9%
Depreciation and Amortization	1,394,939	1,365,078	29,861	2.2%
Total Expenses	3,953,693	3,900,697	52,996	1.4%
Operating Income (Loss)	(225,687)	91,517	(317,204)	-346.6%
Non-Operating Income (Expense), Net	39,143	37,323	1,820	4.9%
Change in Net Assets	\$ (186,544)	\$ 128,840	\$ (315,384)	-244.8%

RESULTS OF OPERATIONS

Solid waste operating revenue for 2012 increased due to an increase tipping fees charged to the entities as well as an increase in private tipping fees. These revenues decreased in 2011 primarily due to reduced tipping fees charged to the entities. Expenses included in operations were similar to prior years.

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.

INVESTING

In 2012, the Organization purchased a certificate of deposit with a local financial institution in the amount of approximately \$1,500,000. Surplus cash funds were used in the purchase.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital asset additions in fiscal year 2012 were approximately \$750,000 which included the acquisition of a caterpillar wheel loader and a caterpillar excavator for approximately \$365,000. It also included approximately \$180,000 added to construction in progress for the construction of the new Sevier Solid Waste office. In 2011, there were approximately \$2 million in capital asset additions which included the purchase of land for future expansion of the Class III landfill site for approximately \$1.7 million.

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, 2012 and 2011, SSWI has four capitalized leases in place with outstanding capital lease obligations totaling approximately \$483,000 and \$490,000, respectively.

FUTURE OUTLOOK

The revenue estimate for next year was projected based on a 5% increase in tipping fee rates. Total revenue and expenditures are budgeted to be approximately \$3.65 million for the fiscal year ending June 30, 2013.

No other facts, decisions, or conditions are currently known which would have a significant impact on the financial condition and results of operations of SSWI during the fiscal year ending June 30, 2013.

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 SHEETS

	As of June 30,	<u>2012</u>	<u>2011</u>
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents		\$ 2,700,044	\$ 2,514,229
Receivables:			
Accounts Receivable		510,470	644,769
Due From Other Governments		9,371	28,877
Insurance Recovery Receivable		0	155,985
Prepaid Expenses		<u>27,605</u>	<u>27,255</u>
Total Current Assets		<u>3,247,490</u>	<u>3,371,115</u>
NON-CURRENT ASSETS:			
Certificate of Deposit		1,507,459	0
Capital Assets, Net		<u>21,646,800</u>	<u>22,464,647</u>
Total Non-Current Assets		<u>23,154,259</u>	<u>22,464,647</u>
TOTAL ASSETS		<u>\$ 26,401,749</u>	<u>\$ 25,835,762</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts Payable:			
Trade		\$ 130,395	\$ 112,215
Construction Retainages		151,713	162,122
Compensated Absences		47,672	52,384
Current Maturities of Capital Lease Obligations		215,974	186,738
Current Portion of Reserve for Closure and Post-Closure Costs		<u>19,543</u>	<u>29,773</u>
Total Current Liabilities		<u>565,297</u>	<u>543,232</u>
LONG-TERM LIABILITIES:			
Capital Lease Obligations, Less Current Maturities		267,410	302,579
Reserve for Closure and Post-Closure Costs, Less Current Portion		<u>5,634,457</u>	<u>5,288,227</u>
Total Long-Term Liabilities		<u>5,901,867</u>	<u>5,590,806</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt		21,011,703	21,813,209
Unrestricted		<u>(1,077,118)</u>	<u>(2,111,485)</u>
Total Net Assets		<u>19,934,585</u>	<u>19,701,724</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 26,401,749</u>	<u>\$ 25,835,762</u>

