

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2011 AND 2010

**CARROLL COUNTY BOARD OF PUBLIC UTILITIES
TABLE OF CONTENTS**

Introductory Section

Directory 1

Financial Section

Independent Auditor’s Report 2
Management’s Discussion and Analysis 4
Financial Statements:
 Statements of Net Assets 10
 Statements of Revenues, Expenses and Changes in Net Assets 12
 Statements of Cash Flows 13
 Notes to Financial Statements 15

Other Supplementary Information Section

Schedules of Operating Revenues and Expenses 25
Electric Plant in Service 27
Schedule of Long-term Debt 28
Schedule of Insurance 29
Electric Rates in Force 30
Other Supplementary Information – Unaudited 31

Internal Control and Compliance Section

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* 32
Schedule of Findings and Recommendations 34

INTRODUCTORY SECTION

**CARROLL COUNTY BOARD OF PUBLIC UTILITIES
DIRECTORY
June 30, 2011**

BOARD MEMBERS

John A. Mann, Chairman
Robert A. Clark, Sr., Secretary
Robert E. Rutledge, Treasurer
Dr. Jerry F. Atkins
Paul W. Moore

MANAGEMENT TEAM

Lynn Compton, General Manager
Mark Burden, Office Manager
Gary Hatch, Director of Operations
Gail Eubanks, Chief Accountant

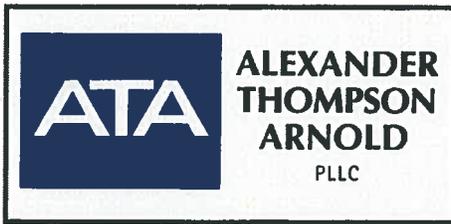
COUNSEL

Robert Keeton, Jr.
Huntingdon, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



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Independent Auditor's Report

Board of Directors
Carroll County Board of Public Utilities
Huntingdon, Tennessee

We have audited the accompanying financial statements of the Carroll County Board of Public Utilities (the System), an enterprise fund of Carroll County, Tennessee, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the System's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the System'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 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.

As discussed in Note 1, the financial statements present only the Carroll County Board of Public Utilities and do not purport to, and do not present fairly the financial position of Carroll County, Tennessee, as of June 30, 2011 and 2010, and the results of its operations and its cash flows of its proprietary fund types for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of June 30, 2011 and 2010, and the results of operations and cash flows thereof 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 a report dated October 14, 2011, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Board of Directors
Carroll County Board of Public Utilities
Huntingdon, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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 the financial statements that collectively comprise the System's financial statements as a whole. The introductory section and other supplementary information section are presented for purposes of additional analysis and are not a required party of the financial statements. The other supplementary information, except those schedules marked "unaudited", are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare 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 information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and other supplementary information marked "unaudited" have 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 them.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
October 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Carroll County Board of Public Utilities (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2011. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the System's financial condition is strong. The System is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$33.0 million and exceeded liabilities in the amount of \$26.2 million (i.e. net assets). Total assets increased by \$585 thousand due to increases in both current assets and capital assets.
- Net assets increased \$225 thousand during the current year due to an operating profit. Unrestricted net assets decreased by \$344 thousand due primarily to a reduction in operating profit and an increase in capital asset investment.
- During fiscal year 2011, the System delivered 450.12 million kWh compared to 444.53 million kWh during the fiscal year 2010.
- Operating revenues were \$38.4 million, an increase from year 2010 in the amount of \$3.4 million or (9.9%).
- Operating expenses were \$37.7 million, an increase from year 2010 in the amount of \$3.7 million or (10.9%). An increase in cost of sales and services of \$3.8 million made up the largest portion of the increase due to an increase in power costs.
- The operating income for the year was \$661 thousand as compared to a \$913 thousand operating profit during the 2010 fiscal year.
- Ratios of operating income to total operating revenue were 1.72, 2.63, and 2.50, for 2011, 2010, and 2009, respectively.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the System's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the System's strategic plan, budget, bond resolutions, and other management tools were used for this analysis. The Comprehensive Annual Financial Report is made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary and statistical information section, and 4) the internal control and compliance section. The introductory section includes the System's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The other supplementary and statistical information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the System, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing

services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the System, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Assets* presents the financial position of the System on a full accrual historical cost basis. The statement includes all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System, and assessing the liquidity and financial flexibility of the System.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the System's operations and can be used to determine whether the System has successfully recovered all of its costs. This statement also measures the System's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL ANALYSIS

One of the most important questions asked about the System's finances is "Is the System, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the System's activities in a way that will help answer this question. These two statements report the net assets of the System, and the changes in the net assets. Net assets are one way to measure the financial health or financial position of the System. Over time, increases or decreases in the System's net assets is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The System's total net assets increased by \$225 thousand and \$523 thousand for the fiscal years ended June 30, 2011 and 2010, respectively. The analysis below focuses on the System's net assets (Table 1) and changes in net assets (Table 2) during the year.

REQUIRED FINANCIAL ANALYSIS

Table 1A
CONDENSED STATEMENT OF NET ASSETS

| | June 30, 2011 | June 30, 2010 | Increase (Decrease) | |
|---|----------------------|----------------------|---------------------|---------|
| | | | \$ | % |
| Current and other assets | \$ 12,457,211 | \$ 12,287,438 | \$ 169,773 | 1.38% |
| Capital assets | 20,523,496 | 20,108,477 | 415,019 | 2.06% |
| Total assets | <u>32,980,707</u> | <u>32,395,915</u> | <u>584,792</u> | 1.81% |
| Long-term liabilities | 645,831 | 793,554 | (147,723) | -18.62% |
| Other liabilities | 6,103,083 | 5,595,869 | 507,214 | 9.06% |
| Total liabilities | <u>6,748,915</u> | <u>6,389,423</u> | <u>359,491</u> | 5.63% |
| Invested in capital assets, net of related debt | 19,737,386 | 19,186,655 | 550,731 | 2.87% |
| Restricted | 382,490 | 363,834 | 18,656 | 5.13% |
| Unrestricted | 6,111,916 | 6,456,003 | (344,087) | -5.33% |
| Total net assets | <u>\$ 26,231,792</u> | <u>\$ 26,006,492</u> | <u>\$ 225,300</u> | 0.87% |

Table 1B
CONDENSED STATEMENT OF NET ASSETS

| | June 30, 2010 | June 30, 2009 | Increase (Decrease) | |
|---|----------------------|----------------------|---------------------|---------|
| | | | \$ | % |
| Current and other assets | \$ 12,287,438 | \$ 11,714,759 | \$ 572,679 | 4.89% |
| Capital assets | 20,108,477 | 19,980,506 | 127,971 | 0.64% |
| Total assets | <u>32,395,915</u> | <u>31,695,265</u> | <u>700,650</u> | 2.21% |
| Long-term liabilities | 793,554 | 931,412 | (137,858) | -14.80% |
| Other liabilities | 5,595,869 | 5,279,955 | 315,914 | 5.98% |
| Total liabilities | <u>6,389,423</u> | <u>6,211,367</u> | <u>178,056</u> | 2.87% |
| Invested in capital assets, net of related debt | 19,186,655 | 18,895,506 | 291,149 | 1.54% |
| Restricted | 363,834 | 343,256 | 20,578 | 5.99% |
| Unrestricted | 6,456,003 | 6,245,136 | 210,867 | 3.38% |
| Total net assets | <u>\$ 26,006,492</u> | <u>\$ 25,483,898</u> | <u>\$ 522,594</u> | 2.05% |

The increase in capital assets was funded primarily by operations and the use of unrestricted fund balance. The increase in current and other assets was due primarily to an increase in investments and trade accounts receivable during the year. Changes in the System's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Assets for the years.

