

**WHEELWRIGHT UTILITY COMMISSION**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

***Pack and Associates***

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Commissioners  
Wheelwright Utility Commission  
Wheelwright, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Wheelwright Utility Commission, a component unit of the City of Wheelwright, Kentucky as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 the 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 from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Wheelwright Utility Commission, as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 15 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 inquires 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2016, on our consideration of the Wheelwright Utility Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wheelwright Utility Commission's internal control over financial reporting and compliance.

*Pack & Associates*

Prestonsburg, Kentucky  
May 19, 2016



WHEELWRIGHT UTILITY COMMISSION  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2014

ASSETS

CURRENT ASSETS

Cash	\$ 171,555
Accounts receivable	44,732
Prepaid expense	3,299
TOTAL CURRENT ASSETS	<u>219,586</u>

NON-CURRENT ASSETS

Restricted cash and cash equivalents	542,051
Capital Assets:	
Property, plant and equipment	3,185,127
Less: accumulated depreciation	<u>(1,932,350)</u>
Net property and equipment	1,252,777
Land	5,000
Construction in progress	199,779
Total Capital Assets	<u>1,457,556</u>
TOTAL NON-CURRENT ASSETS	<u>1,999,607</u>
TOTAL ASSETS	<u>\$ 2,219,193</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 7,682
Payroll taxes and related costs	1,705
Customer deposits	28,259
Current portion of long-term debt	31,322
TOTAL CURRENT LIABILITIES	<u>68,968</u>

NONCURRENT LIABILITIES

Long-term debt, less current portion, net of unamortized discount of \$5,517	<u>709,132</u>
TOTAL NON-CURRENT LIABILITIES	<u>709,132</u>
TOTAL LIABILITIES	<u>778,100</u>

NET POSITION

Invested in capital assets, net of related debt	1,261,585
Restricted for capital project	35
Restricted for debt service	20,016
Unrestricted	<u>159,457</u>
TOTAL NET POSITION	<u>1,441,093</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,219,193</u>

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

WHEELWRIGHT UTILITY COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
For the Year Ended June 30, 2014

OPERATING REVENUES

Charges for services	\$ 378,508
Collection and late fees	1,967
Tap fees	877
Other revenues	1,487
TOTAL OPERATING REVENUES	<u>382,839</u>

OPERATING EXPENSES

Salaries and wages	177,143
Payroll taxes	15,579
Workers' compensation	7,784
Maintenance materials and supplies	11,230
Water operating expense	17,770
Sewer operating expense	22,220
Gas purchases	29,113
Lab testing fees	12,822
Contractual services	10,738
Insurance- General	6,055
Insurance- Health & Life	29,815
Bond	320
Legal and professional services	9,200
Office expenses	3,622
Postage	1,382
Utilities	42,049
Telephone	4,107
Depreciation	86,645
Gasoline and diesel fuel	900
Service charges	20
Miscellaneous	1,698
TOTAL OPERATING EXPENSES	<u>490,212</u>

OPERATING INCOME (LOSS) (107,373)

NONOPERATING REVENUE (EXPENSE)

Grant	151,229
Cessation payments	60,000
Interest income	10
Interest expense	(10,318)
Amortization expense of bond discount	(69)
Bond issuance costs	(22,414)
Loss on disposition of asset	(25,730)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>152,708</u>

CHANGE IN NET POSITION 45,335

TOTAL NET POSITION - BEGINNING 1,395,758

TOTAL NET POSITION - ENDING \$ 1,441,093

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

WHEELWRIGHT UTILITY COMMISSION  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 370,369
Payments to suppliers	(209,823)
Payments to employees	(192,081)
Customer meter deposits	3,492
NET CASH USED BY OPERATING ACTIVITIES	<u>(28,043)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cessation payments received	<u>60,000</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	60,000

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Construction of capital asset	(166,229)
Proceeds from long-term debt	544,414
Bond issuance costs	(22,414)
Principal paid on long-term debt	(22,617)
Interest paid	(10,318)
Proceeds from grant	151,229
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>474,065</u>