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

SEVIER SOLID WASTE, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the Years Ended June 30,	
	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Tipping Fees	\$ 3,911,976	\$ 3,588,880
Other Income	<u>101,568</u>	<u>139,126</u>
Total Operating Revenues	<u>4,013,544</u>	<u>3,728,006</u>
OPERATING EXPENSES:		
Personnel Costs	1,041,269	1,031,046
General Services	162,142	164,299
Maintenance	157,834	189,809
Supplies	102,975	91,129
Composting Expenses	654,104	820,045
Recycling Expenses	47,900	49,214
Other Operating Expenses	26,861	56,287
Closure and Post-Closure Costs	<u>378,754</u>	<u>156,925</u>
Total Operating Expenses	<u>2,571,839</u>	<u>2,558,754</u>
OPERATING INCOME BEFORE DEPRECIATION	1,441,705	1,169,252
Depreciation	<u>(1,415,162)</u>	<u>(1,394,939)</u>
OPERATING INCOME (LOSS)	<u>26,543</u>	<u>(225,687)</u>
NONOPERATING INCOME (EXPENSE):		
Insurance Recovery	168,426	0
Grant Income	36,476	51,384
Interest Income	21,559	16,540
Interest Expense	<u>(20,143)</u>	<u>(28,781)</u>
Net Nonoperating Income (Expense)	<u>206,318</u>	<u>39,143</u>
CHANGE IN NET ASSETS	232,861	(186,544)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>19,701,724</u>	<u>19,888,268</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 19,934,585</u>	<u>\$ 19,701,724</u>

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

SEVIER SOLID WASTE, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Forming Entities	\$	2,764,633	\$ 2,460,929
Cash Received from Customers		1,394,705	1,121,872
Cash Paid to Employees		(796,500)	(818,339)
Cash Paid to Suppliers		<u>(1,425,550)</u>	<u>(1,883,813)</u>
Net Cash Provided by (Used in) Operating Activities		<u>1,937,288</u>	<u>880,649</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Grant Proceeds Received		<u>44,487</u>	<u>47,903</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Additions and Construction of Capital Assets		(470,850)	(2,119,048)
Insurance Recoveries Received		324,411	530,868
Interest Paid on Capital Lease Obligations		(20,814)	(27,855)
Repayment of Capital Lease Obligations		<u>(142,807)</u>	<u>(135,736)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities		<u>(310,060)</u>	<u>(1,751,771)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Certificate of Deposit		(1,507,459)	0
Interest Received		<u>21,559</u>	<u>16,540</u>
Net Cash Provided by (Used In) Investing Activities		<u>(1,485,900)</u>	<u>16,540</u>
NET INCREASE (DECREASE) IN CASH		185,815	(806,679)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>2,514,229</u>	<u>3,320,908</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	<u><u>2,700,044</u></u>	<u><u>\$ 2,514,229</u></u>

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

SEVIER SOLID WASTE, INC.

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30,	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ <u>26,543</u>	\$ <u>(225,687)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,415,162	1,394,939
(Increase) Decrease in Assets:		
Receivables	145,794	(145,205)
Prepaid Expenses	(350)	6,411
Increase (Decrease) in Liabilities:		
Accounts Payable	18,851	25,817
Reserve for Closure and Post-Closure Costs	336,000	(178,000)
Compensated Absences	<u>(4,712)</u>	<u>2,374</u>
Total Adjustments	<u>1,910,745</u>	<u>1,106,336</u>
Net Cash Provided by (Used In) Operating Activities	\$ <u><u>1,937,288</u></u>	\$ <u><u>880,649</u></u>
Supplementary Schedule of Noncash Capital and Related Financing Activities:		
Acquisition of Equipment through Capital Lease	\$ 181,290	\$ 0
Exchange of Equipment on Capital Leases	\$ 44,416	\$ 0

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

SEVIER SOLID WASTE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 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.

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 – CUSTODIAL CREDIT RISK - DEPOSITS

In the case of cash and cash equivalents and certificates of deposit, 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, 2012, the book balances of SSWI's cash, cash equivalents, and certificate of deposit were \$4,207,503, and the bank balances were \$4,380,539. Of the bank balances, \$500,000 was covered by FDIC insurance and \$3,880,539 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee (the "State") Treasury Department. At June 30, 2011, the book balances of SSWI's cash and cash equivalents were \$2,514,229 and the bank balances were \$2,603,628. Of the bank balances, \$277,579 was covered by FDIC insurance and \$2,326,050 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

