

MAURY COUNTY BOARD OF PUBLIC UTILITIES
WATER SYSTEM

(A DISCRETE COMPONENT UNIT OF
MAURY COUNTY, TENNESSEE)

FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION,
AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION,
AND INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011
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MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)

OFFICIALS
JUNE 30, 2011

Officials

Larry Chunn, Superintendent

Board Members

Jerry Attkisson

James W. Jones

Robert Farmer

Williams C. Pilkinton

Glen Stewart

YORK, DILLINGHAM & COMPANY, P.L.L.C.

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MEMBERS:

AMERICAN INSTITUTE OF C.P.A.'S
TENNESSEE SOCIETY OF C.P.A.'S

INDEPENDENT AUDITORS' REPORT

Maury County Board of Public
Utilities Water System
Maury County, Tennessee

We have audited the accompanying financial statements of the Maury County Board of Public Utilities Water System (the "System"), a discrete component unit of Maury County, Tennessee, as of and for the year ended June 30, 2011, as listed in the table of contents as pages 3 through 10. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maury County Board of Public Utilities Water System, as of June 30, 2011, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed in the table of contents as supporting schedules, pages 11 through 14, is presented for purposes of additional analysis and is not a required part of the financial statements of the Maury County Board of Public Utilities Water System. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Maury County Board of Public Utilities Water System has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Columbia, Tennessee
September 6, 2011

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current Assets	
Cash	\$ 3,544,871
Investments	2,924,741
Accounts receivable - trade	259,772
Inventory	57,608
Interest receivable on investments	25,200
Prepaid expenses	<u>44,758</u>
Total Current Assets	<u>6,856,950</u>
Utility Plant, Property, and Equipment	
Land	449,010
Building	233,477
Water grid and improvements	29,065,438
Equipment	703,378
Construction in progress	<u>83,913</u>
	30,535,216
Less accumulated depreciation	<u>(5,995,882)</u>
Net Utility Plant	<u>24,539,334</u>
Restricted Investments	
Customer deposits (contra)	<u>29,690</u>
	<u>\$ 31,425,974</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 30,976
Accrued annual leave	22,434
Accrued salaries	19,863
Current portion long-term debt	<u>283,164</u>
Total Current Liabilities	<u>356,437</u>
Other Liabilities	
Customer deposits - (contra)	<u>29,690</u>
Long-Term Debt	
SRF loan - 2005-065	3,306,121
SRF loan - 2007-072	1,392,324
Rural Development loan	<u>2,765,436</u>
Total Long-Term Debt	<u>7,463,881</u>
Net Assets	
Invested in capital assets - net of related debt	16,792,289
Reserved for bond repayment	1,650,000
Unrestricted	<u>5,133,677</u>
Total Net Assets	<u>23,575,966</u>
	<u>\$ 31,425,974</u>

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

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEAR ENDED JUNE 30, 2011

Operating Revenue	
Water sales	\$ 3,220,287
New tap sales	77,300
Penalties	59,118
Other fees and revenue	<u>251,983</u>
Total Operating Revenue	<u>3,608,688</u>
Operating Expenses	
Water purchases	1,147,906
Operation salaries	374,175
Office salaries	145,509
Advertising	464
Continuing education	2,262
Contract services	22,168
Credit card fees	20,035
Depreciation	625,901
Dues and fees	5,895
Employee insurance and benefits	110,857
Engineering fees	18,452
Insurance	25,197
Legal and professional fees	21,238
Line relocation	3,964
Miscellaneous	17,764
Office expense	31,104
Repairs and maintenance	105,737
Supplies	24,278
Taxes	40,319
Telephone and office utilities	12,736
Travel reimbursement	1,663
Truck expense	46,423
Utilities - pump stations	67,493
Uniforms	<u>3,418</u>
Total Operating Expenses	<u>2,874,958</u>
Net Operating Income	<u>733,730</u>
Nonoperating Revenue/(Expenses)	
Interest income on investments	36,203
Interest income on cash deposits	37,674
Interest expense	<u>(239,204)</u>
Total Nonoperating Revenue/(Expenses)	<u>(165,327)</u>
Change in Net Assets	568,403
Net Assets - Beginning of Year	<u>23,007,563</u>
Net Assets - End of Year	<u>\$ 23,575,966</u>

