

SEVIER SOLID WASTE, INC.

Pigeon Forge, Tennessee

FINANCIAL STATEMENTS

June 30, 2013 and 2012



SEVIER SOLID WASTE, INC.

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INTRODUCTORY SECTION

SEVIER SOLID WASTE, INC.

ROSTER OF OFFICIALS

June 30, 2013

Larry Waters
Earlene Teaster
Russell Treadway
Cindy Cameron Ogle
Tom Leonard

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

FINANCIAL SECTION

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Sevier Solid Waste, Inc. which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 and schedule of funding progress for PSPP administered by TCRS on page 20 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Sevier Solid Waste, Inc. The introductory, supplementary and other information sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The information included in the supplementary information section as listed in the table of contents 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. Such 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The information included in the introductory and other information sections as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013 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* in considering Sevier Solid Waste, Inc.'s internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 19, 2013

SEVIER SOLID WASTE, INC.

Fiscal Years Ending June 30, 2013 and 2012

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 position, the statement of cash flows and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS AS OF JUNE 30:

The statements of net position shown below present 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 position:

Table 1

Condensed Statements of Net Assets				
	2013	2012	Increase (Decrease)	
			Amount	Percent
Assets:				
Current and Other Assets	\$ 4,638,316	\$ 3,247,490	\$ 1,390,826	42.8%
Certificate of Deposit	1,518,717	1,507,459	11,258	0.7%
Capital Assets	<u>21,525,500</u>	<u>21,646,800</u>	<u>(121,300)</u>	-0.6%
Total Assets	<u>27,682,533</u>	<u>26,401,749</u>	<u>1,280,784</u>	4.9%
Liabilities:				
Current	679,121	565,297	113,824	20.1%
Long-Term	<u>6,653,855</u>	<u>5,901,867</u>	<u>751,988</u>	12.7%
Total Liabilities	<u>7,332,976</u>	<u>6,467,164</u>	<u>865,812</u>	13.4%
Net Position:				
Net Investment in Capital Assets	20,356,036	21,011,703	(655,667)	-3.1%
Unrestricted	<u>(6,479)</u>	<u>(1,077,118)</u>	<u>1,070,639</u>	-99.4%
Total Net Position	<u>\$ 20,349,557</u>	<u>\$ 19,934,585</u>	<u>\$ 414,972</u>	2.1%

	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 Position:				
Net Investment in Capital Assets	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 Position	<u>\$ 19,934,585</u>	<u>\$ 19,701,724</u>	<u>\$ 232,861</u>	1.2%

FINANCIAL HIGHLIGHTS AS OF JUNE 30: (Continued)

The statements of revenues, expenses, and changes in net position present SSWI's results of operations. The table below presents a condensed statement of revenues, expenses, and changes in net position:

	2013	2012	Increase (Decrease)	
			Amount	Percent
Operating Revenues	\$ 4,194,752	\$ 4,013,544	\$ 181,208	4.5%
Total Revenues	4,194,752	4,013,544	181,208	4.5%
Operating Expenses	2,745,509	2,571,839	173,670	6.8%
Depreciation	1,513,806	1,415,162	98,644	7.0%
Total Expenses	4,259,315	3,987,001	272,314	6.8%
Operating Income (Loss)	(64,563)	26,543	(91,106)	-343.2%
Non-Operating Income (Expense), Net	474,910	206,318	268,592	130.2%
Income (Loss) before Capital Contributions	410,347	232,861	177,486	76.2%
Capital Contributions	4,625	0	4,625	100.0%
Change in Net Position	\$ 414,972	\$ 232,861	\$ 182,111	78.2%

	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	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%
Income (Loss) before Capital Contributions	232,861	(186,544)	419,405	-224.8%
Capital Contributions	0	0	0	0.0%
Change in Net Position	\$ 232,861	\$ (186,544)	\$ 419,405	-224.8%

RESULTS OF OPERATIONS

Solid waste operating revenue for 2013 and 2012 increased due to an increase tipping fees charged to the entities as well as an increase in private tipping fees. 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 statements 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 2013 were approximately \$1,645,000 which included the acquisition of a Caterpillar wheel loader and a Caterpillar landfill compactor for approximately \$981,000. It also included approximately \$310,000 in additional costs for construction of the new Sevier Solid Waste office, which was placed in service during the year. In 2012, there were approximately \$750,000 in capital asset additions 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.