Table 2A

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | June 30, 2011 | June 30, 2010 | Increase (Decrease) | |
|------------------------------------|----------------------|----------------------|---------------------|---------------|
| | | | \$ | % |
| Operating revenues | \$ 38,373,267 | \$ 34,927,656 | \$ 3,445,611 | 9.86% |
| Non-operating revenues | 94,947 | 123,893 | (28,946) | -23.36% |
| Total revenues | 38,468,214 | 35,051,549 | 3,416,665 | 9.75% |
| Cost of sales and service | 31,910,486 | 28,106,049 | 3,804,437 | 13.54% |
| Operations expense | 2,147,338 | 2,053,806 | 93,532 | 4.55% |
| Maintenance expense | 1,344,362 | 1,415,789 | (71,427) | -5.05% |
| General and administrative expense | 1,245,168 | 1,376,146 | (130,978) | -9.52% |
| Depreciation expense | 1,023,166 | 1,062,501 | (39,335) | -3.70% |
| Transfer out - tax equivalent | 524,961 | 461,447 | 63,514 | 13.76% |
| Interest and amortization | 47,433 | 53,217 | (5,784) | -10.87% |
| Total expenses | 38,242,914 | 34,528,955 | 3,713,959 | 10.76% |
| Change in net assets | 225,300 | 522,594 | (297,294) | -56.89% |
| Beginning net assets | 26,006,492 | 25,483,898 | 522,594 | 2.05% |
| Ending net assets | \$ 26,231,792 | \$ 26,006,492 | \$ 225,300 | 0.87% |

Table 2B

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

| | June 30, 2010 | June 30, 2009 | Increase (Decrease) | |
|---|----------------------|----------------------|---------------------|----------------|
| | | | \$ | % |
| Operating revenues | \$ 34,927,656 | \$ 39,581,914 | \$ (4,654,258) | -11.76% |
| Non-operating revenues | 123,893 | 194,645 | (70,752) | -36.35% |
| Total revenues | 35,051,549 | 39,776,559 | (4,725,010) | -11.88% |
| Cost of sales and service | 28,106,049 | 32,873,049 | (4,767,000) | -14.50% |
| Operations expense | 2,053,806 | 2,027,515 | 26,291 | 1.30% |
| Maintenance expense | 1,415,789 | 1,346,233 | 69,556 | 5.17% |
| General and administrative expense | 1,376,146 | 1,340,333 | 35,813 | 2.67% |
| Depreciation expense | 1,062,501 | 1,063,537 | (1,036) | -0.10% |
| Amortization and acquisition adjustment | - | (18,238) | 18,238 | -100.00% |
| Transfer out - tax equivalent | 461,447 | 424,366 | 37,081 | 8.74% |
| Interest and amortization | 53,217 | 58,368 | (5,151) | -8.83% |
| Total expenses | 34,528,955 | 39,115,163 | (4,586,208) | -11.72% |
| Change in net assets | 522,594 | 661,396 | (138,802) | -20.99% |
| Beginning net assets | 25,483,898 | 24,822,502 | 661,396 | 2.66% |
| Ending net assets | \$ 26,006,492 | \$ 25,483,898 | \$ 522,594 | 2.05% |

Operating revenues showed an (11.76%) decrease from 2009 to 2010 and a 9.86% increase from 2010 to 2011. Non-operating revenues decreased 36.35% from 2009 to 2010 and decreased 23.36% from 2010 to 2011 as the result of decreasing interest rates on certificates of deposits and savings accounts. Expenses decreased 2.23% for the three year period as a result of fluctuation in cost of sales and service due to rate changes by TVA. Ending net assets showed an increase of 2.94% over the 3 year period due to the above mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the system had \$20.5 million (net of accumulated depreciation) invested in a broad range of System capital assets. This investment includes land, land rights, distribution and transmission systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as transmission plant, distribution plant, and general plant. This investment represents an overall increase (net of increases and decreases) of \$415 thousand or 2.06% over last year. The following tables summarize the System's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2011 and 2010. These changes are presented in detail in Note 3D to the financial statements.

Table 3A

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| | June 30, 2011 | June 30, 2010 | Increase (Decrease) | |
|----------------------------|----------------------|----------------------|---------------------|---------|
| | | | Amount | Percent |
| Transmission plant | \$ 820,737 | \$ 858,268 | \$ (37,531) | -4.37% |
| Distribution plant | 17,427,129 | 17,247,022 | 180,107 | 1.04% |
| General plant | 1,794,901 | 1,876,364 | (81,463) | -4.34% |
| Construction in progress | 480,729 | 126,823 | 353,906 | 279.06% |
| Total capital assets (net) | <u>\$ 20,523,496</u> | <u>\$ 20,108,477</u> | <u>\$ 415,019</u> | 2.06% |

Table 3B

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| | June 30, 2010 | June 30, 2009 | Increase (Decrease) | |
|----------------------------|----------------------|----------------------|---------------------|---------|
| | | | Amount | Percent |
| Transmission plant | \$ 858,268 | \$ 890,076 | \$ (31,808) | -3.57% |
| Distribution plant | 17,247,022 | 17,140,566 | 106,456 | 0.62% |
| General plant | 1,876,364 | 1,870,890 | 5,474 | 0.29% |
| Construction in progress | 126,823 | 78,977 | 47,846 | 60.58% |
| Total capital assets (net) | <u>\$ 20,108,477</u> | <u>\$ 19,980,509</u> | <u>\$ 127,968</u> | 0.64% |

The major portion of the additions, took place in construction in progress. The additions were a direct result of work to repair the damages from the April 2011 storms. The System plans on using existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

Debt Administration

The System has outstanding Revenue Bonds of \$810 thousand as of June 30, 2011. Principal payments are due in the upcoming fiscal year in the amount of \$150 thousand with interest payments totaling approximately \$38 thousand also due. Details relating to the outstanding debt can be found in Note 3E. The System is well within its debt covenants and foresees no problems in the future relating to outstanding debt. The System also has no current plans to issue new debt or refund outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

During the fiscal year 2011 economic conditions in the service territory did show slight signs of improvement. Most notable, the county's unemployment rate decreased from 15.3% to 13.7% which helped increase the System's total customer base. The increase was realized by a 1.5% increase to our commercial based establishments; however residential customers decreased 1% during the fiscal year, which is the System's fourth consecutive annual decline for this class of service.

Additionally, effective April 2011, the System's energy supplier and regulatory authority changed its wholesale billing structure to a single demand and energy rate. Because of the new wholesale rate change, the System conducted an independent Cost of Service study during fiscal year 2010 to evaluate existing retail rates. As a result, effective October 2010, the System restructured retail rates for all classes of service resulting in a revenue neutral change to the System's operating margin. Since implementation of the new wholesale rates structure, the System's is experiencing a significant decrease in Operating Margins due to increase cost of purchased power. Currently, the System's management anticipates rate changes or Operating margin increases to rates during fiscal year 2012 to offset this increased cost.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Office Manager of Carroll County Board of Public Utilities, P.O. Box 527, 103 West Paris Street, Huntingdon, TN 38344.