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

	Balance July 1, 2011	Additions	Decreases	Balance June 30, 2012
Land (nondepreciable)	\$ 3,761,366	\$ 0	\$ 0	\$ 3,761,366
Buildings	6,883,695	0	0	6,883,695
Composting Facility	15,640,032	0	0	15,640,032
Other Improvements	8,008,608	16,573	0	8,025,181
Furniture, Fixtures and Equipment	2,096,568	496,204	276,601	2,316,171
Vehicles	223,784	53,611	0	277,395
Construction in Progress	8,291	189,665	8,291	189,665
Total Capital Assets	<u>36,622,344</u>	<u>756,053</u>	<u>284,892</u>	<u>37,093,505</u>
Buildings	(773,658)	(226,790)	0	(1,000,448)
Composting Facility	(5,902,558)	(513,070)	0	(6,415,628)
Other Improvements	(6,431,348)	(443,193)	0	(6,874,541)
Furniture, Fixtures and Equipment	(913,749)	(206,861)	(126,154)	(994,456)
Vehicles	(136,384)	(25,248)	0	(161,632)
Total Accumulated Depreciation	<u>(14,157,697)</u>	<u>(1,415,162)</u>	<u>(126,154)</u>	<u>(15,446,705)</u>
Net Capital Assets	<u>\$ 22,464,647</u>	<u>\$ (659,109)</u>	<u>\$ 158,738</u>	<u>\$ 21,646,800</u>

NOTE 3 – CAPITAL ASSETS (Continued)

	Balance July 1, 2010	Additions (Reclassifications)	Decreases	Balance June 30, 2011
Land (nondepreciable)	\$ 2,020,163	\$ 1,741,203	\$ 0	\$ 3,761,366
Buildings	6,716,731	166,964	0	6,883,695
Composting Facility	15,552,262	87,770	0	15,640,032
Other Improvements	8,008,608	0	0	8,008,608
Furniture, Fixtures and Equipment	2,117,268	0	20,700	2,096,568
Vehicles	133,284	90,500	0	223,784
Construction in Progress	0	8,291	0	8,291
Total Capital Assets	<u>34,548,316</u>	<u>2,094,728</u>	<u>20,700</u>	<u>36,622,344</u>
Buildings	(545,332)	(228,326)	0	(773,658)
Composting Facility	(5,395,665)	(506,893)	0	(5,902,558)
Other Improvements	(5,990,467)	(440,881)	0	(6,431,348)
Furniture, Fixtures and Equipment	(718,710)	(215,739)	(20,700)	(913,749)
Vehicles	(133,284)	(3,100)	0	(136,384)
Total Accumulated Depreciation	<u>(12,783,458)</u>	<u>(1,394,939)</u>	<u>(20,700)</u>	<u>(14,157,697)</u>
Net Capital Assets	<u>\$ 21,764,858</u>	<u>\$ 699,789</u>	<u>\$ 0</u>	<u>\$ 22,464,647</u>

At June 30, 2012, the Organization is under contract for construction of a new office building. Total costs under this contract are \$261,000 of which \$150,000 was paid in 2012. Additionally, a sales contract was executed in 2012 to sell the current office property for \$143,000 once the new office building is complete. The current office property has a carrying value of approximately \$38,000 at June 30, 2012.

NOTE 4 – CAPITAL LEASE OBLIGATIONS

Changes in capital lease obligations for the years ended June 30, 2012 and 2011 are as follows:

	July 1, 2011	Additions	Retirements	June 30, 2012	Due Within One Year
938H Wheel Loader	\$ 83,982	\$ 0	\$ 83,982	\$ 0	\$ 0
D6TXW Dozer	162,455	0	37,235	125,220	39,031
Articulated Truck	101,627	0	26,979	74,648	28,331
950H Wheel Loader	141,253	0	35,516	105,737	105,737
938H Wheel Loader	0	181,290	3,511	177,779	42,875
Total Capital Lease Obligations	<u>489,317</u>	<u>\$ 181,290</u>	<u>\$ 187,223</u>	<u>483,384</u>	<u>\$ 215,974</u>
Less Current Maturities	186,738			215,974	
Capital Lease Obligations, Less Current Maturities	<u>\$ 302,579</u>			<u>\$ 267,410</u>	
	July 1, 2010	Additions	Retirements	June 30, 2011	Due Within One Year
938H Wheel Loader	\$ 124,432	\$ 0	\$ 40,450	\$ 83,982	\$ 83,982
D6TXW Dozer	197,976	0	35,521	162,455	37,236
Articulated Truck	127,318	0	25,691	101,627	26,978
950H Wheel Loader	175,327	0	34,074	141,253	38,542
Total Capital Lease Obligations	<u>625,053</u>	<u>\$ 0</u>	<u>\$ 135,736</u>	<u>489,317</u>	<u>\$ 186,738</u>
Less Current Maturities	138,640			186,738	
Capital Lease Obligations, Less Current Maturities	<u>\$ 486,413</u>			<u>\$ 302,579</u>	