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, 2013, SSWI has five capitalized leases in place with outstanding capital lease obligations totaling approximately \$1,018,000 (four totaling approximately \$483,000 as of June 30, 2012).

FUTURE OUTLOOK

The revenue estimate for next year was projected based on no increase in tipping fee rates. Total revenue and expenditures are budgeted to be approximately \$4.2 million for the fiscal year ending June 30, 2014.

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, 2014.

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>2013</u>	<u>2012</u>
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents		\$ 3,835,595	\$ 2,700,044
Receivables:			
Accounts Receivable		420,440	510,470
Due From Other Governments		5,921	9,371
Insurance Recovery Receivable		349,462	0
Prepaid Expenses		<u>26,898</u>	<u>27,605</u>
Total Current Assets		<u>4,638,316</u>	<u>3,247,490</u>
NON-CURRENT ASSETS:			
Certificate of Deposit		1,518,717	1,507,459
Capital Assets, Net		<u>21,525,500</u>	<u>21,646,800</u>
Total Non-Current Assets		<u>23,044,217</u>	<u>23,154,259</u>
TOTAL ASSETS		<u>\$ 27,682,533</u>	<u>\$ 26,401,749</u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES:			
Accounts Payable:			
Trade		\$ 116,092	\$ 130,395
Construction Retainages		151,713	151,713
Compensated Absences		50,722	47,672
Unearned Revenue		29,698	0
Current Maturities of Capital Lease Obligations		314,765	215,974
Current Portion of Reserve for Closure and Post-Closure Costs		<u>16,131</u>	<u>19,543</u>
Total Current Liabilities		<u>679,121</u>	<u>565,297</u>
LONG-TERM LIABILITIES:			
Capital Lease Obligations, Less Current Maturities		702,986	267,410
Reserve for Closure and Post-Closure Costs, Less Current Portion		<u>5,950,869</u>	<u>5,634,457</u>
Total Long-Term Liabilities		<u>6,653,855</u>	<u>5,901,867</u>
NET POSITION:			
Net Investment in Capital Assets		20,356,036	21,011,703
Unrestricted		<u>(6,479)</u>	<u>(1,077,118)</u>
Total Net Position		<u>20,349,557</u>	<u>19,934,585</u>
TOTAL LIABILITIES AND NET POSITION		<u>\$ 27,682,533</u>	<u>\$ 26,401,749</u>