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
STATEMENTS OF NET ASSETS
June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets | | |
| Cash on hand | \$ 3,650 | \$ 3,650 |
| Cash and cash equivalents - general | 1,939,451 | 2,580,285 |
| Accounts receivable - trade (net of allowance for uncollectibles) | 3,247,477 | 3,043,419 |
| Accounts receivable - other | 157,895 | 136,295 |
| Materials and supplies | 489,320 | 500,138 |
| Prepayments and other current assets | 348,378 | 346,676 |
| Total current assets | <u>6,186,171</u> | <u>6,610,463</u> |
| Noncurrent assets | | |
| Restricted cash, cash equivalents, and investments: | | |
| Cash and cash equivalents | 134,203 | 119,928 |
| Investments | 254,622 | 251,268 |
| Total restricted assets | <u>388,825</u> | <u>371,196</u> |
| Investments | <u>5,872,494</u> | <u>5,294,047</u> |
| Other assets | | |
| Unamortized debt expense | <u>9,721</u> | <u>11,732</u> |
| Capital assets | | |
| Transmission plant | 1,495,615 | 1,487,755 |
| Distribution plant | 31,961,737 | 31,182,103 |
| General plant | 2,967,159 | 2,979,537 |
| Construction in progress | 480,729 | 126,823 |
| Less: Accumulated depreciation | <u>(16,381,743)</u> | <u>(15,667,741)</u> |
| Total capital assets (net of accumulated depreciation) | <u>20,523,496</u> | <u>20,108,477</u> |
| Total noncurrent assets | <u>26,794,536</u> | <u>25,785,452</u> |
| | | |
| Total assets | <u>\$ 32,980,707</u> | <u>\$ 32,395,915</u> |

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

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
STATEMENTS OF NET ASSETS
June 30, 2011 and 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 3,172,773 | \$ 2,814,623 |
| Other accrued expense | 747,134 | 668,563 |
| Customer deposits | 886,072 | 909,722 |
| Compensated absences | 1,140,770 | 1,055,599 |
| Total current liabilities | 5,946,748 | 5,448,507 |
| Current liabilities payable from restricted assets: | | |
| Accrued interest | 6,335 | 7,362 |
| Current maturities of long-term debt | 150,000 | 140,000 |
| Total current liabilities payable from restricted assets | 156,335 | 147,362 |
| Noncurrent liabilities | | |
| Bonds payable (less current maturities) | 660,000 | 810,000 |
| Unamortized discount on bonds payable | (14,169) | (16,446) |
| Total noncurrent liabilities | 645,831 | 793,554 |
| Total liabilities | 6,748,915 | 6,389,423 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 19,737,386 | 19,186,655 |
| Restricted for debt service | 382,490 | 363,834 |
| Unrestricted | 6,111,916 | 6,456,003 |
| Total net assets | \$ 26,231,792 | \$ 26,006,492 |

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

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Operating revenues | | |
| Charges for sales and services | \$ 37,577,855 | \$ 34,248,070 |
| Other electric revenue | 795,412 | 679,586 |
| Total operating revenues | 38,373,267 | 34,927,656 |
| Operating expenses | | |
| Cost of sales and services | 31,910,486 | 28,106,049 |
| Operations expense | 2,147,338 | 2,053,806 |
| Maintenance expense | 1,344,362 | 1,415,789 |
| Administrative expense | 1,089,379 | 1,179,953 |
| Provision for depreciation | 1,023,166 | 1,062,501 |
| Other taxes | 197,745 | 196,193 |
| Total operating expenses | 37,712,476 | 34,014,291 |
| Operating income (loss) | 660,791 | 913,365 |
| Nonoperating revenues (expenses) | | |
| Interest income | 94,947 | 123,893 |
| Interest expense | (43,144) | (49,064) |
| Amortization of debt expense | (4,289) | (4,153) |
| Total nonoperating revenues (expenses) | 47,515 | 70,676 |
| Income before transfers | 708,306 | 984,041 |
| Transfers | | |
| Transfer out - tax equivalents | (483,006) | (461,447) |
| Change in net assets | 225,300 | 522,594 |
| Total net assets - beginning | 26,006,492 | 25,483,898 |
| Total net assets - ending | \$ 26,231,792 | \$ 26,006,492 |

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

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Receipts from customers and users | \$ 38,123,958 | \$ 34,866,844 |
| Payments to employees | (2,427,518) | (2,500,122) |
| Payments to suppliers | (33,730,785) | (30,108,720) |
| Net cash provided (used) by operating activities | 1,965,655 | 2,258,002 |
| Cash flows from capital and related financing activities | | |
| Construction and acquisition of plant | (1,465,324) | (1,204,386) |
| Plant removal cost | (119,790) | (136,164) |
| Materials salvaged from retirements | 146,929 | 150,081 |
| Principal paid on bonds | (140,000) | (135,000) |
| Interest paid on bonds | (44,170) | (50,042) |
| Net cash provided (used) by capital and related financing activities | (1,622,355) | (1,375,511) |
| Cash flows from non-capital financing activities | | |
| Amounts paid to others - tax equivalents | (483,006) | (461,447) |
| Net cash provided (used) by non-capital and related financing activities | (483,006) | (461,447) |
| Cash flows from investing activities | | |
| Purchase of investment | (15,796,339) | (11,013,845) |
| Proceeds from sale of investments | 15,214,538 | 10,996,154 |
| Interest earned | 94,947 | 123,893 |
| Net cash provided (used) by investing activities | (486,854) | 106,202 |
| Net increase (decrease) in cash and cash equivalents | (626,560) | 527,246 |
| Cash and cash equivalents - beginning of year | 2,703,863 | 2,176,617 |
| Cash and cash equivalents - end of year | \$ 2,077,303 | \$ 2,703,863 |
| Unrestricted cash on hand | \$ 3,650 | \$ 3,650 |
| Unrestricted cash and cash equivalents on deposit | 1,939,451 | 2,580,285 |
| Restricted cash and cash equivalents on deposit | 134,203 | 119,928 |
| Total cash and cash equivalents | \$ 2,077,303 | \$ 2,703,863 |
| Non-cash investing, capital, and financing activities | \$ 127,291 | \$ 126,287 |

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

**CARROLL COUNTY BOARD OF PUBLIC UTILITIES
STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | |
| Operating income (loss) | \$ 660,791 | \$ 913,365 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 1,023,166 | 1,062,501 |
| (Increase) decrease in accounts receivable | (204,058) | (69,973) |
| (Increase) decrease in materials and supplies | 10,818 | (38,953) |
| (Increase) decrease in prepayments and other current assets | (23,302) | 79,170 |
| Increase (decrease) in customer deposits | (23,650) | 29,631 |
| Increase (decrease) in accounts payable and accrued expenses | 521,892 | 282,261 |
| Net cash provided (used) by operating activities | \$ 1,965,655 | \$ 2,258,002 |