CASH FLOW FROM INVESTING ACTIVITIES

Interest on cash and cash equivalents	<u>10</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>10</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 506,032

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 207,574

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 713,606

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES

Operating income (loss)	\$ (107,373)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	86,645
Change in assets and liabilities:	
Account receivables	(12,470)
Prepaid expenses	1,868
Accounts and other payables	(205)
Customer deposits	3,492
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (28,043)</u></u>

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

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General Statement

The Wheelwright Utility Commission ( the "Commission") consists of municipally owned water, sewer, and gas facilities servicing approximately 350 homes and businesses in and around Wheelwright, Kentucky, including the Otter Creek Correctional Center.

Summary of Significant Accounting Policies

The accounting and reporting policies of the Commission conform to generally accepted accounting policies applicable to state and local governments. The following significant accounting policies were applied on the preparation of the accompanying financial statements.

**A. Reporting Entity**

The financial statements include only the amounts of the Wheelwright Utility Commission, a component unit of the City of Wheelwright. The system was created and ordered to function as provided by City ordinance. The utility board members are authorized to operate and maintain the facility as well as control all aspects of daily activities including personnel issues and financial decisions. The city commissioners retain the right to set rates and have the power to add and remove utility board members. In addition, the City guarantees the repayment of revenue bonds issued to construct the system.

**B. Basis of Presentation: Fund Accounting**

The accounts of the Wheelwright Utility Commission are organized on the basis of proprietor fund type with its own self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures. The statement of net position includes all property and equipment, receivables and payables owned by the Commission as of June 30, 2014. The statement of revenues, expenses and changes in fund net position demonstrates the amount of operating revenue offset by operating expenses. Operating revenue includes charges for water, sewer, and gas services. The costs to provide these services are considered operating expenses. Interest income is reported as nonoperating revenue and interest expense is reported as a nonoperating expense.

**C. Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting. Using this method, funds are recognized when earned and expenses are recognized when incurred.

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Control**

The system's operating Board is required by ordinance to annually prepare a comprehensive budget and to monthly compare actual revenues to expenses to budget to insure fiscal control of the system.

**E. Cash and Cash Equivalents**

Cash and cash equivalents include cash in bank and short-term, highly liquid investments with maturities of three months or less. The Wheelwright Utility Commission considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

**F. Restricted Assets**

The use of certain assets is restricted by specific provisions of bond resolutions and grant agreements. Assets so designated are identified as restricted assets on the statement of net position. Restricted assets are classified as noncurrent if they are for acquisition or construction of capital assets or for liquidation of long-term debt.

**G. Capital Assets**

Fixed assets are recorded at cost. Depreciation of fixed assets is provided on the straight-line basis over the respective life of the asset. Expenditures, which increases values or extend lives of the respective assets are capitalized, whereas, expenditures for maintenance and repairs are charged to expense as incurred.

The useful lives of utility, plant, and equipment for the purpose of computing depreciation are:

Plant and distribution	5 – 40 years
Transportation equipment	5 years
Office equipment	7 years

Construction in progress is stated at cost and includes direct costs of construction related to renovations of the water plant. Depreciation commences when substantially all the activities necessary to prepare the asset for its intended use are completed.

**H. Unamortized Discount on Bond Payable**

Bond discounts are amortized over the life of the bond using the straight-line method. Long-term debt is reported net of the applicable bond discount. Amortization expense for bond discount as of June 30, 2014 was \$69.

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Interest**

For the year ended June 30, 2014, total interest cost incurred was \$10,318 of which \$0 was capitalized.

**J. Grants**

Grants that are restricted to the purchase or construction of property, plant and equipment are recorded as other income, per GASB 33. The Commission received \$151,229 in grants from the Kentucky Infrastructure Authority for the year ended June 30, 2014.

**K. Net Position**

Net position represents the difference between assets and liabilities. Invested in capital assets, net of related debt; consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets. If there are unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. Restricted Net Assets are net assets less related liabilities that are subject to constraints imposed by creditors, grantors, contributors, or legislation. Net positions that are not appropriable, legally segregated for specific usage, or commitments to outside third parties are considered unrestricted.