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

SEVIER SOLID WASTE, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended June 30,	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:			
Tipping Fees		\$ 4,096,027	\$ 3,911,976
Other Income		<u>98,725</u>	<u>101,568</u>
Total Operating Revenues		<u>4,194,752</u>	<u>4,013,544</u>
OPERATING EXPENSES:			
Personnel Costs		1,160,192	1,041,269
General Services		168,854	162,142
Maintenance		97,479	157,834
Supplies		117,908	102,975
Composting Expenses		753,513	654,104
Recycling Expenses		44,186	47,900
Other Operating Expenses		45,940	26,861
Closure and Post-Closure Costs		<u>357,437</u>	<u>378,754</u>
Total Operating Expenses		<u>2,745,509</u>	<u>2,571,839</u>
OPERATING INCOME BEFORE DEPRECIATION		1,449,243	1,441,705
Depreciation		<u>(1,513,806)</u>	<u>(1,415,162)</u>
OPERATING INCOME (LOSS)		<u>(64,563)</u>	<u>26,543</u>
NONOPERATING INCOME (EXPENSE):			
Insurance Recovery		349,462	168,426
Grant Income		36,405	36,476
Interest Income		15,890	21,559
Interest Expense		(36,227)	(20,143)
Gain on the Sale of Capital Assets		<u>109,380</u>	<u>0</u>
Net Nonoperating Income (Expense)		<u>474,910</u>	<u>206,318</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS		410,347	232,861
CAPITAL CONTRIBUTIONS		<u>4,625</u>	<u>0</u>
CHANGE IN NET POSITION		414,972	232,861
TOTAL NET POSITION - BEGINNING OF YEAR		<u>19,934,585</u>	<u>19,701,724</u>
TOTAL NET POSITION - END OF YEAR		<u>\$ 20,349,557</u>	<u>\$ 19,934,585</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>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Forming Entities		\$ 2,745,491	\$ 2,764,633
Cash Received from Customers		1,568,989	1,394,705
Cash Paid to Employees		(892,503)	(796,500)
Cash Paid to Suppliers		<u>(1,551,314)</u>	<u>(1,425,550)</u>
Net Cash Provided by (Used in) Operating Activities		<u>1,870,663</u>	<u>1,937,288</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Grant Proceeds Received		<u>39,855</u>	<u>44,487</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Additions and Construction of Capital Assets		(659,329)	(470,850)
Insurance Recoveries Received		0	324,411
Interest Paid on Capital Lease Obligations		(35,465)	(20,814)
Repayment of Capital Lease Obligations		(227,390)	(142,807)
Proceeds from the Sale of Capital Assets		<u>142,585</u>	<u>0</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities		<u>(779,599)</u>	<u>(310,060)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Certificate of Deposit		0	(1,507,459)
Interest Received		<u>4,632</u>	<u>21,559</u>
Net Cash Provided by (Used In) Investing Activities		<u>4,632</u>	<u>(1,485,900)</u>
NET INCREASE (DECREASE) IN CASH		1,135,551	185,815
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>2,700,044</u>	<u>2,514,229</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ 3,835,595</u>	<u>\$ 2,700,044</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>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ <u>(64,563)</u>	\$ <u>26,543</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,513,806	1,415,162
(Increase) Decrease in Assets:		
Receivables	90,030	145,794
Prepaid Expenses	707	(350)
Increase (Decrease) in Liabilities:		
Accounts Payable	(15,065)	18,851
Reserve for Closure and Post-Closure Costs	313,000	336,000
Compensated Absences	3,050	(4,712)
Unearned Revenue	<u>29,698</u>	<u>0</u>
Total Adjustments	<u>1,935,226</u>	<u>1,910,745</u>
Net Cash Provided by (Used In) Operating Activities	\$ <u>1,870,663</u>	\$ <u>1,937,288</u>

Supplementary Schedule of Noncash Capital and Related Financing Activities:

Acquisition of Equipment through Capital Lease	\$ 855,325	\$ 181,290
Exchange of Equipment on Capital Leases	\$ 93,568	\$ 44,416
Gain on Disposal of Capital Assets	\$ 109,380	\$ 0
Capital Contributions	\$ 4,625	\$ 0

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

SEVIER SOLID WASTE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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%. 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. 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 (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

GAAP 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 position and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* - This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position 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 position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Implementation of GASB Statement No. 63 - During the fiscal year ended June 30, 2013, SSWI implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting the balance sheets and statements of revenues, expenses and changes in net position. The only change in financial reporting as a result of this implementation was replacing the term "net assets" with "net position".

