

WHEELWRIGHT UTILITY COMMISSION  
AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

*Pack and Associates*

Certified Public Accountants  
P.O. Box 788  
Prestonsburg, Kentucky 41653

## CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3 - 4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position Proprietary Fund	5
Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	6
Statement of Cash Flows Proprietary Fund	7
Notes to Basic Financial Statements	8 - 15
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule Proprietary Fund	16
OTHER REPORT	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 - 18
Schedule of Findings and Responses	19 - 20

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 16 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 February 22, 2018 on our consideration of the Wheelwright Utility Commission's, a component unit of the City of Wheelwright, Kentucky, 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 the Wheelwright Utility Commission's, a component unit of the City of Wheelwright, Kentucky, internal control over financial reporting and compliance.

*Pack & Associates*

Prestonsburg, Kentucky  
February 22, 2018

WHEELWRIGHT UTILITY COMMISSION  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUND  
 June 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 145,542
Accounts receivable	39,402
Prepaid expense	13,149
TOTAL CURRENT ASSETS	<u>198,093</u>

NON-CURRENT ASSETS

Restricted cash and cash equivalents	517,564
Capital Assets:	
Property, plant and equipment	3,202,852
Less: accumulated depreciation	<u>(2,171,950)</u>
Net property and equipment	1,030,902
Land	5,000
Construction in progress	<u>491,458</u>
Total Capital Assets	<u>1,527,360</u>
TOTAL NON-CURRENT ASSETS	<u>2,044,924</u>

TOTAL ASSETS \$ 2,243,017

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 9,548
Payroll taxes and related costs	1,474
Accrued Interest payable	8,140
Customer deposits	39,701
Current portion of long-term debt	<u>26,641</u>
TOTAL CURRENT LIABILITIES	<u>85,504</u>

NONCURRENT LIABILITIES

Long-term debt, less current portion	<u>636,268</u>
TOTAL NON-CURRENT LIABILITIES	<u>636,268</u>

TOTAL LIABILITIES 721,772

NET POSITION

Invested in capital assets, net of related debt	1,180,244
Restricted for capital project	145,334
Restricted for debt service	48,297
Unrestricted	<u>147,370</u>
TOTAL NET POSITION	<u>1,521,245</u>

TOTAL LIABILITIES AND NET POSITION \$ 2,243,017

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, 2017

OPERATING REVENUES

Charges for services	\$ 410,657
Collection and late fees	1,237
Tap fees	365
Other revenues	770
<b>TOTAL OPERATING REVENUES</b>	<u>413,029</u>

OPERATING EXPENSES

Salaries and wages	161,126
Payroll taxes	14,248
Workers' compensation	5,303
Maintenance materials and supplies	9,921
Equipment rental	4,925
Water operating expenses	38,527
Sewer operating expenses	77,554
Gas operating expenses	42,997
Pool operating expenses	4,639
Contractual services	20,733
Insurance	7,840
Bond	509
Legal and professional services	18,280
Office expenses	3,582
Postage	1,435
Utilities	50,700
Telephone	4,870
Depreciation	79,011
Gasoline and diesel fuel	6,164
Service charges	25
Miscellaneous	985
<b>TOTAL OPERATING EXPENSES</b>	<u>553,374</u>

OPERATING INCOME (LOSS) (140,345)

NONOPERATING REVENUE (EXPENSE)

Cessation payments	87,000
Interest income	65
Dividend income	329
Interest expense	(29,995)
Administrative and trustee fees for bond	(1,734)
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>55,665</u>

CHANGE IN NET POSITION (84,680)

TOTAL NET POSITION - BEGINNING 1,605,925

TOTAL NET POSITION - ENDING \$ 1,521,245

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 421,971
Payments to suppliers	(311,497)
Payments to employees	(175,115)
Customer meter deposits	3,566
NET CASH USED BY OPERATING ACTIVITIES	<u>(61,075)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cessation payments received	<u>87,000</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	87,000

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(12,209)
Principal paid on long-term debt	(27,378)
Interest paid	(25,016)
Administrative and trustee fees for bond	(1,750)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(66,353)

CASH FLOW FROM INVESTING ACTIVITIES

Interest and dividends on cash and cash equivalents	<u>394</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>394</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS (40,034)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 703,140

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 663,106

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
 BY OPERATING ACTIVITIES

Operating income (loss)	\$ (140,345)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	79,011
Change in assets and liabilities:	
Account receivables	8,942
Prepaid expenses	(784)
Accounts and other payables	(11,465)
Customer deposits	3,566
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (61,075)</u>

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

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

**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, 2017. 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, 2017

**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 investments. 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. Investments**

Assets as described in Note 3 pertaining to the Kentucky Bond Corporation First Series 2014 lease agreement, are invested in money market funds. Money market funds consist of short-term, highly liquid securities that are carried at cost, which approximates fair value.

**G. 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.

**H. 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. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation commences



WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017

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

H. Capital Assets (Continued)

when substantially all the activities necessary to prepare the asset for its intended use are completed.