**L. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2: CASH**

The Wheelwright Utility Commission maintains two bank accounts at two different financial institutions for the daily operations of the entity. These accounts are fully covered by federal depository insurance. The book balances of the City's deposits were \$171,555 and the bank balances were \$173,603.

**WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS**

The revenue bonds and loan were used to finance construction and major improvements to the water, sewer, and gas systems and are secured by property, revenues, and revenues of the individual systems. The bond and loan ordinances stipulated the revenues of each system are to be used first to maintain and establish reserves for the timely payment of the principal and interest and to fund a reserve for future extraordinary, unusual, or emergency repairs to the system. Secondly, revenues are to be used to pay the routine operational and maintenance expenses of each system. The System elects to pay monthly installments directly to the water and gas system bondholders in lieu of establishing a reserve for debt service. At June 30, 2014 the water system's reserve was \$20,016.

Wheelwright Utility Commission maintains a separate bank account for the receipt of grant revenues from Kentucky Infrastructure Authority. These funds are designated for upgrades and improvements to the water plant. The balance of this account at June 30, 2014 was \$35.

Proceeds from the issuance of long-term debt are invested in short-term securities as authorized by KRS 66.480. These securities are carried at cost. The Kentucky Bond Corporation First Series 2014 bond ordinance restricts the use of these proceeds to the following:

- a) Capital improvements to the water system. At June 30, 2014 the unspent portion was \$500,000.
- b) Debt service reserve fund. Proceeds of \$22,000 were set aside for principal and interest payments due on February 1, 2040 through January 1, 2041.

**NOTE 4: CAPITAL ASSETS**

A summary of the changes in property and equipment for the year ended June 30, 2014 follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<b>Non-depreciable Assets:</b>				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Construction in progress	33,550	166,229	0	199,779
<b>Total Non-depreciable Assets</b>	<b>\$ 38,550</b>	<b>\$ 166,229</b>	<b>\$ 0</b>	<b>\$ 204,779</b>



WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 4: CAPITAL ASSETS (Continued)**

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<b>Depreciable Assets:</b>				
Utility Plants	\$ 2,941,015	\$ 0	\$ 0	\$ 2,941,015
Office Building & Improvements	117,212	0	(30,000)	87,212
Equipment & Vehicles	147,153	0	0	147,153
Office Equipment	9,747	0	0	9,747
Subtotal	<u>3,215,127</u>	<u>0</u>	<u>(30,000)</u>	<u>3,185,127</u>
<b>Accumulated Depreciation</b>				
Utility Plants	(1,662,877)	(73,820)	0	(1,736,697)
Office Building & Improvements	(43,956)	(3,144)	4,270	(42,830)
Equipment & Vehicles	(135,557)	(7,519)	0	(143,076)
Office Equipment	(7,585)	(2,162)	0	(9,747)
Subtotal	<u>(1,849,975)</u>	<u>(86,645)</u>	<u>4,270</u>	<u>(1,932,350)</u>
Total Net Property, Plant, and Equipment	\$ <u>1,365,152</u>	\$ <u>(86,645)</u>	\$ <u>(25,730)</u>	\$ <u>1,252,777</u>

Total depreciation expense was \$86,645 for the year ended June 30, 2014.

**NOTE 5: LONG-TERM DEBT**

KIA Loan

On August 1, 1993, the City of Wheelwright entered into a loan agreement with the Kentucky Infrastructure Authority to provide funds for the construction of a sewer system. The original amount financed was \$361,675. The loan carries a 1.90% interest rate, with principal and interest payments due on December 1 and June 1 every year until they matured on June 1, 2014.

USDA Series 1988 Revenue Bonds

On December 5, 1989, the City of Wheelwright borrowed the aggregate principal amount of \$325,000 with the United States Department of Agriculture Series 1988 Revenue Bonds. The funds were used to construct a water system. The bonds carry an interest rate of 5% and mature on January 1, 2028. The interest and principal payments are made monthly.