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, 2013, the book balances of SSWI's cash, cash equivalents, and certificate of deposit were \$5,354,312, and the bank balances were \$5,378,520. Of the bank balances, \$500,000 was covered by FDIC insurance and \$4,878,520 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee (the "State") Treasury Department. At June 30, 2012, the book balances of SSWI's cash and cash equivalents 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.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2013 and 2012 is as follows:

	Balance July 01, 2012	Additions	Decreases	Balance June 30, 2013
Land (nondepreciable)	\$ 3,761,366	\$ 0	\$ 0	\$ 3,761,366
Buildings	6,883,695	516,440	80,383	7,319,752
Composting Facility	15,640,032	92,184	0	15,732,216
Other Improvements	8,025,181	5,870	0	8,031,051
Furniture, Fixtures and Equipment	2,316,171	1,120,347	289,037	3,147,481
Vehicles	277,395	4,625	0	282,020
Construction in Progress	189,665	393,872	488,439	95,098
Total Capital Assets	<u>37,093,505</u>	<u>2,133,338</u>	<u>857,859</u>	<u>38,368,984</u>
Depreciation:				
Buildings	(1,000,448)	(236,451)	(47,178)	(1,189,721)
Composting Facility	(6,415,628)	(508,673)	0	(6,924,301)
Other Improvements	(6,874,541)	(444,076)	0	(7,318,617)
Furniture, Fixtures and Equipment	(994,456)	(295,784)	(69,849)	(1,220,391)
Vehicles	(161,632)	(28,822)	0	(190,454)
Total Accumulated Depreciation	<u>(15,446,705)</u>	<u>(1,513,806)</u>	<u>(117,027)</u>	<u>(16,843,484)</u>
Net Capital Assets	<u>\$ 21,646,800</u>	<u>\$ 619,532</u>	<u>\$ 740,832</u>	<u>\$ 21,525,500</u>
	Balance July 01, 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>
Depreciation:				
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>

At June 30, 2013, the Organization did not have any contractual commitments for construction.

NOTE 4 - CAPITAL LEASE OBLIGATIONS

Changes in capital lease obligations for the years ended June 30, 2013 and 2012 are as follows:

	July 1, 2012	Additions	Retirements	June 30, 2013	Due Within One Year
D6TXW Dozer	\$ 125,220	\$ 0	\$ 39,032	\$ 86,188	\$ 86,188
Articulated Truck	74,648	0	28,330	46,318	46,318
950H Wheel Loader	105,737	0	105,737	0	0
938H Wheel Loader	177,779	0	42,875	134,904	44,267
826H Landfill Compactor	0	592,598	73,565	519,033	82,748
950K Wheel Loader	0	262,727	31,419	231,308	55,244
Total Capital Lease Obligations	483,384	\$ 855,325	\$ 320,958	1,017,751	\$ 314,765
Less Current Maturities	215,974			314,765	
Capital Lease Obligations, Less Current Maturities	\$ 267,410			\$ 702,986	

	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	489,317	\$ 181,290	\$ 187,223	483,384	\$ 215,974
Less Current Maturities	186,738			215,974	
Capital Lease Obligations, Less Current Maturities	\$ 302,579			\$ 267,410	

The capital lease obligations as of June 30, 2013 are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Amount of Original Issue	Balance June 30, 2013
D6TXW Dozer	4.72%	11/10/2008	11/10/2013	\$ 250,216	\$ 86,188
Articulated Truck	4.90%	11/23/2009	11/23/2013	141,734	46,318
938H Wheel Loader	3.20%	5/21/2012	5/21/2015	181,290	134,904
826H Landfill Compactor	3.20%	7/30/2012	7/30/2017	592,598	519,033
950K Wheel Loader	3.20%	11/26/2012	11/26/2015	262,727	231,308
					\$ 1,017,751

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

	Principal	Interest
2014	\$ 314,765	\$ 27,787
2015	233,115	19,616
2016	207,232	11,399
2017	91,074	7,076
2018	171,565	458
	\$ 1,017,751	\$ 66,336

Equipment totaling \$1,598,257 and \$906,350 as of June 30, 2013 and 2012, with associated accumulated depreciation of \$303,068 and \$212,257 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 \$160,662 for the equipment recorded under capital leases has been included in depreciation expense for the year ended June 30, 2013 (\$91,591 in 2012).