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

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities	
Receipts from customers	\$ 3,395,517
Payments to suppliers	(1,147,906)
Payments to employees	(517,006)
Other operating receipts	251,983
Other operating expenses	<u>(560,610)</u>
Net cash provided by operating activities	<u>1,421,978</u>
Cash Flows From Capital and Related Financing Activities	
Principal payments on long-term debt	(275,800)
Interest paid on long-term debt	(239,204)
Cash payments for the purchase of plant assets	<u>(454,700)</u>
Net cash used in capital and related financing activities	<u>(969,704)</u>
Cash Flows From Investing Activities	
Interest received on cash deposits	<u>37,674</u>
Net cash provided by investing activities	<u>37,674</u>
Net increase in cash	489,948
Cash, Beginning of Year	<u>3,054,923</u>
Cash, End of Year	<u><u>\$ 3,544,871</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 733,730
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	625,901
Changes in assets and liabilities:	
Receivables, trade	30,562
Prepaid expenses	(44,641)
Other accrued liabilities	40,595
Inventory	<u>35,831</u>
Net cash provided by operating activities	<u>\$ 1,421,978</u>

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

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Maury County Board of Public Utilities Water System (the "System") is a discrete component unit of Maury County, Tennessee. The system is governed by a board of directors appointed by the Maury County Executive and ratified by the commissioners of Maury County. In addition, the Maury County commissioners approve the annual budget of the System.

Accounting Method

The System generally uses the accrual basis of accounting, except that revenue from water sales is recognized when billed.

The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Organization

The System is operated as an enterprise fund with self-balancing accounting records. The System does not receive any operating revenues from Maury County, Tennessee.

Utility Plant and Equipment

The utility plant and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the System considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2011. Restricted assets are not treated as part of the entity's cash and cash equivalents.

Use of Estimates

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

The Water System's inventory of supplies is stated at cost using the first in, first out method. The costs of inventory items are recognized as expenditures in governmental funds when purchased, since they are not of a material nature, and as expenses in the enterprise fund when used.

NOTE B - ACCOUNTS RECEIVABLE

Customer receivables are composed of the following aged categories:

Current billings	\$ 246,363
30 days past due	6,866
60 days past due	695
90 days past due	<u>5,848</u>
	<u>\$ 259,772</u>

Bad debts are determined and written off only by direct action of the System's Board. The amount of \$6,713 was written off for 2011.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits

The System is subject to the Tennessee statute which requires deposits in financial institutions be secured and collateralized by such institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool.

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As of June 30, 2011, all deposits were insured or collateralized.

Investments consist of certificates of deposit with financial institutions with original maturities of over three months and not over one year. The System's policy is to hold these investments to maturity and therefore there is no interest rate risk that will adversely affect the fair value of the investments.

NOTE D - RESTRICTED ASSETS

The restricted assets represent investment of construction reserves and customer deposits. The customer deposits are not available for operation of the System and are held in trust. The deposits at June 30, 2011, included \$29,690 for meter deposits of current customers.

NOTE E - UTILITY PLANT, PROPERTY, AND EQUIPMENT

Major classifications of the utility plant and equipment and their respective depreciable lives are summarized below:

Depreciable Lives (In Years)	
Water grid and improvements:	50-100
Water mains	40
Water towers and stations	40
Water meters	10-40
Casting and valves	20-50
Other capitalized costs	40
Equipment and fixtures:	
Trucks	5
Small tools and equipment	3-5-10
Office furniture and equipment	5-10

