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WHEELWRIGHT UTILITY COMMISSION
AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2010

Jones, Pack & Associates

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

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Wheelwright Utility Commission
Wheelwright, Kentucky

We have audited the accompanying financial statements of the business-type activities of Wheelwright Utility Commission, component unit of the City of Wheelwright, Kentucky as of and for the year ended June 30, 2010, which collectively comprise the Utility Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Wheelwright Utility Commission's management. 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2012, 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* and should be considered in assessing the results of our audit.

The Wheelwright Utility Commission has not presented a management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Wheelwright Utility Commission also has not provided budget information. The budgetary comparison information 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.

As described in Note 1, the basic financial statements present only the Wheelwright Utility Commission and do not purport, and do not, present fairly the financial position of the City of Wheelwright, as of June 30, 2010, and the changes in financial position, or, where applicable, its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

Jones, Pack & Associates

Prestonsburg, Kentucky
May 31, 2012

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BASIC FINANCIAL STATEMENTS

WHEELWRIGHT UTILITY COMMISSION
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 June 30, 2010

ASSETS

CURRENT ASSETS

Cash	\$ 109,206
Accounts receivable	60,163
Prepaid expense	4,111
TOTAL CURRENT ASSETS	<u>173,480</u>

NONCURRENT ASSETS

Restricted cash and cash equivalents	46,723
Capital assets	
Land	5,000
Property, plant and equipment	3,256,142
Less: accumulated depreciation	<u>(1,624,676)</u>
TOTAL NONCURRENT ASSETS	<u>1,683,189</u>
TOTAL ASSETS	<u>\$ 1,856,669</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 25,391
Payroll tax payable	1,288
Compensated absences	620
Customer deposits	10,971
Current portion bonds payable	<u>20,795</u>
TOTAL CURRENT LIABILITIES	59,065

NONCURRENT LIABILITIES

Bonds payable	<u>262,137</u>
TOTAL NONCURRENT LIABILITIES	<u>262,137</u>
TOTAL LIABILITIES	<u>321,202</u>

NET ASSETS

Invested in capital assets, net of related debt	1,353,534
Restricted for debt service	46,723
Unrestricted	<u>135,210</u>
TOTAL NET ASSETS	<u>1,535,467</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,856,669</u>

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

WHEELWRIGHT UTILITY COMMISSION
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 For the Year Ended June 30, 2010

OPERATING REVENUES

Charges for services	\$ 613,222
Other revenues	<u>12,268</u>
TOTAL OPERATING REVENUES	<u>625,490</u>

OPERATING EXPENSES

Personnel services	256,950
General operating expense	25,054
Water operating expense	35,313
Sewer operating expense	19,054
Gas operating expense	103,149
Pool expense	954
Contractual services	10,338
Insurance	46,802
Professional services	41,751
Legal services	4,800
Office expenses	7,414
Utilities	43,245
Uniforms	4,557
Depreciation	<u>88,118</u>
TOTAL OPERATING EXPENSES	<u>687,499</u>

OPERATING INCOME (LOSS) (62,009)

NONOPERATING REVENUE (EXPENSE)

Grant revenue	171,204
Miscellaneous income	22,489
Interest income	27
Interest expense	<u>(14,708)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>179,012</u>

CHANGE IN NET ASSETS 117,003

TOTAL NET ASSETS - BEGINNING	<u>1,418,464</u>
TOTAL NET ASSETS - ENDING	<u>\$ 1,535,467</u>

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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 568,431
Payments to suppliers	(357,102)
Payments to employees	(260,903)
Customer meter deposits	4,864
Other receipts (payments)	<u>22,489</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(22,221)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from grant	171,204
Purchase of capital assets	(171,204)
Principal paid on capital debt	(19,833)
Interest paid	<u>(14,708)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(34,541)</u>

CASH FLOW FROM INVESTING ACTIVITIES

Interest income	<u>27</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>27</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (56,735)

CASH AND CASH EQUIVALENTS:

Beginning of Year	<u>212,664</u>
End of Year	<u>\$ 155,929</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES

Operating income (loss)	\$ (62,009)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	88,118
Miscellaneous income (expenses)	22,489
Change in assets and liabilities:	
Receivables	(54,531)
Prepaid expenses	(4,111)
Accounts and other payables	(17,041)
Customer deposits	<u>4,864</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (22,221)</u>

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

WHEELWRIGHT UTILITY COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Wheelwright Utility 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 which houses in excess of 600 inmates.

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 assets includes all property and equipment, receivables and payables owned by the Commission as of June 30, 2010. The statement of revenues, expenses and changes in net assets 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, 2010

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. Fixed 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

F. Fund Balance/Net Assets

Components of fund equity include the following:

- a. *Unrestricted Net Assets.* Governmental fund balances that are not appropriable, legally segregated for specific usage, or commitments to outside third parties.
- b. *Restricted Net Assets.* Net assets less related liabilities reported in the statement of net assets that are subject to constraints on their use by creditors, grantors, contributors, or legislation.
- c. *Net Assets Invested in Capital Assets Net of Related Debt.* Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash in checking, savings, money market accounts and certificates of deposit with an original maturity of less than 90 days.