Kentucky Bond Corporation First Series 2014

The City of Wheelwright entered into a \$550,000 lease agreement with the Kentucky Bond Corporation on February 28, 2014 to finance upgrades and improvements to the raw water intake system and the water treatment plant. The bond accrues interest at



WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 5: LONG-TERM DEBT (Continued)**

Kentucky Bond Corporation First Series 2014 (Continued)

variable rates of 2%-4% and matures on February 1, 2041. The interest and principal payments are to be made monthly.

Changes in outstanding debt

	Balance July 1, 2013	Additions	Payments	Balance June 30, 2014	Current Portion
KIA	\$ 13,463	\$ 0	\$ 13,463	\$ 0	\$ 0
USDA	124,576	0	5,118	119,458	6,426
USDA	80,550	0	4,037	76,513	3,646
KBC	0	550,000	0	550,000	21,250
	<u>\$ 218,589</u>	<u>\$ 550,000</u>	<u>\$ 22,618</u>	<u>\$ 745,971</u>	<u>\$ 31,322</u>

Principal and interest payments on bonds are as follows:

	Principal	Interest	Fees	Total
2015	\$ 31,322	\$ 34,194	\$ 2,467	\$ 67,983
2016	25,562	27,007	1,772	54,341
2017	26,077	26,192	1,734	54,003
2018	26,618	25,352	1,697	53,667
2019	27,185	24,484	1,659	53,328
2020-2024	145,496	107,767	7,734	260,997
2025-2029	167,044	76,716	6,701	250,461
2030-2034	112,083	50,967	5,435	168,485
2035-2039	144,167	26,067	3,879	174,113
2040-2041	40,417	2,083	843	43,343
	<u>\$ 745,971</u>	<u>\$ 400,829</u>	<u>\$ 33,921</u>	<u>\$ 1,180,721</u>

**NOTE 7: COMPENSATED ABSENCES**

Accrued compensated absences estimate has not been made for the year ended June 30, 2014. This cost is not expected to have a significant impact on the Company's financial statements.

**NOTE 8: CESSATION PAYMENTS**

The deed to the Otter Creek Correctional Center states that once the facility ceases operations for a consecutive period of more than two years or if the facility is converted from a minimum to maximum security correctional facility, the City of Wheelwright has the right to assume ownership of the property. Cease of operations, as defined in the deed, occurs when the facility fails to maintain sufficient inmates requiring thirty employees or more. The City of Wheelwright expressed their intention of obtaining the property once the two year period concluded on August 1, 2014. The Corrections Corporation of America (CCA) amended the deed in December 2013 delaying the City of Wheelwright's right to gain ownership for a period of twenty-four months (extension

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 8: CESSATION PAYMENTS (Continued)**

period) by paying monthly cessation payments of \$10,000 each to the City of Wheelwright and the Wheelwright Utility Commission. The payments will continue until the earlier occurs: when thirty or more employees have been employed at the facility for a consecutive period of forty-five days or expiration of the two year extension period. For the fiscal year ending at June 30, 2014, the total amount of cessation payments received from the CCA was \$60,000.

**NOTE 9: CONTINGENCIES**

The System has participated in certain state-assisted grant and loan programs. These programs are subject to continuing compliance reviews by the grantors or their representatives. Any potential liability that may exist due to non-compliance issues can not be readily determined.

Wheelwright Utility Commission is currently involved in a contract dispute with Kenvirons, Inc. regarding engineering services provided for the water treatment plant project. An out of court settlement offer was rejected by Kenvirons, Inc. The Commission filed a summary judgement with the Franklin Circuit Court that was rejected. Currently, the attorney is preparing a renewed motion for summary judgement with additional information. If the motion is granted in favor of the Commission then the liability owed is zero. If the motion is not granted, the Commission would be expected to pay damages, but that amount cannot be readily determined.

**NOTE 10: RISK OF LOSS**

Wheelwright Utility Commission 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. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation, public officials' liability, sewer backup liability, business auto liability, fiduciary, and flood.

