

WHEELWRIGHT UTILITY COMMISSION

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

Jones, Pack & 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 Assets Proprietary Fund	5
Statement of Revenues, Expenses, and Changes in Net Assets Proprietary Fund	6
Statement of Cash Flows Proprietary Fund	7
Notes to Basic Financial Statements	8 - 12
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule Proprietary Fund	13
Note to Required Supplementary Information	14
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>	15 - 16
Schedule of Findings and Questioned Costs	17
Schedule of Prior Year Audit Findings	18
Management Letter	19 - 20

Jones, Pack & Associates

Certified Public Accountants

P.O. Box 788

Prestonsburg, Kentucky 41653

Tel. (606) 886-2756

Fax. (606) 886-1683

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, 2012, 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, 2012, and the respective changes in financial position, and cash flows 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 January 31, 2013, 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 budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

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, 2012, 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
January 31, 2013

WHEELWRIGHT UTILITY COMMISSION
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

ASSETS

CURRENT ASSETS

Cash	\$ 236,569
Accounts receivable	88,074
Other receivable	5,253
Prepaid expense	6,080
TOTAL CURRENT ASSETS	<u>335,976</u>

NONCURRENT ASSETS

Restricted cash and cash equivalents	50,932
Capital assets	
Land	5,000
Property, plant and equipment	3,215,127
Less: accumulated depreciation	<u>(1,759,519)</u>
TOTAL NONCURRENT ASSETS	<u>1,511,540</u>
TOTAL ASSETS	<u>\$ 1,847,516</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 11,307
Payroll tax payable	5,503
Compensated absences	620
Customer deposits	20,132
Current portion bonds payable	21,574
TOTAL CURRENT LIABILITIES	<u>59,136</u>

NONCURRENT LIABILITIES

Bonds payable	211,372
TOTAL NONCURRENT LIABILITIES	<u>211,372</u>
TOTAL LIABILITIES	<u>270,508</u>

NET ASSETS

Invested in capital assets, net of related debt	1,227,662
Restricted for debt service	50,932
Unrestricted	298,414
TOTAL NET ASSETS	<u>1,577,008</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,847,516</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, 2012

OPERATING REVENUES

Charges for services	\$ 732,288
Collection and late fees	1,484
Tap fees	1,140
Other revenues	4,244
TOTAL OPERATING REVENUES	<u>739,156</u>

OPERATING EXPENSES

Salaries and wages	270,162
Payroll taxes	21,819
Workers' compensation	7,717
Maintenance materials and supplies	12,306
Water operating expense	22,024
Sewer operating expense	29,275
Gas purchases	55,299
Lab testing fees	16,996
Contractual services	12,291
Insurance- General	12,828
Insurance- Health	57,833
Insurance- Life	799
Legal and professional services	10,800
Office expenses	5,525
Postage	1,513
Utilities	46,709
Telephone	5,178
Uniforms	4,643
Depreciation	91,438
Gasoline and diesel fuel	9,156
Small tools	4,730
Service charges	76
Miscellaneous	146
TOTAL OPERATING EXPENSES	<u>699,263</u>

OPERATING INCOME (LOSS) 39,893

NONOPERATING REVENUE (EXPENSE)

Miscellaneous income	113
Interest income	5
Interest expense	(2,890)
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>(2,772)</u>
CHANGE IN NET ASSETS	<u>37,121</u>

TOTAL NET ASSETS - BEGINNING 1,539,887

TOTAL NET ASSETS - ENDING \$ 1,577,008

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 748,824
Payments to suppliers	(350,759)
Payments to employees	(263,941)
Customer meter deposits	3,891
Other receipts (payments)	<u>4,357</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>142,372</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(30,036)
Interest paid	<u>(2,890)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(32,926)</u>

CASH FLOW FROM INVESTING ACTIVITIES

Interest income	<u>5</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 109,451

CASH AND CASH EQUIVALENTS:

Beginning of Year	<u>178,050</u>
End of Year	<u>\$ 287,501</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ 39,893
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	91,438
Miscellaneous income (expenses)	113
Change in assets and liabilities:	
Account receivables	13,913
Other receivables	(2,821)
Prepaid expenses	6,528
Accounts and other payables	(10,583)
Customer deposits	<u>3,891</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 142,372</u>

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

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, 2012. 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.