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

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Carroll County Electric System (The System). The TCA code section 7-52-117(c) states "Subject to the provisions of section 7-52-132, the superintendent, with the approval of the supervisory body, may acquire and dispose of all property, real and personal, necessary to effectuate the purposes of this part. The title of such property shall be taken in the name of the municipality" (county); therefore, Carroll County Electric System does not possess sufficient corporate powers that distinguish it as a legally separate entity, and is considered a proprietary fund of Carroll County, Tennessee.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The System's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the System conform to applicable generally accepted accounting principles as defined in the pronouncements of the *Governmental Accounting Standards Board (GASB)*, *Financial Accounting Standards Board (FASB) Statements and Interpretations*, *Accounting Principle Board (APB) Opinions*, and *Accounting Research Bulletins (ARBs)*, issued on or before November 30, 1989. As allowed by GASB, the System has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the System are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

C. Assets, Liabilities, and Equity

Deposits and Investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

Accounts Receivable

Trade receivables result from unpaid billings for electric service to customers and from unpaid billings related to work performed for or materials sold to certain entities. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the System is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and Prepaid Items

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Restricted Assets

Certain proceeds of the bond issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the System as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the System is depreciated using the straight line method over the following useful lives:

| | |
|--------------------|--------------|
| General plant | 5 - 40 years |
| Transmission plant | 8 - 33 years |
| Distribution plant | 6 - 40 years |

Compensated Absences

It is the System's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay has been accrued and is reflected as a current liability on the financial statements. All sick leave has been accrued and is reflected as a current liability on the financial statements.

Long-term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

Net Assets

Equity is classified as net assets and displayed in the following three components:

- Invested in Capital Assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.
- Restricted for Debt Service – Consists of net assets for which constraints are placed thereon by lenders less any related liabilities.
- Unrestricted – All other net assets that do not meet the description of the above categories.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

No budget is required for Carroll County Board of Public Utilities, and therefore no budget is adopted.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Investments were made up entirely of certificates of deposits with a maturity of greater than three months for the fiscal years ended June 30, 2011 and 2010.

Custodial Credit Risk

The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2011 and 2010, all bank deposits were fully collateralized or insured.

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

| | June 30, | |
|---------------------------------------|---------------------|---------------------|
| | 2011 | 2010 |
| Billed services for utility customers | \$ 3,285,477 | \$ 3,060,419 |
| Other receivables for utility service | 157,895 | 136,295 |
| Allowance for doubtful accounts | (38,000) | (17,000) |
| Total | \$ 3,405,372 | \$ 3,179,714 |

Not included in the Receivables mentioned above is \$416,915 of Grants Receivable (\$2,843 included on the Schedule of Expenditures of Federal Awards (SEFA) and an estimate of \$414,072). The Utility maintains their Grants Receivable as an open work order in Construction in Process.

The estimated amount of \$414,072 is not included on the SEFA and is related to Federal Emergency Management Agency reimbursement that is expected, but no grant contract was in place as of June 30, 2011.

C. Restricted Assets

All deposits required by the 2001 Electric Plant Revenue Bond have been made. Transactions in funds, other than the 2001 Electric Plant Revenue Bond Fund and other special funds set aside to repair and replace plant, are at the discretion of the Board of Directors and there are no applicable legal requirements or restrictions on these funds.

| | June 30, | |
|---|------------|------------|
| | 2011 | 2010 |
| The restricted assets consist of the following: | | |
| 2001 Electric Plant Revenue Bond Fund | | |
| Interest and sinking fund | \$ 134,203 | \$ 119,928 |
| The total funds are represented by: | | |
| Certificates of deposit and savings accounts | \$ 254,622 | \$ 251,628 |

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

D. Capital Assets

Capital asset activity during the year was as follows:

| Description | Balance at June 30, 2010 | Additions | Disposals | Balance at June 30, 2011 |
|--|-----------------------------|--------------------------|-------------------------|-----------------------------|
| Capital assets, not being depreciated | | | | |
| Transmission plant | \$ 65,819 | \$ - | \$ - | \$ 65,819 |
| Distribution plant | 69,036 | 30,295 | - | 99,331 |
| General plant | 118,920 | - | - | 118,920 |
| Construction in progress | 126,823 | 353,906 | - | 480,729 |
| Total capital assets not being depreciated | <u>380,598</u> | <u>384,201</u> | <u>-</u> | <u>764,799</u> |
| Capital assets, being depreciated | | | | |
| Transmission plant | 1,421,936 | 9,403 | 1,543 | 1,429,796 |
| Distribution plant | 31,113,067 | 1,088,406 | 339,067 | 31,862,406 |
| General plant | 2,860,617 | 110,605 | 122,984 | 2,848,238 |
| Total capital assets being depreciated | <u>35,395,620</u> | <u>1,208,414</u> | <u>463,594</u> | <u>36,140,440</u> |
| Less accumulated depreciation for: | | | | |
| Transmission plant | 629,487 | 50,444 | 5,059 | 674,872 |
| Distribution plant | 13,935,081 | 922,998 | 323,466 | 14,534,613 |
| General plant | 1,103,173 | 177,015 | 107,930 | 1,172,258 |
| Total accumulated depreciation | <u>15,667,741</u> | <u>1,150,457</u> | <u>436,455</u> | <u>16,381,743</u> |
| Total capital assets, being depreciated, net | <u>19,727,879</u> | <u>57,957</u> | <u>27,139</u> | <u>19,758,697</u> |
| Total capital assets, net | <u><u>\$ 20,108,477</u></u> | <u><u>\$ 442,158</u></u> | <u><u>\$ 27,139</u></u> | <u><u>\$ 20,523,496</u></u> |

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

| Description | Balance at June 30, 2009 | Additions | Disposals | Balance at June 30, 2010 |
|--|-----------------------------|-------------------|------------------|-----------------------------|
| Capital assets, not being depreciated | | | | |
| Transmission plant | \$ 65,819 | \$ - | \$ - | \$ 65,819 |
| Distribution plant | 69,036 | - | - | 69,036 |
| General plant | 118,920 | - | - | 118,920 |
| Construction in progress | 78,977 | 47,846 | - | 126,823 |
| Total capital assets not being depreciated | <u>\$ 332,752</u> | <u>\$ 47,846</u> | <u>\$ -</u> | <u>\$ 380,598</u> |
| Capital assets, being depreciated | | | | |
| Transmission plant | \$ 1,408,209 | \$ 16,834 | \$ 3,107 | \$ 1,421,936 |
| Distribution plant | 30,461,674 | 1,067,583 | 416,190 | 31,113,067 |
| General plant | 2,798,504 | 198,410 | 136,297 | 2,860,617 |
| Total capital assets being depreciated | <u>34,668,387</u> | <u>1,282,827</u> | <u>555,594</u> | <u>35,395,620</u> |
| Less accumulated depreciation for: | | | | |
| Transmission plant | 583,952 | 49,938 | 4,403 | 629,487 |
| Distribution plant | 13,390,144 | 957,913 | 412,976 | 13,935,081 |
| General plant | 1,046,534 | 180,937 | 124,298 | 1,103,173 |
| Total accumulated depreciation | <u>15,020,630</u> | <u>1,188,788</u> | <u>541,677</u> | <u>15,667,741</u> |
| Total capital assets, being depreciated, net | <u>19,647,757</u> | <u>94,039</u> | <u>13,917</u> | <u>19,727,879</u> |
| Total capital assets, net | <u>\$ 19,980,509</u> | <u>\$ 141,885</u> | <u>\$ 13,917</u> | <u>\$ 20,108,477</u> |

Depreciation expense charged to operations amounted to \$1,023,166 for the fiscal year ended June 30, 2011 and \$1,062,501 for the fiscal year ended June 30, 2010.