NOTE 4 – CAPITAL LEASE OBLIGATIONS (Continued)

The capital lease obligations as of June 30, 2012 are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2012
D6TXW Dozer	4.72%	11/10/2008	11/10/2013	\$ 250,216	\$ 125,220
Articulated Truck	4.90%	11/23/2009	11/23/2013	141,734	74,648
950H Wheel Loader	4.15%	5/27/2010	5/27/2013	175,327	105,737
938HWheel Loader	3.20%	5/21/2012	5/21/2015	181,290	177,779
					<u>\$ 483,384</u>

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

	Principal	Interest
2013	\$ 215,974	\$ 16,650
2014	176,773	5,789
2015	90,637	2,103
	<u>\$ 483,384</u>	<u>\$ 24,542</u>

Equipment totaling \$906,350 and \$817,667 as of June 30, 2012 and 2011, with associated accumulated depreciation of \$212,257 and \$168,857 respectively, 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 of \$91,591 for the equipment recorded under capital leases has been included in depreciation expense for the year ended June 30, 2012 (\$90,852 in 2011).

NOTE 5 – 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, 2012 and 2011:

	Reserve for Closure and Post-Closure Maintenance	Percentage of Capacity Used	Remaining Estimated Closure and Post-Closure Expense Accrual	Estimated Remaining Useful Life (Years)
<u>June 30, 2012</u>				
Phase II & III	\$ 84,000	100%	\$ 0	0
Phase I Extension	100,000	100%	0	0
Phase IV A	383,000	100%	0	0
Phase IV B & C	4,810,000	95%	253,000	1 - 3
Class IV Landfill	53,000	100%	0	0
Class III/IV Landfill	224,000	50%	224,000	3 - 5
Total (including \$19,543 classified as current)	<u>\$ 5,654,000</u>		<u>\$ 477,000</u>	

NOTE 5 – CLOSURE AND POST-CLOSURE COSTS (Continued)

<u>June 30, 2011</u>	Reserve for Closure and Post-Closure Maintenance	Percentage of Capacity Used	Remaining Estimated Closure and Post-Closure Expense Accrual	Estimated Remaining Useful Life (Years)
Phase II & III	\$ 92,000	100%	\$ 0	0
Phase I Extension	107,000	100%	0	0
Phase IV A	365,000	100%	0	0
Phase IV B & C	4,580,000	95%	241,000	1 - 3
Class IV Landfill	62,000	100%	0	0
Class III/IV Landfill	112,000	25%	336,000	4 - 6
Total (including \$414,000 classified as current)	<u>\$ 5,318,000</u>		<u>\$ 577,000</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 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.

Tennessee Department of Environment and Conservation requires landfill operators to demonstrate the financial ability to service each landfill phase's closure and post-closure care costs. To comply with this financial assurance requirement, Sevier County has signed contracts in lieu of performance bonds on behalf of SSWI in the sum of \$1,974,186.

NOTE 6 – 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 SSWI 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% of annual covered payroll.

SSWI is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 14.15% 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.

NOTE 6 – PENSION PLAN (Continued)

Annual Pension Cost - For the year ending June 30, 2012, SSWI's annual pension cost of \$85,543 to TCRS was equal to SSWI's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0 percent annual rate of inflation, (c) 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), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 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 ten-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, 2009 was 12 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 85,543	100%	\$ 0
2011	99,426	100%	0
2010	79,680	100%	0

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 95.40% percent funded. The actuarial accrued liability for benefits was \$1.15 million, and the actuarial value of assets was \$1.10 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.74 million, and the ratio of the UAAL to the covered payroll was 7.10%.