**NOTE 11: SUBSEQUENT EVENTS**

The Wheelwright Utility Commission has evaluated subsequent events through May 19, 2016.

WHEELWRIGHT UTILITY COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
PROPRIETARY FUND  
For the Year Ended June 30, 2014

	Budget	Actual Amounts	Variance from Budget
<b>REVENUES</b>			
Charges for services	\$ 487,152	\$ 378,508	\$ (108,644)
Collection and late fees	1,844	1,967	123
Tap fees	0	877	877
Other revenues	0	1,487	1,487
Grant revenues	1,170,000	151,229	(1,018,771)
Cessation payments	0	60,000	60,000
Interest income	0	10	10
Miscellaneous income	68,759	0	(68,759)
<b>TOTAL REVENUES</b>	<b>1,727,755</b>	<b>594,078</b>	<b>(1,133,677)</b>
<b>EXPENSES</b>			
Salaries and payroll taxes	239,274	192,722	46,552
Workers' compensation	9,376	7,784	1,592
Fuel and maintenance	26,483	12,130	14,353
Water operating expense	37,623	17,770	19,853
Sewer operating expense	20,394	22,220	(1,826)
Gas purchases	33,784	29,113	4,671
Lab testing fees	14,568	12,822	1,746
Contractual services	11,018	10,738	280
Insurance- General	12,600	6,055	6,545
Insurance- Life & Health	58,910	29,815	29,095
Bond	350	320	30
Legal and professional services	17,420	9,200	8,220
Office expenses	7,162	3,622	3,540
Postage	3,006	1,382	1,624
Utilities	46,492	42,049	4,443
Telephone	5,483	4,107	1,376
Depreciation	0	86,645	(86,645)
Amortization expense on bond discount	0	69	(69)
Bond issuance costs	0	22,414	(22,414)
Service charges	0	20	(20)
Miscellaneous	0	1,698	(1,698)
Interest	10,318	10,318	0
Loss on disposition of asset	0	25,730	(25,730)
<b>TOTAL EXPENSES</b>	<b>554,261</b>	<b>548,743</b>	<b>5,518</b>
<b>TOTAL REVENUE OVER EXPENSES</b>	<b>\$ 1,173,494</b>	<b>\$ 45,335</b>	<b>\$ (1,128,159)</b>

See accompanying note to required supplementary information.

**WHEELWRIGHT UTILITY COMMISSION  
NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2014**

**NOTE 1: GENERAL STATEMENT**

The budgetary comparison information on page 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America and is intended to demonstrate the Commission's compliance in obtaining and using financial resources in accordance with the legally adopted budget.

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

To the Commissioners  
Wheelwright Utility Commission  
Wheelwright, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Wheelwright Utility Commission, component unit of the City of Wheelwright, Kentucky as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Wheelwright Utility Commission's basic financial statements and have issued our report thereon dated May 19, 2016.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. [2014-1]

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

## Wheelwright Utility Commission's Response to Findings

Wheelwright Utility Commission's response to the findings identified in our audit is as described in the accompanying schedule of findings and responses. Wheelwright Utility Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

*Pack & Associates*

Prestonsburg, Kentucky  
May 19, 2016

**WHEELWRIGHT UTILITY COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

**2014-1 Preparation of financial statements**

**Condition:** The Wheelwright Utility Commission is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

**Criteria:** Experienced and knowledgeable staff should be employed to prepare complete and accurate financial statements that not only reflect an accurate portrayal of the financial position of the Wheelwright Utility Commission but also provide a set of books to be audited.

**Cause:** Transactions and knowledge of accounting that is required extend beyond the basic skills of the staff.

**Effect:** Financial statements generated by accounting software were presented to the auditor. Upon close examination it was realized that these financial statements were incomplete and inaccurate. The Wheelwright Utility Commission relied on auditor prepared accounting adjustments to ensure the financial records were stated in accordance with generally accepted accounting principles.

**Recommendation:** We recommend management review the costs and benefits involved to retain a consultant or provide training to staff with accounting functions to prepare financial statements and ensure compliance with generally accepted accounting principles.

**Management Response:** This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.