E. Long-term Debt

Long-term debt is made up of the following:

| | June 30, | |
|--|-------------------|-------------------|
| | 2011 | 2010 |
| Revenue Bonds: | | |
| Electric Plant Revenue Bonds, Series 2001, interest at 3.2% to 4.75% due serially through 2016 | \$ 810,000 | \$ 950,000 |
| Total current portion of Revenue Bonds | <u>\$ 150,000</u> | <u>\$ 140,000</u> |
| Total long-term portion of Revenue Bonds | <u>\$ 660,000</u> | <u>\$ 810,000</u> |

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

During 2001, Carroll County issued \$2,000,000 Electric System Revenue Bonds, Series 2001, for the purpose of financing the construction and equipping of extensions and improvements to the system. The bonds bear interest at rates from 3.2% to 4.75% and mature serially in varying amounts from \$135,000 in fiscal year 2009 to \$175,000 in fiscal year 2016. The bonds are secured by a pledge of revenues by the System. Expenses incurred in the issuance of the bonds are being amortized by equal charges to operations over the life of the bonds.

The following is a summary of long-term debt transactions for the year ended June 30, 2011 and 2010:

| | Balance June 30, 2010 | Additions | Retirements | Balance June 30, 2011 | Due Within one year |
|-----------------------|--------------------------|-----------|-------------|--------------------------|------------------------|
| Revenue bonds payable | \$ 950,000 | \$ - | \$ 140,000 | \$ 810,000 | \$ 150,000 |

| | Balance June 30, 2009 | Additions | Retirements | Balance June 30, 2010 | Due Within one year |
|-----------------------|--------------------------|-----------|-------------|--------------------------|------------------------|
| Revenue bonds payable | \$ 1,085,000 | \$ - | \$ 135,000 | \$ 950,000 | \$ 140,000 |

The scheduled annual requirements for long-term debt at June 30, 2011, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|------------|------------|------------|
| 2012 | 150,000 | 37,940 | 187,940 |
| 2013 | 155,000 | 31,115 | 186,115 |
| 2014 | 160,000 | 23,908 | 183,908 |
| 2015 | 170,000 | 16,387 | 186,387 |
| 2016 | 175,000 | 8,313 | 183,313 |
| | \$ 810,000 | \$ 117,663 | \$ 927,663 |

Debt expense associated with the above bond issues was recorded as other assets and is being amortized on a straight-line basis over the life of the issue.

The System complied with all significant debt covenants and restrictions as set forth in the bond agreements.

F. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net assets amounts were as follows:

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

| | June 30, | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Invested in capital assets, net of related liabilities: | | |
| Net property, plant, and equipment in services | \$ 20,523,496 | \$ 20,108,477 |
| Unamortized debt expense | 9,721 | 11,732 |
| Unamortized discount | 14,169 | 16,446 |
| Less: Debt as disclosed in Note 3 | (810,000) | (950,000) |
| | \$ 19,737,386 | \$ 19,186,655 |
| Restricted for debt service: | | |
| Restricted cash and cash equivalents | \$ 134,203 | \$ 119,928 |
| Restricted investments | 254,622 | 251,268 |
| Less: Accrued interest payable from restricted assets | (6,335) | (7,362) |
| | 382,490 | 363,834 |
| Unrestricted | 6,111,916 | 6,456,003 |
| Total net assets | \$ 26,231,792 | \$ 26,006,492 |

NOTE 4 – OTHER INFORMATION

A. Pension Plan

Effective on January 1, 1997 the System adopted a profit sharing plan titled the Carroll County Electrical Department Profit Sharing Plan. Participants of the Plan must meet the Plan's eligibility requirements. Once an employee becomes a Participant, the System will maintain an Individual Account for each employee. Each Plan Year, employee accounts will be adjusted to reflect contributions, gains, losses, etc. The percentage of each employee account to which an employee is entitled upon separation from the System depends on the Plan's vesting schedule. Participants will generally be vested in their Individual Account after three years of service. All contributions made to the Plan on an employee's behalf will be placed in a trust fund established to hold dollars for the benefit of all Participants. Each Participants Individual Account will be used to track their share in the total trust fund.

Each year, the managing body of the System will determine the amount, if any, which it will contribute to the Plan. Employer Contributions to a profit sharing plan in general can range from 1% to 15% of Participants' compensation each year. Compensation shall be determined as the Participant's wages excluding overtime, commissions and bonuses.

For the years ended June 30, 2011 and 2010, total employer contributions were \$224,131 and \$218,873 based on total covered wages of \$2,359,274 and \$2,303,929, respectively.

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

B. Power Contract

The System has a power contract with the Tennessee Valley Authority (TVA) whereby the electric system purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided for in the power contract. Such restrictions include, but are not limited to, prohibitions against furnishings, advancing, lending, pledging or otherwise diverting System funds, revenues or property to other operations of the county and the purchase or payment of, or providing security for indebtedness on other obligations applicable to such other operations.

C. Risk Management

The System 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. During the year ended June 30, 2011, the System purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

D. OPEB Disclosure

Plan Description - Carroll County Electric System sponsors a single-employer post-retirement. The plan provides medical, prescription, and death benefits to eligible retirees and their spouses.

Funding Policy - The System intends to continue its policy of funding OPEB liabilities on a pay-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB-45.

Annual OPEB Cost and Net OPEB Obligation - The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB Obligation.

Components of Net OPEB Obligation

| | |
|--|-------------------------|
| Annual Required Contribution | \$ 22,916 |
| Interest on Net OPEB Obligation | 675 |
| Adjustment to Annual Required Contribution | <u>(740)</u> |
| Annual OPEB Cost (Expense) | 22,851 |
| Contributions and Subsidy | <u>-</u> |
| Increase in Net Obligation | 22,851 |
| Net OPEB Obligation (BOY) | <u>14,998</u> |
| Net OPEB (Asset) Obligation (EOY) | <u><u>\$ 37,849</u></u> |

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011 and 2010

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2010 is as follows:

| Fiscal Year Ended | Annual OPEB Cost | OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|--------------------------|------------------------|
| June 30, 2010 | \$ 22,078 | 8.18% | \$ 14,998 |
| June 30, 2011 | \$ 22,851 | 0.00% | \$ 37,849 |

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$231,249 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$231,249. The covered payroll (annual payroll of active employees covered by the plan) was \$2,494,041 and the ratio of the UAAL to the covered payroll was 9.27%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after ten years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2010 was 28 years.