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, 2012

NOTE 3: FIXED ASSETS

A summary of fixed assets for the year ended June 30, 2012 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Investments</u>
Land	\$ 5,000	\$ 0	\$ 5,000
Utility Plants	2,941,015	1,589,057	1,351,958
Office Building & Improvements	117,212	40,061	77,151
Equipment & Vehicles	147,153	124,977	22,176
Office Equipment	9,747	5,424	4,323
Total	<u>\$ 3,220,127</u>	<u>\$ 1,759,519</u>	<u>\$ 1,460,608</u>

A summary of the changes in property and equipment for the year ended June 30, 2012 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, 2011	\$ 5,000	\$ 1,425,778	\$ 81,045	\$ 33,738	\$ 6,485	\$ 1,552,046
Acquisitions/improvements	0		0	0		0
Retirements/disposals	0	0	0		0	0
Depreciation expense	0	(73,820)	(3,894)	(11,562)	(2,162)	(91,438)
Balance - June 30, 2012	<u>\$ 5,000</u>	<u>\$ 1,351,958</u>	<u>\$ 77,151</u>	<u>\$ 22,176</u>	<u>\$ 4,323</u>	<u>\$ 1,460,608</u>

Current year depreciation expense for 2012 is \$73,820 for utility plants, \$3,894 for office building, \$11,562 for equipment and vehicles, and \$2,162 for office equipment which totals \$91,438 for the year.

NOTE 4: REVENUE BONDS PAYABLE

At June 30, 2011 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.

\$ 124,636

WHEELWRIGHT UTILITY COMMISSION
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 4: REVENUE BONDS PAYABLE (Continued)

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.

\$ 81,637

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.

26,673

Total	232,946
Less Current Portion	<u>(21,574)</u>
Total	<u>\$ 211,372</u>

Cash paid for interest on bonds payable during the current year was \$2,890.

Principal and interest payments on bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 21,574	\$ 11,600	\$ 33,174
2014	22,286	10,893	33,179
2015	9,308	9,964	19,272
2016	9,820	9,452	19,272
2017	10,361	8,912	19,273
2018-2022	61,025	35,335	96,360
2023-2027	79,853	16,507	96,360
2028	18,719	549	19,268

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

The system's reserves at June 30, 2012 are summarized as follows:

WHEELWRIGHT UTILITY COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: RESTRICTED ASSETS (Continued)

	<u>Reserve Balance</u>
Water System	\$ 20,254
Sewer System	<u>30,678</u>
Total	<u>\$ 50,932</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.

NOTE 8: SUBSEQUENT EVENTS

The Wheelwright Utility Commission has evaluated subsequent events through January 31, 2013, the date of the Independent Auditor's report.

WHEELWRIGHT UTILITY COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 PROPRIETARY FUND
 For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Variance from Budget</u>
REVENUES			
Charges for services	\$ 699,965	\$ 732,288	\$ 32,323
Collection and late fees	0	1,484	1,484
Tap fees	0	1,140	1,140
Other revenues	0	4,244	4,244
Miscellaneous income	21,104	113	(20,991)
Interest income	0	5	5
TOTAL REVENUES	<u>721,069</u>	<u>739,274</u>	<u>18,205</u>
EXPENSES			
Salaries and payroll taxes	271,796	291,981	(20,185)
Workers' compensation	19,849	7,717	12,132
Fuel and maintenance	27,830	26,192	1,638
Water operating expense	24,087	22,024	2,063
Sewer operating expense	31,500	29,275	2,225
Gas purchases	96,600	55,299	41,301
Lab testing fees	15,120	16,996	(1,876)
Contractual services	10,500	12,291	(1,791)
Insurance- General	14,910	12,828	2,082
Insurance- Life & Health	63,000	58,632	4,368
Legal and professional services	10,815	10,800	15
Office expenses	5,840	5,525	315
Postage	2,025	1,513	512
Utilities	57,750	46,709	11,041
Telephone	6,408	5,178	1,230
Uniforms	3,900	4,643	(743)
Depreciation	0	91,438	(91,438)
Service charges	0	76	(76)
Miscellaneous	9,650	146	9,504
Interest	2,890	2,890	0
TOTAL EXPENSES	<u>674,470</u>	<u>702,153</u>	<u>(27,683)</u>
TOTAL REVENUE OVER EXPENSES	<u>\$ 46,599</u>	<u>\$ 37,121</u>	<u>\$ (9,478)</u>

See accompanying note to required supplementary information.

WHEELWRIGHT UTILITY COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1: GENERAL STATEMENT

The budgetary comparison information on page 13 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.

