

WHEELWRIGHT UTILITY COMMISSION

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

*Pack and Associates*

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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 Wheelwright Utility Commission, a component unit of the City of Wheelwright, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Wheelwright Utility 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 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 from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wheelwright Utility Commission as of June 30, 2019, 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 November 18, 2019 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 solely 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 effectiveness of the Wheelwright Utility Commission's 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 internal control over financial reporting and compliance.



Prestonsburg, Kentucky  
November 18, 2019

WHEELWRIGHT UTILITY COMMISSION  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 194,057
Accounts receivable	39,504
Prepaid expense	<u>13,758</u>
TOTAL CURRENT ASSETS	<u>247,319</u>

NON-CURRENT ASSETS

Restricted cash and cash equivalents	310,526
Capital Assets:	
Property, plant and equipment	3,391,630
Less: accumulated depreciation	<u>(2,356,942)</u>
Net property and equipment	1,034,688
Land	5,000
Construction in progress	<u>584,397</u>
Total Capital Assets	<u>1,624,085</u>
TOTAL NON-CURRENT ASSETS	<u>1,934,611</u>
 TOTAL ASSETS	 \$ <u><u>2,181,930</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 10,137
Payroll taxes and related costs	1,004
Settlement payable	2,000
Accrued Interest payable	7,858
Customer deposits	47,571
Current portion of long-term debt	<u>15,000</u>
TOTAL CURRENT LIABILITIES	<u>83,570</u>

NONCURRENT LIABILITIES

Long-term debt, less current portion	<u>460,000</u>
TOTAL NON-CURRENT LIABILITIES	<u>460,000</u>
 TOTAL LIABILITIES	 <u>543,570</u>

NET POSITION

Invested in capital assets, net of related debt	1,369,675
Restricted for capital project	32,679
Restricted for debt service	49,399
Unrestricted	<u>186,607</u>
TOTAL NET POSITION	<u>1,638,360</u>
 TOTAL LIABILITIES AND NET POSITION	 \$ <u><u>2,181,930</u></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, 2019

OPERATING REVENUES

Charges for services	\$ 510,227
Collection and late fees	405
Tap fees	205
Other revenues	475
TOTAL OPERATING REVENUES	<u>511,312</u>

OPERATING EXPENSES

Salaries and wages	172,609
Payroll taxes	14,023
Workers' compensation	4,875
Maintenance materials and supplies	2,199
Water operating expenses	28,070
Sewer operating expenses	51,303
Gas operating expenses	39,975
Contractual services	19,088
Insurance	8,614
Bond	321
Legal and professional services	12,000
Office expenses	4,770
Postage	1,741
Utilities	42,674
Telephone	7,463
Depreciation	98,452
Uniforms	481
Gasoline and diesel fuel	7,009
Service charges	82
Miscellaneous	736
TOTAL OPERATING EXPENSES	<u>516,485</u>

OPERATING INCOME (LOSS) (5,173)

NONOPERATING REVENUE (EXPENSE)

Cessation payments	84,000
Interest income	20
Dividend income	5,672
Interest expense	(24,682)
Administrative and trustee fees for bond	(1,659)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>63,351</u>

CHANGE IN NET POSITION 58,178

TOTAL NET POSITION - BEGINNING 1,580,182

TOTAL NET POSITION - ENDING \$ 1,638,360

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 482,710
Payments to suppliers	(273,562)
Payments to employees	(185,658)
Customer meter deposits	<u>3,661</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,151

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cessation payments received	<u>84,000</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	84,000

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(60,000)
Principal paid on long-term debt	(161,934)
Interest paid	(24,807)
Administrative and trustee fees for bond	<u>(1,675)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(248,416)

CASH FLOW FROM INVESTING ACTIVITIES

Interest and dividends on cash and cash equivalents	<u>5,692</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,692</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (131,573)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 636,156

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 504,583

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES

Operating income (loss)	\$ (5,173)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	98,452
Change in assets and liabilities:	
Account receivables	(28,631)
Prepaid expenses	(13,758)
Accounts and other payables	(27,400)
Customer deposits	<u>3,661</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 27,151

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



## **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, 2019. 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, 2019

**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, 2019

**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, 2019, total interest incurred was \$24,682 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, 2019

**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. The Commission's deposits at June 30, 2019 were entirely covered by Federal Depository Insurance. At June 30, 2019 total investments of \$290,474 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, 2019 the water system's reserve was \$20,052.

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, 2019 the unspent portion was \$253,269.
- b) Debt service reserve fund. Proceeds of \$22,717 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 semiannual interest payment plus one-twelfth of the next annual principal payment are to be transferred to the account. At June 30, 2019, the balance in the sinking fund was \$14,488.

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 4: CAPITAL ASSETS**

A summary of the changes in property and equipment for the year ended June 30, 2019 follows:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
<b>Non-depreciable Assets:</b>				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Construction in progress	584,397	0	0	584,397
Total Non-depreciable Assets	<u>\$ 589,397</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 589,397</u>
<b>Depreciable Assets:</b>				
Utility Plants	\$ 3,101,848	\$ 0	\$ 0	\$ 3,101,848
Office Building & Improvements	87,212	0	0	87,212
Equipment & Vehicles	191,523	0	0	191,523
Office Equipment	11,047	0	0	11,047
Subtotal	<u>3,391,630</u>	<u>0</u>	<u>0</u>	<u>3,391,630</u>
<b>Accumulated Depreciation</b>				
Utility Plants	(2,034,901)	(88,005)	0	(2,122,906)
Office Building & Improvements	(55,406)	(3,144)	0	(58,550)
Equipment & Vehicles	(157,990)	(7,080)	0	(165,070)
Office Equipment	(10,193)	(223)	0	(10,416)
Subtotal	<u>(2,258,490)</u>	<u>(98,452)</u>	<u>0</u>	<u>(2,356,942)</u>
Total Net Property, Plant, and Equipment	<u>\$ 1,133,140</u>	<u>\$ (98,452)</u>	<u>\$ 0</u>	<u>\$ 1,034,688</u>

Total depreciation expense was \$98,452 for the year ended June 30, 2019.