**OTHER SUPPLEMENTARY
INFORMATION SECTION**

**CARROLL COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULES OF OPERATING REVENUES AND EXPENSES**

For the Years Ended June 30, 2011 and 2010

| | 2011 | | 2010 | |
|---|----------------------|---------------|----------------------|---------------|
| | Actual | Percent | Actual | Percent |
| Operating revenues: | | | | |
| Charges for sales and services: | | | | |
| Residential sales | \$ 19,430,230 | 50.63 | \$ 16,929,466 | 48.47 |
| Small lighting and power sales | 3,589,616 | 9.35 | 3,289,097 | 9.42 |
| Large lighting and power sales | 14,768,038 | 38.49 | 13,413,196 | 38.40 |
| General power credit | (1,123,429) | (2.93) | (237,278) | (0.68) |
| Street and athletic lighting sales | 379,660 | 0.99 | 340,035 | 0.97 |
| Outdoor lighting | 621,077 | 1.62 | 571,326 | 1.64 |
| Uncollectible accounts | (87,338) | (0.23) | (57,772) | (0.17) |
| Total charges for sales and services | <u>37,577,855</u> | <u>97.93</u> | <u>34,248,070</u> | <u>98.05</u> |
| Other revenues | | | | |
| Forfeited discounts | 265,530 | 0.69 | 227,855 | 0.65 |
| Miscellaneous service revenue | 131,243 | 0.34 | 127,590 | 0.37 |
| Rent from electric property | 300,638 | 0.78 | 272,064 | 0.78 |
| Other electric revenue | 98,001 | 0.26 | 52,077 | 0.15 |
| Total other revenues | <u>795,412</u> | <u>2.07</u> | <u>679,586</u> | <u>1.95</u> |
| Total operating revenues | <u>\$ 38,373,267</u> | <u>100.00</u> | <u>\$ 34,927,656</u> | <u>100.00</u> |
| Operating expenses: | | | | |
| Cost of sales and services: | | | | |
| Purchased power | \$ 31,910,486 | 83.16 | \$ 28,106,049 | 80.47 |
| Operations expenses: | | | | |
| Distribution expenses: | | | | |
| Supervision and engineering | 163,792 | 0.43 | 159,785 | 0.46 |
| Station expense | 14,330 | 0.04 | 15,910 | 0.05 |
| Overhead line expense | 794,922 | 2.07 | 777,271 | 2.23 |
| Underground line expense | 6,163 | 0.02 | 3,206 | 0.01 |
| Street lighting and signal system | 5,624 | 0.01 | 5,449 | 0.02 |
| Meter expense | 100,234 | 0.26 | 93,038 | 0.27 |
| Consumer installations | 13,560 | 0.04 | 12,088 | 0.03 |
| Rent expense | 30,426 | 0.08 | 29,620 | 0.08 |
| Miscellaneous expense | 91,350 | 0.24 | 90,616 | 0.26 |
| Total distribution expenses | <u>1,220,401</u> | <u>3.18</u> | <u>1,186,983</u> | <u>3.40</u> |
| Customer accounts expenses: | | | | |
| Supervision | 82,470 | 0.21 | 78,994 | 0.23 |
| Meter reading | 198,356 | 0.52 | 189,053 | 0.54 |
| Consumer records and collection expense | 621,467 | 1.62 | 579,243 | 1.66 |
| Total customer accounts expenses | <u>902,293</u> | <u>2.35</u> | <u>847,290</u> | <u>2.43</u> |

See independent auditor's report

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULES OF OPERATING REVENUES AND EXPENSES
For the Years Ended June 30, 2011 and 2010

| | 2011 | | 2010 | |
|--------------------------------------|----------------------|--------------|----------------------|--------------|
| | Amount | Percent | Amount | Percent |
| Sales expenses: | | | | |
| Customer assistance | \$ 4,200 | 0.01 | \$ 4,200 | 0.01 |
| Sales expense | 20,444 | 0.05 | 15,333 | 0.04 |
| Total sales expenses | 24,644 | 0.06 | 19,533 | 0.06 |
| Total operations expenses | 2,147,338 | 5.60 | 2,053,806 | 5.88 |
| Administrative expenses: | | | | |
| Salaries | 178,939 | 0.47 | 167,945 | 0.48 |
| Office supplies and expense | 31,461 | 0.08 | 28,879 | 0.08 |
| Outside services | 45,914 | 0.12 | 74,027 | 0.21 |
| Property insurance | 39,557 | 0.10 | 40,418 | 0.12 |
| Injuries and damages | 83,151 | 0.22 | 106,810 | 0.31 |
| Duplicate charges | (15,792) | (0.04) | (13,595) | (0.04) |
| Employee benefits | 629,162 | 1.64 | 712,054 | 2.04 |
| Miscellaneous | 96,987 | 0.25 | 63,415 | 0.18 |
| Total administrative expenses | 1,089,379 | 2.84 | 1,179,953 | 3.38 |
| Maintenance expenses: | | | | |
| Distribution expenses: | | | | |
| Supervision and engineering | 63,405 | 0.17 | 63,396 | 0.18 |
| Station equipment | 33,438 | 0.09 | 20,165 | 0.06 |
| Overhead and underground lines | 1,085,546 | 2.83 | 1,160,043 | 3.32 |
| Line transformers | 84,507 | 0.22 | 92,747 | 0.27 |
| Street lighting and signal system | 12,979 | 0.03 | 16,786 | 0.05 |
| Meters | 4,296 | 0.01 | 4,985 | 0.01 |
| Miscellaneous | 14,009 | 0.04 | 16,094 | 0.05 |
| Security lights | 18,738 | 0.05 | 15,663 | 0.04 |
| Total distribution expenses | 1,316,918 | 3.43 | 1,389,879 | 3.98 |
| General plant and equipment | 27,444 | 0.07 | 25,910 | 0.07 |
| Total maintenance expenses | 1,344,362 | 3.50 | 1,415,789 | 4.05 |
| Depreciation and amortization | 1,023,166 | 2.67 | 1,062,501 | 3.04 |
| Other taxes | 197,745 | 0.52 | 196,193 | 0.56 |
| Total operating expenses | \$ 37,712,476 | 98.28 | \$ 34,014,291 | 97.38 |