NOTE F - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 287,025	\$ 161,985	\$ -	\$ 449,010
Construction in process	<u>12,094</u>	<u>83,913</u>	<u>12,094</u>	<u>83,913</u>
Total capital assets, not being depreciated	<u>299,119</u>	<u>245,898</u>	<u>12,094</u>	<u>532,923</u>
Capital assets, being depreciated:				
Building	225,077	8,400	-	233,477
Water Grid & Improvements	28,881,877	183,561	-	29,065,438
Equipment & Fixtures	<u>674,444</u>	<u>28,934</u>	<u>-</u>	<u>703,378</u>
Total capital assets, being depreciated	<u>29,781,398</u>	<u>220,895</u>	<u>-</u>	<u>30,002,293</u>
Less accumulated depreciation:				
Building	73,376	6,837	-	80,213
Water Grid & Improvements	4,788,692	562,141	-	5,350,833
Equipment & Fixtures	<u>507,913</u>	<u>56,923</u>	<u>-</u>	<u>564,836</u>
Total accumulated depreciation	<u>5,369,981</u>	<u>625,901</u>	<u>-</u>	<u>5,995,882</u>
Total capital assets, being depreciated, net	<u>24,411,417</u>	<u>(405,006)</u>	<u>-</u>	<u>24,006,411</u>
Total capital assets, net	<u>\$ 24,710,536</u>	<u>\$ (159,108)</u>	<u>\$ 12,094</u>	<u>\$ 24,539,334</u>

NOTE G - ACCRUED LEAVE

Accumulated annual leave at June 30, 2011, amounts to \$22,434. It is the System's policy to accrue vacation annually for full-time personnel and charge employee benefits. The policy provides two weeks annual leave for personnel with one to five years continuous service, three weeks for six to eleven years of service and increasing amounts up to five weeks for service up to twenty-five years.

NOTE H - RISK MANAGEMENT

The System is exposed to losses that could arise from torts; asset theft, damage, or destruction; business interruption; errors or omissions; job-related illnesses or injuries to employees; acts of nature; accident, health, dental, and other medical benefits to employees. Potential losses are covered by commercial insurance.

The System has not been involved in any significant litigation during the last four fiscal years.

NOTE I - LONG-TERM DEBT

BONDS PAYABLE

The System's bonds payable are liabilities derived from various system water line upgrades, extensions, and improvements.

Bonds payable consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
2006 State Revolving Loan Fund: DWSRF 05-065: The principal will be amortized over 20 years with monthly payments of \$21,623 and an interest rate of 2.42%	\$ 3,483,253	\$ 3,656,161
2008 State Revolving Loan Fund: DWSRF 07-072: The principal will be amortized over 20 years with monthly payments of \$8,679 and an interest rate of 2.42%	1,461,864	1,529,748
2006 USDA Rural Development Loan The principal will be amortized over 38 years with monthly payments of \$12,615 and an interest rate of 4.125%	<u>2,801,928</u>	<u>2,836,936</u>
Total	7,747,045	8,022,845
Less current portion	<u>283,164</u>	<u>278,796</u>
Total long-term bonds payable	<u>\$ 7,463,881</u>	<u>\$ 7,744,049</u>

NOTE I - LONG-TERM DEBT (CONTINUED)

Business-type activities - Bonds payable

Beginning Balance June 30, 2010	Reductions	Ending Balance June 30, 2010	Due Within One Year
<u>\$ 8,022,845</u>	<u>\$ (275,800)</u>	<u>\$ 7,747,045</u>	<u>\$ 283,164</u>

The principal and interest requirements for outstanding bonds as of June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 283,164	\$ 231,840	\$ 515,004
2013	290,746	224,258	515,004
2014	298,525	216,479	515,004
2015	306,527	208,477	515,004
2016	314,743	200,261	515,004
2017 & thereafter	<u>6,253,340</u>	<u>2,477,079</u>	<u>8,730,419</u>
Total	<u>\$ 7,747,045</u>	<u>\$ 3,558,394</u>	<u>\$11,305,439</u>

NOTE J - SUBSEQUENT EVENTS

The System considers events and transactions that occur after the statement of net assets, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require disclosure. These financial statements were issued on September 6, 2011, and subsequent events have been evaluated through that date.