**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

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019

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

Kentucky Bond Corporation First Series 2014 (Continued)

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, 2018	Additions	Payments	Balance June 30, 2019	Current Portion
USDA	\$ 91,835	\$ 0	\$ 91,835	\$ 0	\$ 0
USDA	55,099	0	55,099	0	0
KBC	490,000	0	15,000	475,000	15,000
	<u>\$ 636,934</u>	<u>\$ 0</u>	<u>\$ 161,934</u>	<u>\$ 475,000</u>	<u>\$ 15,000</u>

Principal and interest payments on bonds are as follows:

	Principal	Interest	Fees	Total
2020	\$ 15,000	\$ 17,223	\$ 1,638	\$ 33,861
2021	15,000	16,923	1,600	33,523
2022	15,000	16,585	1,563	33,148
2023	15,000	16,210	1,525	32,735
2024	15,000	15,760	1,487	32,247
2025-2029	95,000	70,890	6,800	172,690
2030-2034	110,000	52,800	5,550	168,350
2035-2039	140,000	28,400	4,025	172,425
2040-2041	55,000	3,000	1,087	59,087
	<u>\$ 475,000</u>	<u>\$ 237,791</u>	<u>\$ 25,275</u>	<u>\$ 738,066</u>

**NOTE 6: COMPENSATED ABSENCES**

Accrued compensated absences estimate has not been made for the year ended June 30, 2019. This cost is not expected to have a significant impact on the Company's financial statements.

**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

WHEELWRIGHT UTILITY COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 7: CESSATION PAYMENTS (Continued)**

City of Wheelwright's right to gain ownership for a period of twenty-four months (extension period) by paying monthly cessation payments to the City of Wheelwright and the Wheelwright Utility Commission. These 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 agreement was revised in August 2016 and again in July 2018 to extend the extension period for an additional twenty-four months. The CCA currently pays \$13,000 and \$7,000 monthly payments to the City of Wheelwright and the Wheelwright Utility Commission, respectively. For the fiscal year ending at June 30, 2019, the total amount of cessation payments received from the CCA was \$84,000.

**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 was involved in a contract dispute with Kenvirons, Inc. regarding engineering services provided for the water treatment plant project. A settlement was reached and signed by both parties in July 2018 which provides that once the Wheelwright Utility Commission pays the total consideration of \$62,000, Kenvirons will promptly move the court to dismiss the lawsuit with prejudice as settled. The terms of payment include one lump sum of \$50,000 to be paid on or before August 15, 2018 and installments of \$1,000 to be paid for twelve months due on the 15<sup>th</sup> day of the month beginning in September 2018. At June 30, 2019 the remaining balance due was \$2,000.

**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.

**NOTE 10: SUBSEQUENT EVENTS**

The Wheelwright Utility Commission has evaluated subsequent events through November 18, 2019, which is the date the financial statements were available to be issued.

WHEELWRIGHT UTILITY COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
PROPRIETARY FUND  
For the Year Ended June 30, 2019

	Budget	Actual Amounts	Variance from Budget
REVENUES			
Charges for services	\$ 463,993	\$ 510,227	\$ 46,234
Collection and late fees	0	405	405
Tap fees	0	205	205
Other revenues	11,220	475	(10,745)
Cessation payments	84,000	84,000	0
Investment income	0	5,692	5,692
TOTAL REVENUES	<u>559,213</u>	<u>601,004</u>	<u>41,791</u>
EXPENSES			
Salaries and payroll taxes	179,946	186,632	(6,686)
Fuel and maintenance	7,108	9,208	(2,100)
Water operating expenses	146,585	28,070	118,515
Sewer operating expenses	112,900	51,303	61,597
Gas operating expenses	30,500	39,975	(9,475)
Pool operating expenses	5,000	0	5,000
Contractual services	19,685	19,088	597
Insurance and workers' compensation	14,700	13,489	1,211
Bond	350	321	29
Legal and professional services	12,600	12,000	600
Office expenses	4,500	4,770	(270)
Postage	2,610	1,741	869
Utilities	50,400	42,674	7,726
Telephone	5,936	7,463	(1,527)
Depreciation	0	98,452	(98,452)
Uniforms	0	481	(481)
Service charges	0	82	(82)
Miscellaneous	0	736	(736)
Administrative and trustee fees for bond	0	1,659	(1,659)
Interest	0	24,682	(24,682)
TOTAL EXPENSES	<u>592,820</u>	<u>542,826</u>	<u>49,994</u>
TOTAL REVENUE OVER EXPENSES	\$ <u>(33,607)</u>	\$ <u>58,178</u>	\$ <u>91,785</u>



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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 Wheelwright Utility Commission, component unit of the City of Wheelwright, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Wheelwright Utility Commission's basic financial statements and have issued our report thereon dated November 18, 2019.

### **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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-1 and 2019-2 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Wheelwright Utility Commission's financial statements are free from material misstatements, 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 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  
November 18, 2019

WHEELWRIGHT UTILITY COMMISSION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2019

2019-1 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.

2019-2 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, 2019

2018-2 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.