See independent auditor's report

**CARROLL COUNTY BOARD OF PUBLIC UTILITIES
ELECTRIC PLANT IN SERVICE
June 30, 2011**

| | Electric Plant in Service | | | | Balance 6/30/11 | Depreciation Rate | Accumulated Provision for Depreciation | | | |
|---|---------------------------|---------------------|-------------------|-------------|----------------------|----------------------|--|---------------------|-------------------|----------------------|
| | Balance 7/1/10 | Additions | Retirements | Adjustments | | | Balance 7/1/10 | Additions | Retirements | Balance 6/30/11 |
| TRANSMISSION PLANT | | | | | | | | | | |
| Land and land rights | \$ 65,819 | \$ - | \$ - | \$ - | \$ 65,819 | | \$ - | \$ - | \$ - | \$ - |
| Towers and fixtures | 3,742 | - | - | - | 3,742 | 3.00 | 3,676 | - | - | 3,676 |
| Poles and fixtures | 765,180 | 8,717 | 1,157 | - | 772,740 | 4.00 | 296,270 | 30,845 | 1,672 | 325,443 |
| Overhead conductors and devices | 653,014 | 686 | 386 | - | 653,314 | 3.00 | 329,541 | 19,599 | 3,387 | 345,753 |
| Total Transmission Plant | 1,487,755 | 9,403 | 1,543 | - | 1,495,615 | | 629,487 | 50,444 | 5,059 | 674,872 |
| DISTRIBUTION PLANT | | | | | | | | | | |
| Land and land rights | 69,036 | 30,295 | - | - | 99,331 | | - | - | - | - |
| Structures and improvements | 9,275 | - | - | - | 9,275 | 2.50 | 1,591 | 232 | - | 1,823 |
| Station equipment | 4,986,485 | 86,888 | 9,385 | - | 5,063,988 | 4.00 | 3,896,018 | 95,925 | 9,384 | 3,982,559 |
| Poles, towers and fixtures | 8,890,336 | 402,492 | 143,774 | - | 9,149,054 | 3.00 | 2,231,162 | 270,420 | 162,405 | 2,339,177 |
| Overhead conductors and devices | 5,219,793 | 155,467 | 36,402 | - | 5,338,858 | 2.50 | 2,317,198 | 131,971 | 3,188 | 2,445,981 |
| Underground conductors and devices | 389,767 | 36,277 | 1,109 | - | 424,935 | 2.50 | 67,441 | 10,033 | (3,014) | 80,488 |
| Line transformers | 6,190,822 | 173,810 | 24,597 | - | 6,340,035 | 2.50 | 3,219,182 | 156,176 | 21,597 | 3,353,761 |
| Services | 2,391,324 | 93,106 | 30,317 | - | 2,454,113 | 4.75 | 1,233,496 | 109,016 | 32,767 | 1,309,745 |
| Meters and metering equipment | 1,274,620 | 38,487 | 15,150 | - | 1,297,957 | 2.00 | 143,661 | 64,161 | 13,879 | 193,943 |
| Customers security lighting | 1,232,303 | 71,920 | 63,073 | - | 1,241,150 | 6.00 | 442,414 | 74,369 | 68,245 | 448,538 |
| Street lighting and signal system | 528,342 | 29,959 | 15,260 | - | 543,041 | 4.00 | 382,918 | 10,695 | 15,015 | 378,598 |
| Total Distribution Plant | 31,182,103 | 1,118,701 | 339,067 | - | 31,961,737 | | 13,935,081 | 922,998 | 323,466 | 14,534,613 |
| GENERAL PLANT | | | | | | | | | | |
| Land and land rights | 118,920 | - | - | - | 118,920 | | - | - | - | - |
| Structures and improvements | 868,635 | 7,875 | - | - | 876,510 | 2.00 | 296,544 | 17,491 | 19,449 | 294,586 |
| Office furniture and equipment | 149,422 | 11,920 | 19,449 | - | 141,893 | 3.50 | 90,644 | 18,309 | 88,481 | 20,472 |
| Transportation equipment | 1,542,053 | 76,331 | 103,535 | - | 1,514,849 | Various | 579,688 | 127,291 | - | 706,979 |
| Stores equipment | 57,749 | 2,550 | - | - | 60,299 | 8.00 | 48,485 | - | - | 48,485 |
| Tools, shop and garage equipment | 49,775 | 3,080 | - | - | 52,855 | 3.50 | 31,470 | 1,742 | - | 33,212 |
| Laboratory equipment | 15,801 | 849 | - | - | 16,650 | 10.00 | 7,613 | 1,616 | - | 9,229 |
| Power operated equipment | 16,924 | - | - | - | 16,924 | 10.00 | 14,772 | - | - | 14,772 |
| Communications equipment | 109,120 | - | - | - | 109,120 | 8.00 | 21,832 | 8,730 | - | 30,562 |
| Miscellaneous equipment | 51,138 | 8,000 | - | - | 59,138 | 3.50 | 12,125 | 1,836 | - | 13,961 |
| Total General Plant | 2,979,537 | 110,605 | 122,984 | - | 2,967,158 | | 1,103,173 | 177,015 | 107,930 | 1,172,258 |
| Total Electric Plant in Service | 35,649,395 | 1,238,709 | 463,594 | - | 36,424,510 | | 15,667,741 | 1,150,457 | 436,455 | 16,381,743 |
| Construction work in progress | 126,823 | 353,906 | - | - | 480,729 | | - | - | - | - |
| Total Electric Plant | \$ 35,776,218 | \$ 1,592,615 | \$ 463,594 | \$ - | \$ 36,905,239 | | \$ 15,667,741 | \$ 1,150,457 | \$ 436,455 | \$ 16,381,743 |
| Charged to operations | | | | | | | | \$ 1,023,166 | | |
| Transportation expense - clearing | | | | | | | | 127,291 | | |
| | | | | | | | | \$ 1,150,457 | | |
| Original cost of units retired | | | | | | | | | \$ 463,594 | |
| Adjustments | | | | | | | | | - | |
| Excess of removal cost (\$119,790) over salvage (\$146,929) | | | | | | | | | (27,139) | |
| | | | | | | | | | \$ 436,455 | |

See independent auditor's report

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
SCHEDULE OF LONG-TERM DEBT
 June 30, 2011

| Series 2001 | | |
|-------------------------|------------|------------|
| Electric System Revenue | | |
| Bonds Dated May 1, 2001 | | |
| | Principal | Interest |
| 2012 | \$ 150,000 | \$ 37,940 |
| 2013 | 155,000 | 31,115 |
| 2014 | 160,000 | 23,908 |
| 2015 | 170,000 | 16,387 |
| 2016 | 175,000 | 8,313 |
| | \$ 810,000 | \$ 117,663 |

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CARROLL COUNTY BOARD OF PUBLIC UTILITIES
INSURANCE IN FORCE
June 30, 2011

| Property or Contingency Covered | Hazard Insured Against | Amount of Coverage |
|------------------------------------|---------------------------------------|-----------------------|
| Employee surety bond | Commercial blanket | 250,000 |
| Employee injury | Workmen's compensation | Statutory |
| | Bodily injury - accident | \$ 1,000,000 |
| | Bodily injury - disease | 1,000,000 |
| General liability | General aggregate | 750,000 |
| | Products | 250,000 |
| | Personal and advertising injury limit | 250,000 |
| | Each occurrence | 250,000 |
| | Medical expense | 50,000 |
| Automobiles and trucks | Property damage and bodily injury | 1,000,000 |
| | Medical payments | 2,000 |
| | Uninsured motorist | 1,000,000 |
| Buildings | Property damage | 676,500 |
| | Deductible | 500 |
| | | 90% Co-Insurance |
| Contents of buildings | Property damage | 62,870 |
| | Deductible | 100 |
| | | 80% Co-Insurance |
| Directors and officers | Personal liability | 1,000,000 |
| | Deductible | 15,000 |
| Transformers and substations | All substations | 5,797,500 |
| | Deductible | 50,000 |
| | Aggregate per occurrence flood | 2,000,000 |
| | Aggregate per occurrence earthquake | 2,000,000 |
| | Equipment breakdown | 5,796,000 |
| | Deductible | 5,000 |
| | Deductible | 10,000 |
| Excess Liability | Aggregate | 2,250,000 |
| | Each Occurrence | 750,000 |
| Pollution Legal Liability | Each Occurrence | 750,000 |
| | Aggregate | 34,500,000 |
| Fudiciary Bond Pension | Each Occurrence | 500,000 |