SUPPLEMENTAL INFORMATION

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
YEAR ENDED JUNE 30, 2011

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Completion or</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Land	\$ 287,025	\$ 161,985	\$ -	\$ 449,010
Construction in process	12,094	83,913	12,094	83,913
Building	225,077	8,400	-	233,477
Water Grid and Improvements:				
Water mains	21,768,419	136,320	-	21,904,739
Water towers and stations	3,221,073	-	-	3,221,073
Water meters	2,168,957	41,241	-	2,210,198
Casting and valves	742,272	6,000	-	748,272
Other capitalized costs	981,156	-	-	981,156
Total Water Grid and Improvements	28,881,877	183,561	-	29,065,438
Equipment and Fixtures:				
Equipment	510,274	17,165	-	527,439
Office equipment	80,960	11,769	-	92,729
Office furniture	83,210	-	-	83,210
Total Equipment and Fixtures	674,444	28,934	-	703,378
	<u>\$ 30,080,517</u>	<u>\$ 466,793</u>	<u>\$ 12,094</u>	<u>\$ 30,535,216</u>

See auditors' report.

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
SCHEDULE OF WATER RATES IN FORCE
JUNE 30, 2011

CUSTOMER CHARGE

<u>Residential</u>	<u>Capacity</u>	<u>Monthly Charge</u>
5/8 x 3/4	1.0	\$12.00
3/4 x 3/4	1.67	\$20.00

COMMERCIAL CHARGE

1"	2.67	\$32.00
2"	6.67	\$80.00
3"	10.00	\$120.00
4"	13.33	\$160.00
5"	33.33	\$400.00

Water Usage Billed @\$5.50 per 1,000 gallons

TAP FEES:

RESIDENTIAL METERS	(5/8" BY 3/4")	\$1,700.00
COMMERCIAL	(3/4" BY 3/4")	\$1,800.00
COMMERCIAL	(1" BY 1")	\$2,000.00
ALL OTHER TAPS LARGER THAN 1"		\$2,000.00

PER INCH PLUS ACTUAL COST OF INSTALLATION

(3/4" Over 50 foot long tap - Add \$7.00 per foot)
(1" Over 50 foot long tap - Add \$9.00 per foot)

The TDRA surcharge is \$0.05 per 1,000 gallons imposed by the Duck River Agency is applicable to the above rate to defray the share of water supply benefits provided by TDRA.

Number of customers at year end: 6,677

SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2011

<u>Company</u>	<u>Policy Number</u>	<u>Coverage</u>
FFVA Mutual	WC840-0022356-2009A	Workmen's Compensation
Frost Insurance Service, Inc.	SDIS-SA-8053280-01/000	Vehicles
Frost Insurance Service, Inc.	SDISSP 9152131-1/0	General Liability
Frost Insurance Service, Inc.	SDISSP 9152131-1/0	Fidelity bond on all employees
Frost Insurance Service, Inc.	SDISSP 9152131-1/0	Buildings & Contents

See auditors' report.

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
SCHEDULE OF INVESTMENTS
JUNE 30, 2011

<u>Investment Description</u>	<u>Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Costs</u>
Unrestricted				
Certificate of Deposit				
First Farmers & Merchants Bank	160125	1.04%	03/22/12	\$ 929,464
Total Unrestricted				<u>929,464</u>
Partially Restricted				
Certificate of Deposit				
Community First Bank	12049	1.26%	08/11/11	<u>2,024,967</u>
Total Investments				<u>\$ 2,954,431</u>
Shown on Balance Sheet As:				
Investments				\$ 2,924,741
Restricted Investments				<u>29,690</u>
				<u>\$ 2,954,431</u>

See auditors' report.