Jones, Pack & Associates

Certified Public Accountants

P.O. Box 788

Prestonsburg, Kentucky 41653

Tel. (606) 886-2756

Fax. (606) 886-1683

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, 2012, and have issued our report thereon dated January 31, 2013. 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

Management of the Wheelwright Utility Commission is responsible for establishing and maintaining effective 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 a certain deficiency in internal control over financial reporting 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 questioned costs to be material weaknesses. [2012-1]

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

We noted certain matters that we reported to management of the Wheelwright Utility Commission in a separate letter dated January 31, 2013.

Wheelwright Utility Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Wheelwright Utility Commission's response and, accordingly, we express no opinion on it.

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

Jones, Pack & Associates

Prestonsburg, Kentucky
January 31, 2013

WHEELWRIGHT UTILITY COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Wheelwright Utility Commission.
2. Significant deficiencies in internal control that were considered material were disclosed.
3. No material noncompliance reported.

B. FINDINGS-FINANCIAL STATEMENT AUDIT
MATERIAL WEAKNESS

2012-1 Preparation of financial statements

Condition: Personnel responsible for the accounting and reporting function lacks the skill and knowledge to apply general accepted accounting principles in recording transactions or preparing a full set of financial statements including disclosures.

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: At the start of the audit, financial statements were not presented to the auditor. A ledger showing disbursements from the checking account in their respective categories was presented along with monthly spreadsheets tabulating the deposits made. The staff depended upon the auditor to determine the balance in accounts receivable, accounts payable, long-term debt, depreciation, and various others. As a result, many hours were spent to create financial statements that are supposed to be the responsibility of management.

Recommendation: Staff with accounting functions should receive adequate training.

Management Comment: Accounting software was purchased at the end of June 2011 and the vendor also provided hours of training. Management believes the accounting system will aid in the recording of transactions and the preparation of financial statements.

C. QUESTIONED COSTS

None.

WHEELWRIGHT UTILITY COMMISSION
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012

FINDINGS- FINANCIAL STATEMENT AUDIT
MATERIAL WEAKNESS

2011-1 Preparation of financial statements

Condition: Personnel responsible for the accounting and reporting function lacks the skill and knowledge to apply general accepted accounting principles in recording transactions or preparing a full set of financial statements including disclosures.

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: At the start of the audit, financial statements were not presented to the auditor. A ledger showing disbursements from the checking account in their respective categories was presented along with monthly spreadsheets tabulating the deposits made. The staff depended upon the auditor to determine the balance in accounts receivable, accounts payable, long-term debt, depreciation, and various others. As a result, many hours were spent to create financial statements that are supposed to be the responsibility of management.

Recommendation: Staff with accounting functions should receive adequate training.

Management Comment: Accounting software was purchased at the end of June 2011 and the vendor also provided hours of training. Management believes the accounting system will aid in the recording of transactions and the preparation of financial statements.

Subsequent review: This condition remains.

Jones, Pack & Associates

Certified Public Accountants

P.O. Box 788

Prestonsburg, Kentucky 41653

Tel. (606) 886-2756

Fax. (606) 886-1683

January 31, 2013

To the Commissioners
Wheelwright Utility Commission

In planning and performing our audit of the financial statements of Wheelwright Utility Commission for the year ended June 30, 2012, we considered the Wheelwright Utility Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. (We previously reported on the Wheelwright Utility Commission's internal control in our letter dated January 31, 2013.) (The Schedule of Findings and Questioned Costs in the audit report contain our communication of significant deficiencies or material weaknesses in the Wheelwright Utility Commission's internal control.) This letter does not affect our report dated January 31, 2013, on the financial statements of Wheelwright Utility Commission.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with the Wheelwright Utility Commission's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations. Our comments are summarized as follows:

A provision of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, was the reduction of the employee social security withholding rate from 6.2% to 4.2%. While testing payroll and its related expenses it was discovered the Wheelwright Utility Commission did not implement this payroll change and continued to withhold social security at the 6.2% rate. According to payroll reports for the third and fourth quarters of 2011 the employee portion of social security tax that should have been withheld was \$5,922. The actual amount that was withheld and paid in was \$8,743. Wheelwright Utility Commission should receive a refund of \$2,821 from the U.S. Treasury and it is recommended that this amount be reimbursed to the employees.

Management has yet to receive a refund for the overpayment of social security tax. Once the refund is received management has ensured that employees will be

reimbursed. Management has also changed how payroll is prepared. Payroll had been done using a manual system. The accounting software that was purchased in June 2011 contains a payroll function that now is being utilized in the preparation of payroll. The system is automatically updated for any changes.

We would like to thank management and the Wheelwright Utility Commission's team members for the cooperation and courtesy extended to us during our audit.

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

Jones, Pack + Associates

Prestonsburg, KY
January 31, 2013