See independent auditor's report

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
ELECTRIC RATES IN FORCE
 June 30, 2011

| | |
|---|-------------|
| Residential Rate Schedule | |
| Customer charge - per delivery point per month | \$ 15.90 |
| Energy charge - cents per kWh - all kWh | \$ 0.08291 |
| General Power Schedule | |
| GSA1 (Under 50 kW demand & less than 15,000 kWh) | |
| Customer charge - per delivery point per month | \$ 22.00 |
| Energy charge - cents per kWh | \$ 0.09366 |
| GSA2 (51-1000 kW demand or more than 15,000 kWh) | |
| Customer charge - per delivery point per month | \$ 100.00 |
| Demand charges - per kW per month | |
| First 50 Kw | No charge |
| Excess over 50 kW | \$ 12.03 |
| Energy charge - cents per kWh | |
| First 15,000 kWh per month | \$ 0.09366 |
| Additional kWh per month | \$ 0.05811 |
| GSA3 (1000 - 5000 kW demand) | |
| Customer charge - per delivery point per month | \$ 300.00 |
| Demand charges - per kW per month | |
| First 1000 kW | \$ 10.97 |
| Excess over 1000 kW | \$ 10.78 |
| Energy charge - cents per kWh | \$ 0.06062 |
| GSB (5001 - 15,000 KW demand) | |
| Customer charge - per delivery point per month | \$ 1,500.00 |
| Administrative charge | \$ 350.00 |
| Demand charge - per kW per month | |
| All kW - per kW per month | \$ 21.03 |
| Energy charge - cents per kWh | |
| All kWh - per kWh per month | \$ 0.04913 |
| GSC (15001 - 25,000 KW demand) | |
| Customer charge - per delivery point per month | \$ 1,500.00 |
| Administrative charge | \$ 350.00 |
| Demand charge - per kW per month | |
| All kW - per kW per month | \$ 20.52 |
| Energy charge - cents per kWh | |
| All kWh - per kWh per month | \$ 0.04925 |
| MSB Part 1 (1,000 - 5,000 KW demand) | |
| Customer charge - per delivery point per month | \$ 1,500.00 |
| Administrative charge | \$ 350.00 |
| Demand charge - per kW per month | |
| All kW - per kW per month | \$ 18.22 |
| Energy charge - cents per kWh | |
| All kWh - per kWh per month | \$ 0.04170 |
| MSC (15,001 - 25,000 KW demand) | |
| Customer charge - per delivery point per month | \$ 1,500.00 |
| Administrative charge | \$ 350.00 |
| Demand charge - per kW per month | |
| All kW - per kW per month | \$ 17.71 |
| Energy charge - cents per kWh | |
| All kWh - per kWh per month | \$ 0.04140 |

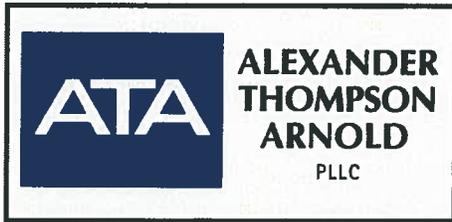
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**CARROLL COUNTY BOARD OF PUBLIC UTILITIES
OTHER SUPPLEMENTARY INFORMATION - UNAUDITED**

| | FOR THE FISCAL YEARS ENDED JUNE 30, | | | | |
|--|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Revenue | | | | | |
| Residential | \$ 18,306,801 | \$ 16,692,188 | \$ 18,282,466 | \$ 16,207,978 | \$ 15,061,265 |
| Commercial | 3,589,616 | 3,289,097 | 3,503,573 | 3,146,284 | 2,963,561 |
| Industrial | 14,768,038 | 13,413,196 | 16,098,497 | 14,521,689 | 13,943,310 |
| Street and outdoor lighting | 1,000,738 | 911,361 | 1,012,799 | 894,577 | 857,359 |
| Other operating | 708,074 | 621,814 | 684,579 | 556,517 | 539,994 |
| Interest and other revenue | 94,947 | 123,893 | 194,645 | 345,285 | 350,196 |
| | <u>\$ 38,468,214</u> | <u>\$ 35,051,549</u> | <u>\$ 39,776,559</u> | <u>\$ 35,672,330</u> | <u>\$ 33,715,685</u> |
| Expense | | | | | |
| Electric power costs | \$ 31,910,486 | \$ 28,106,049 | \$ 32,873,049 | \$ 29,049,853 | \$ 27,086,341 |
| Other operating expenses | 4,581,079 | 4,649,548 | 4,519,556 | 4,197,329 | 4,015,276 |
| Provision for depreciation | 1,023,166 | 1,062,501 | 1,063,537 | 1,028,176 | 998,583 |
| Amortization of acquisition adjustment | - | - | (18,238) | (24,318) | (24,318) |
| Transfer out | 680,751 | 657,640 | 618,891 | 607,281 | 584,385 |
| Interest and other expense | 47,432 | 53,217 | 58,368 | 63,532 | 68,447 |
| | <u>\$ 38,242,914</u> | <u>\$ 34,528,955</u> | <u>\$ 39,115,163</u> | <u>\$ 34,921,853</u> | <u>\$ 32,728,714</u> |
| Net Income (Loss) | <u>\$ 225,300</u> | <u>\$ 522,594</u> | <u>\$ 661,396</u> | <u>\$ 750,477</u> | <u>\$ 986,971</u> |
| Financial | | | | | |
| Plant in service (at original cost) | <u>\$ 36,905,239</u> | <u>\$ 35,776,218</u> | <u>\$ 35,001,139</u> | <u>\$ 34,202,078</u> | <u>\$ 33,202,913</u> |
| Bonds outstanding | <u>\$ 810,000</u> | <u>\$ 950,000</u> | <u>\$ 1,085,000</u> | <u>\$ 1,215,000</u> | <u>\$ 1,340,000</u> |
| Power in use - KWH | | | | | |
| Residential | 204,843,626 | 198,522,575 | 195,034,851 | 208,264,802 | 202,071,445 |
| Commercial | 30,525,805 | 31,258,054 | 31,002,434 | 32,714,752 | 32,112,239 |
| Industrial | 205,091,212 | 204,983,674 | 210,093,591 | 232,536,238 | 233,799,826 |
| Other Customers | 9,661,316 | 9,768,418 | 9,844,953 | 9,960,441 | 10,018,346 |
| Total | <u>450,121,959</u> | <u>444,532,721</u> | <u>445,975,829</u> | <u>483,476,233</u> | <u>478,001,856</u> |
| Number of customers | | | | | |
| Residential | 12,507 | 12,596 | 12,612 | 12,687 | 12,726 |
| Small commercial | 2,781 | 2,740 | 2,756 | 2,764 | 2,802 |
| Large commercial | 211 | 196 | 194 | 204 | 196 |
| Street and athletic | 68 | 66 | 67 | 65 | 67 |
| Outdoor lighting - Code 78 | 137 | 75 | 79 | 79 | 85 |
| | <u>15,704</u> | <u>15,673</u> | <u>15,708</u> | <u>15,799</u> | <u>15,876</u> |
| Line Loss | <u>4.19%</u> | <u>3.61%</u> | <u>4.80%</u> | <u>3.97%</u> | <u>4.35%</u> |

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INTERNAL CONTROL AND COMPLIANCE SECTION



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Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
Carroll County Board of Public Utilities
Huntingdon, Tennessee

We have audited the financial statements of the Carroll County Board of Public Utilities (the System), an enterprise fund of Carroll County, Tennessee, as of and for the years ended June 30, 2011, and have issued our report thereon dated October 14, 2011. Our report disclosed that the financial statements include only the financial activities of the Carroll County Board of Public Utilities enterprise fund and are not intended to present fairly the financial position of Carroll County, Tennessee, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System'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 System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System'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 System'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 above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management and State of Tennessee, Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
October 14, 2011

CARROLL COUNTY BOARD OF PUBLIC UTILITIES
Schedule of Findings and Recommendations
June 30, 2011 and 2010

FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None noted for 2011 or 2010