WHEELWRIGHT UTILITY COMMISSION
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 3: FIXED ASSETS

A summary of fixed assets for the year ended June 30, 2010 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Investments</u>
Land	\$ 5,000	\$ 0	\$ 5,000
Utility Plants	2,941,015	1,441,417	1,499,598
Office Building & Improvements	117,212	32,272	84,940
Equipment & Vehicles	194,653	147,725	46,928
Office Equipment	3,262	3,262	0
Total	<u>\$ 3,261,142</u>	<u>\$ 1,624,676</u>	<u>\$ 1,636,466</u>

A summary of the changes in property and equipment for the year ended June 30, 2010 follows:

	<u>Land</u>	<u>Utility Plants</u>	<u>Office Building</u>	<u>Equipment & Vehicles</u>	<u>Office Equipment</u>	<u>Total</u>
Balance - July 1, 2009	\$ 5,000	\$ 1,400,074	\$ 88,834	\$ 59,472	\$ 0	\$ 1,553,380
Acquisitions/improvements	0	171,204	0	0	0	171,204
Retirements/disposals	0	0	0	0	0	0
Depreciation expense	0	(71,680)	(3,894)	(12,544)	0	(88,118)
Balance - June 30, 2010	<u>\$ 5,000</u>	<u>\$ 1,499,598</u>	<u>\$ 84,940</u>	<u>\$ 46,928</u>	<u>\$ 0</u>	<u>\$ 1,636,466</u>

Current year depreciation expense for 2010 is \$71,680 for utility plants, \$3,894 for office building and \$12,544 for equipment and vehicles which totals \$88,118 for the year.

Wheelwright Utility Commission extended water services to the residents of Golf Hollow. The construction project was financed through two grants, one that was awarded directly from the Kentucky infrastructure Authority and another that was a pass thru from Floyd County Fiscal Court. Grant revenues are included as nonoperating revenues in the statement of revenue, expenses, and changes in net assets. The additions of \$171,204 to utility plants are all expenditures related to this project. The project was completed and was fully operational in December 2009. The new water lines are being depreciated over a 40 year estimated life.

WHEELWRIGHT UTILITY COMMISSION
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 4: REVENUE BONDS PAYABLE

At June 30, 2010 revenue bonds and loans payable consisted of the following:

City of Wheelwright Revenue Bonds Series 1988, dated December 1989. The original amount financed was \$190,000, payable in monthly installments inclusive of interest of 5.0%. The final maturity date is January 2028.	\$ 138,999
City of Wheelwright Water Revenue Bonds Series 1988, dated December 1989. The original amount financed was \$135,000, payable in monthly installments inclusive of interest of 5.0%. The final maturity date is January 2028.	91,577
Kentucky Infrastructure Authority, sewer systems series dated August 1993. The original amount financed was \$361,675 payable semi-annually inclusive of interest of 1.9% The final maturity date is June 2014.	<u>52,356</u>
Total	282,932
Less Current Portion	<u>(20,795)</u>
Total	<u>\$ 262,137</u>

Cash paid for interest on bonds payable during the current year was \$14,708.

Principal and interest payments on bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 20,795	\$ 12,282	\$ 33,077
2012	21,451	11,626	33,077
2013	22,133	10,945	33,078
2014	22,842	10,236	33,078
2015	9,859	9,564	19,423
2016-2020	57,397	39,717	97,114
2021-2025	73,761	23,453	97,214
2026-2028	54,694	4,403	59,097

NOTE 5: RESTRICTED ASSETS

The revenue bonds and loans 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

WHEELWRIGHT UTILITY COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5: RESTRICTED ASSETS (continued)

are to be used to pay the routine operational and maintenance expenses of each system.

The system's reserves at June 30, 2010 are summarized below:

	<u>Reserve Balance</u>
Water System	\$ 20,251
Sewer System	26,472
Total	<u>\$ 46,723</u>

The System elects to pay monthly installments directly to the water and gas system bondholders in lieu of establishing a reserve for debt service. KIA has allowed the System to make a reduced monthly installment to the sewer reserve system for maintenance and repairs.

NOTE 6: COMPENSATED ABSENCES

On August 29, 2000 the Wheelwright Utility Commission agreed to compensate employees for unpaid vacation and sick leave hours as of June 30, 1993 at a rate of one pay period times the current rate of pay per month until paid in full. Past due leave in the amount of \$620 has not been paid as of this audit.

NOTE 7: CONTINGENT LIABILITIES

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.

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OTHER REPORT

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

To the Commissioners
Wheelwright Utility Commission
Wheelwright, Kentucky

We have audited 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, 2010, and have issued our report thereon dated May 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wheelwright Utility Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wheelwright Utility Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wheelwright Utility Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, that we considered to be material weaknesses.

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 questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wheelwright Utility Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

We noted certain matters that we reported to management of the Wheelwright Utility Commission in a separate letter dated May 31, 2012.

This report is intended solely for the information and use of management, commissioners, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Paek + Associates

Prestonsburg, Kentucky
May 31, 2012

WHEELWRIGHT UTILITY COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Wheelwright Utility Commission.
2. One material weakness disclosed during the audit of the financial statements is reported in the "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".

B. FINDINGS

1. The entity does not have sufficient controls in place to prepare a full set of GAAP financial statements, including full disclosures.

C. QUESTIONED COSTS

None.