I. Interest

Interest is expensed as incurred except when interest is capitalized as a component of construction in progress. For the year ended June 30, 2017, total interest incurred was \$29,995 of which \$0 was capitalized.

J. 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.

K. 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: DEPOSITS AND INVESTMENTS**

Kentucky Revised Statute 66.480 authorizes local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies. The Commission's investment policy conforms to state statute.

**WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Wheelwright Utility Commission will not be able to recover the value of its deposits or investments held in the possession of an outside party. Wheelwright Utility Commission has no formal policy for custodial credit risk. At June 30, 2017, the carrying amount of the Commission's deposits with financial institutions was \$315,585, and the bank balance was \$325,979. The total bank balance was covered by federal depository insurance. At June 30, 2017 total investments of \$347,521 consisted of U.S. obligations that were held in a bank's trust department in the City of Wheelwright's name, the primary government of the component unit.

**NOTE 3: RESTRICTED ASSETS**

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, 2017 the water system's reserve was \$20,038.

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, 2017 was \$150,005.

The Kentucky Bond Corporation First Series 2014 lease agreement requires the Commission to maintain restricted assets and certain reserves as follows:

- a) Proceeds from the bond issuance are restricted for the purpose of capital improvements to the water system. At June 30, 2017 the unspent portion was \$311,122.
- b) Debt service reserve fund. Proceeds of \$22,000 were set aside for principal and interest payments due in February 1, 2040 through January 1, 2041.
- c) Sinking fund. The Sinking Fund was established to accumulate the amounts necessary to pay principal and interest due within the current year. On or before the last day of each month, an amount equal to the total of one-sixth of the

WHEELWRIGHT UTILITY COMMISSION  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 3: RESTRICTED ASSETS (Continued)**

c) Sinking fund (Continued)

semiannual interest payment plus one-twelfth of the next annual principal payment are to be transferred to the account. At June 30, 2017, the balance in the sinking fund was \$14,399.

**NOTE 4: CAPITAL ASSETS**

A summary of the changes in property and equipment for the year ended June 30, 2017 follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
<b>Non-depreciable Assets:</b>				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Construction in progress	480,958	10,500	0	491,458
<b>Total Non-depreciable Assets</b>	<b>\$ 485,958</b>	<b>\$ 10,500</b>	<b>\$ 0</b>	<b>\$ 496,458</b>
<b>Depreciable Assets:</b>				
Utility Plants	\$ 2,941,015	\$ 0	\$ 0	\$ 2,941,015
Office Building & Improvements	87,212	0	0	87,212
Equipment & Vehicles	162,519	1,709	0	164,228
Office Equipment	10,397	0	0	10,397
<b>Subtotal</b>	<b>3,201,143</b>	<b>1,709</b>	<b>0</b>	<b>3,202,852</b>
<b>Accumulated Depreciation</b>				
Utility Plants	(1,883,907)	(73,463)	0	(1,957,370)
Office Building & Improvements	(49,118)	(3,144)	0	(52,262)
Equipment & Vehicles	(150,055)	(2,274)	0	(152,329)
Office Equipment	(9,859)	(130)	0	(9,989)
<b>Subtotal</b>	<b>(2,092,939)</b>	<b>(79,011)</b>	<b>0</b>	<b>(2,171,950)</b>
<b>Total Net Property, Plant, and Equipment</b>	<b>\$ 1,108,204</b>	<b>\$ (77,302)</b>	<b>\$ 0</b>	<b>\$ 1,030,902</b>

Total depreciation expense was \$79,011 for the year ended June 30, 2017.

**WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5: LONG-TERM DEBT**

**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. Interest is payable semiannually on July 1 and January 1 and principal is due January 1.

**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 carries interest rates of 4%-8% and matures on February 1, 2041. Interest is payable semiannually on August 1 and February 1 and principal is due February 1.

**Changes in outstanding debt**

	Balance July 1, 2016	Additions	Payments	Balance June 30, 2017	Current Portion
USDA	\$ 105,706	\$ 0	\$ 7,736	\$ 97,970	\$ 7,660
USDA	64,581	0	4,642	59,939	3,981
KBC	520,000	0	15,000	505,000	15,000
	<u>\$ 690,287</u>	<u>\$ 0</u>	<u>\$ 27,378</u>	<u>\$ 662,909</u>	<u>\$ 26,641</u>

Principal and interest payments on bonds are as follows:

	Principal	Interest	Fees	Total
2018	\$ 26,641	\$ 25,454	\$ 1,713	\$ 53,808
2019	27,222	24,572	1,675	53,469
2020	27,836	23,658	1,638	53,132
2021	28,484	22,710	1,600	52,794
2022	29,168	21,689	1,563	52,420
2023-2027	167,504	90,236	7,237	97,473
2028-2032	111,054	60,869	6,062	66,931
2033-2037	130,000	39,000	4,687	173,687
2037-2041	115,000	11,000	2,488	128,488
	<u>\$ 662,909</u>	<u>\$ 319,188</u>	<u>\$ 28,663</u>	<u>\$ 732,202</u>

**NOTE 6: COMPENSATED ABSENCES**

Accrued compensated absences estimate has not been made for the year ended June 30, 2017. This cost is not expected to have a significant impact on the Company's financial statements.

**WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7: 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 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. The extension period concluded on August 1, 2016. The agreement was amended to extend the extension period for an additional twenty-four months and to adjust the monthly cessation payments. Beginning in August 2016, \$13,000 is payable the City of Wheelwright and \$7,000 payable to the Wheelwright Utility Commission. For the fiscal year ending at June 30, 2017, the total amount of cessation payments received from the CCA was \$87,000.

**NOTE 8: 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. The attorney then filed a renewed motion for summary judgement with additional information in which the outcome was in favor of Kenvirons, Inc. The Wheelwright Utility Commission has appealed this ruling. If the outcome if favorable, the liability owed is zero, otherwise the Commission would be expected to pay damages, but that amount cannot be readily determined.

**NOTE 9: 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, property, and fiduciary.

**WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 10: SUBSEQUENT EVENTS**

The Wheelwright Utility Commission has evaluated subsequent events through February 22, 2018, which is the date the financial statements were available to be issued.

## *Pack and Associates*

Certified Public Accountants

P.O. Box 788

Prestonsburg, Kentucky 41653

Tel. (606) 886-2756

Fax. (606) 886-1683

### 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, 2017, 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 February 22, 2018.

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

In planning and performing our audit of the financial statements, we considered the Wheelwright Utility Commission's, component unit of the City of Wheelwright, Kentucky 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, component unit of the City of Wheelwright, Kentucky internal control. Accordingly, we do not express an opinion on the effectiveness of the Wheelwright Utility Commission's, component unit of the City of Wheelwright, Kentucky internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. [2017-1 and 2017-2].

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Wheelwright Utility Commission's, component unit of the City of Wheelwright, Kentucky 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  
 BUDGETARY COMPARISON SCHEDULE  
 PROPRIETARY FUND  
 For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance from Budget</u>
<b>REVENUES</b>			
Charges for services	\$ 444,300	\$ 410,657	\$ (33,643)
Collection and late fees	0	1,237	1,237
Tap fees	0	365	365
Other revenues	12,600	770	(11,830)
Cessation payments	84,000	87,000	3,000
Investment income	0	394	394
<b>TOTAL REVENUES</b>	<u>540,900</u>	<u>500,423</u>	<u>(40,477)</u>
<b>EXPENSES</b>			
Salaries and payroll taxes	193,800	175,374	18,426
Fuel and maintenance	11,000	16,085	(5,085)
Equipment rental	0	4,925	(4,925)
Water operating expenses	113,600	38,527	75,073
Sewer operating expenses	100,500	77,554	22,946
Gas operating expenses	49,000	42,997	6,003
Pool operating expenses	0	4,639	(4,639)
Contractual services	24,800	20,733	4,067
Insurance and workers' compensation	14,000	13,143	857
Bond	450	509	(59)
Legal and professional services	9,300	18,280	(8,980)
Office expenses	5,000	3,582	1,418
Postage	2,000	1,435	565
Utilities	54,600	50,700	3,900
Telephone	5,300	4,870	430
Depreciation	0	79,011	(79,011)
Service charges	0	25	(25)
Miscellaneous	37,000	985	36,015
Administrative and trustee fees for bond	0	1,734	(1,734)
Interest	0	29,995	(29,995)
<b>TOTAL EXPENSES</b>	<u>620,350</u>	<u>585,103</u>	<u>35,247</u>
<b>TOTAL REVENUE OVER EXPENSES</b>	<u>\$ (79,450)</u>	<u>\$ (84,680)</u>	<u>\$ (5,230)</u>



**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  
February 22, 2018

**WHEELWRIGHT UTILITY COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017**

**2017-1 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 including note disclosures.

**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.

**2017-2 Segregation of Duties**

**Condition:** Due to the size of administrative staff, internal control is limited.

**Criteria:** Internal controls should be in place to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or timely detected and corrected.

**Cause:** There are not appropriate segregation of duties in the areas of general ledger bookkeeping, cash receipts and disbursements. The two individuals who maintain the general ledger also have the ability to record transactions, prepare checks, access checks, and sign the checks. They are also responsible for collecting and recording cash receipts, making deposits, receiving the bank statements, and preparing the bank reconciliation.

**Effect:** This condition could provide an opportunity for misappropriation of funds and concealment of such activity.

**WHEELWRIGHT UTILITY COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017**

**2017-2 Segregation of Duties (Continued)**

**Recommendation:** We realize that the Commission cannot fully segregate duties with the number of employees available. However, the board should be aware of this issue and continue to develop policies and procedures that segregate accounting functions as much as possible. This policy should include separating the responsibilities for processing and recording transactions, reviewing the transactions, and handling any related assets.

**Management Response:** The Commission has limited resources that prevent being able to further segregate duties, but will implement stronger internal controls to help mitigate any risk associated with the process.