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, 2013 and 2012:

	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, 2013</u>				
Phase II & III	\$ 75,000	100%	\$ 0	0
Phase I Extension	94,000	100%	0	0
Phase IV A	402,000	100%	0	0
Phase IV B & C	5,049,000	95%	266,000	1 - 3
Class IV Landfill	56,000	100%	0	0
Class III/IV Landfill	291,000	65%	157,000	2 - 4
Total (including \$16,131 classified as current)	<u>\$ 5,967,000</u>		<u>\$ 423,000</u>	
<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>	

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 \$2,001,842.

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, 2013 was 14.29% 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, 2013, SSWI's annual pension cost of \$96,170 to TCRS was equal to SSWI's required and actual contributions. The required contribution was determined as part of the July 1, 2011 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% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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, 2011 was 2 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
2013	\$ 96,170	100%	\$ 0
2012	85,543	100%	0
2011	99,426	100%	0

NOTE 6 - PENSION PLAN (Continued)

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date, the plan was 95.40% 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 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, 2013		June 30, 2012	
	Tipping Fees	Accounts Receivable	Tipping Fees	Accounts Receivable
Sevier County	\$ 827,359	\$ 68,509	\$ 818,879	\$ 74,102
Pigeon Forge	784,512	77,171	772,693	76,342
Gatlinburg	526,001	48,350	479,662	43,452
Sevierville	677,781	123,132	597,248	53,104
	<u>\$ 2,815,653</u>	<u>\$ 317,162</u>	<u>\$ 2,668,482</u>	<u>\$ 247,000</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 Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION SECTION

SEVIER SOLID WASTE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2013

<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	\$ (9,371)	\$ 9,371	\$ 0	\$ 0
Waste Tire Grant	N/A	30046	0	30,484	36,405	(5,921)
			\$ <u>(9,371)</u>	\$ <u>39,855</u>	\$ <u>36,405</u>	\$ <u>(5,921)</u>
TOTAL FEDERAL AND STATE AWARDS			\$ <u>(9,371)</u>	\$ <u>39,855</u>	\$ <u>36,405</u>	\$ <u>(5,921)</u>

SEVIER SOLID WASTE, INC.

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

For the Year Ended June 30, 2013

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.

OTHER INFORMATION SECTION

SEVIER SOLID WASTE, INC.

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2013

	Caterpillar Financial Services D6TXW Dozer 4.72%		Caterpillar Financial Services Articulated Truck 4.90%		Caterpillar Financial Services 938H Wheel Loader 3.20%		Caterpillar Financial Services 826H Landfill Compactor 3.20%		Caterpillar Financial Services 950K Wheel Loader 3.20%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 86,188	\$ 1,323	\$ 46,318	\$ 794	\$ 44,267	\$ 3,672	\$ 82,748	\$ 15,402	\$ 55,244	\$ 6,596	\$ 314,765	\$ 27,787
2015	0	0	0	0	90,637	2,103	85,436	12,715	57,042	4,798	233,115	19,616
2016	0	0	0	0	0	0	88,210	9,941	119,022	1,458	207,232	11,399
2017	0	0	0	0	0	0	91,074	7,076	0	0	91,074	7,076
2018	0	0	0	0	0	0	171,565	458	0	0	171,565	458
	<u>\$ 86,188</u>	<u>\$ 1,323</u>	<u>\$ 46,318</u>	<u>\$ 794</u>	<u>\$ 134,904</u>	<u>\$ 5,775</u>	<u>\$ 519,033</u>	<u>\$ 45,592</u>	<u>\$ 231,308</u>	<u>\$ 12,852</u>	<u>\$ 1,017,751</u>	<u>\$ 66,336</u>

See Independent Auditor's Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

KNOXVILLE OFFICE:

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



PUGH & COMPANY, P.C.
www.pughcpas.com

OAK RIDGE OFFICE:

800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-769-1657

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of Sevier Solid Waste, Inc., which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated November 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sevier Solid Waste, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sevier Solid Waste, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Sevier Solid Waste, Inc.'s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sevier Solid Waste, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants

Knoxville, Tennessee

November 19, 2013