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.

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, 2011	\$ 1,095	\$ 1,148	\$ 53	95.40%	\$ 743	7.10%
July 1, 2009	\$ 759	\$ 818	\$ 59	92.73%	\$ 515	11.54%
July 1, 2007	\$ 620	\$ 686	\$ 66	90.38%	\$ 549	12.02%

NOTE 7 – RELATED PARTY TRANSACTIONS

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

	June 30, 2012		June 30, 2011	
	Tipping Fees	Accounts Receivable	Tipping Fees	Accounts Receivable
Sevier County	\$ 818,879	\$ 74,102	\$ 746,327	\$ 65,541
Pigeon Forge	772,693	76,342	728,626	134,255
Gatlinburg	479,662	43,452	481,646	45,378
Sevierville	597,248	53,104	572,635	97,977
	<u>\$ 2,668,482</u>	<u>\$ 247,000</u>	<u>\$ 2,529,234</u>	<u>\$ 343,151</u>

NOTE 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. 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 9 – 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.

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 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, 2011	\$ 1,095	\$ 1,148	\$ 53	95.40%	\$ 743	7.10%
July 1, 2009	\$ 759	\$ 818	\$ 59	92.73%	\$ 515	11.54%
July 1, 2007	\$ 620	\$ 686	\$ 66	90.38%	\$ 549	12.02%

See Independent Auditors Report.

OTHER SUPPLEMENTARY INFORMATION

SEVIER SOLID WASTE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2012

<u>Grantor or Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<u>Federal Awards</u>						
None	N/A	N/A	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
<u>State Financial Assistance</u>						
<u>Tennessee Department of Environment and Conservation</u>						
Waste Tire Grant	N/A	Z-08-213004-02	\$ <u>(24,561)</u>	\$ <u>44,487</u>	\$ <u>29,297</u>	\$ <u>(9,371)</u>
TOTAL FEDERAL AND STATE AWARDS			\$ <u>(24,561)</u>	\$ <u>44,487</u>	\$ <u>29,297</u>	\$ <u>(9,371)</u>

SEVIER SOLID WASTE, INC.

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

For the Year Ended June 30, 2012

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, 2012

	Caterpillar Financial Services D6TXW Dozer 4.72%		Caterpillar Financial Services Articulated Truck 4.90%		Caterpillar Financial Services 950H Wheel Loader 4.15%		Caterpillar Financial Services 938H Wheel Loader 3.20%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 39,031	\$ 4,954	\$ 28,331	\$ 2,993	\$ 105,737	\$ 3,639	\$ 42,875	\$ 5,064	\$ 215,974	\$ 16,650
2014	86,189	1,322	46,317	795	0	0	44,267	3,672	176,773	5,789
2015	0	0	0	0	0	0	90,637	2,103	90,637	2,103
	<u>\$ 125,220</u>	<u>\$ 6,276</u>	<u>\$ 74,648</u>	<u>\$ 3,788</u>	<u>\$ 105,737</u>	<u>\$ 3,639</u>	<u>\$ 177,779</u>	<u>\$ 10,839</u>	<u>\$ 483,384</u>	<u>\$ 24,542</u>

See Independent Auditor's Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634
TELECOPIER 865-483-9781

P.O. BOX 31409
KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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, 2012, and have issued our report thereon dated November 19, 2012. 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

Management of Sevier Solid Waste, Inc. is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.



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 instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the Comptroller of 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
Knoxville, Tennessee
November 19, 2012

SEVIER SOLID WASTE, INC.

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2012

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.
- Lack of segregation of duties in cash receipts.

Cause and Effect - The procedures for cash sales were 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. Deposits were not made in a timely fashion, so that the Organization was not complying with the State law that deposits be made within three days of receipts. Additionally, the Organization did not have appropriate segregation of duties in the cash receipts process.

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. The Organization should improve its practices to ensure that appropriate segregation of duties are in place.

Management’s Prior Year 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.

Current Status – Finding considered resolved in the current year.