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
SCHEDULE OF UNACCOUNTED FOR WATER - UNAUDITED
JULY 1, 2010 - JUNE 30, 2011

(All amounts in gallons)

A	Water Treated and Purchased		
B	Water Pumped (potable)	<u>0</u>	
C	Water Purchased	<u>525,112,250</u>	
D	Total Water Treated and Purchased		<u>525,112,250</u>
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	<u>420,166,330</u>	
G	Metered for Consumption (in house usage)	<u>0</u>	
H	Fire Department(s) Usage	<u>0</u>	
I	Flushing	<u>2,535,980</u>	
J	Tank Cleaning/Filling	<u>0</u>	
K	Street Cleaning	<u>0</u>	
L	Bulk Sales	<u>0</u>	
M	Water Bill Adjustments	<u>134,910</u>	
N	Total Accounted for Water		<u>422,837,220</u>
	(Sum Lines F thru M)		
O	Unaccounted for Water		<u>102,275,030</u>
	(Line D minus Line N)		
P	Percent Unaccounted for Water		<u>19%</u>
	(Line O divided by Line D times 100)		
Q	Other (explain)	See Below	

Explain Other:

All amounts included in this schedule are supported by documentation on file at the water system. If no support in on file for a line item or if line item is not applicable, a "0" is shown.

See auditors' report.

OTHER AUDITORS' REPORT

YORK, DILLINGHAM & COMPANY, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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AMERICAN INSTITUTE OF C.P.A.'S
TENNESSEE SOCIETY OF C.P.A.'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

Maury County Board of Public Utilities Water System
Maury County, Tennessee

We have audited the accompanying financial statements of Maury County Board of Public Utilities Water System as of and for the year ended June 30, 2011, and have issued our report thereon dated September 6, 2011. 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 Maury County Board of Public Utilities Water System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maury County Board of Public Utilities Water 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 combination of deficiencies, in internal control such that there is more than 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.

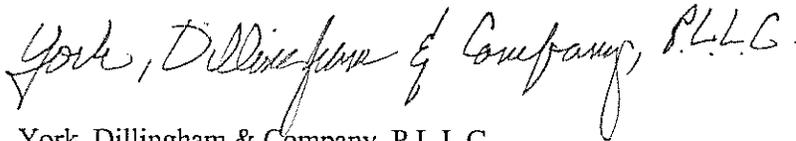
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 2011-1. *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.

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*.

The System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, the Maury County commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



York, Dillingham & Company, P.L.L.C.

Certified Public Accountants

Columbia, Tennessee

September 6, 2011

MAURY COUNTY BOARD OF PUBLIC UTILITIES WATER SYSTEM
(A DISCRETE COMPONENT UNIT OF MAURY COUNTY, TENNESSEE)
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2011

2011-1 Lack of Separation of Duties in Regards to Disbursements

The System has a lack of separation of duties in regards to disbursements. It appeared that the accounting technician performed the following duties:

- Received unopened mail.
- Decided when to pay.
- Created the check.
- Posted to the general ledger.
- Reconciled the bank accounts.
- Access to blank checks, signature plate and signature log.

The majority of invoices lacked any documentation as to being reviewed or approved. No approval was evident on bank statements or the bank reconciliation. A signature plate with two of the authorized board members' signatures is used for all checks. It reflects both signatures and has been authorized by the Board to be used by the superintendent with supervision by the accounting technician. It was observed that the plate and blank checks were kept together in the accounting technician's office. The signature log, which represents the use of the signature plate, had only been initialed when used by anyone other than the superintendent.

RECOMMENDATION:

We recommend the following:

- All invoices and/or statements should include visible documentation of review and approval before disbursement by someone other than the accounting technician.
- An unopened bank statement should be sent for review and approval to a board member whose signature is included on the signature plate. The System can receive an additional bank statement via online or mail to continue with timely bank reconciliation.
- Signature plate should be kept separate and secured from blank checks. There should be limited access by the superintendent and another individual other than the accounting technician.
- All entries on the signature log should include the responsible individual's initials or signature.

MANAGEMENT'S COMMENTS:

To comply with Audit Findings, a standard operating procedure will be issued.