

WHEELWRIGHT UTILITY COMMISSION

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

Pack and Associates

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Wheelwright Utility Commission
Wheelwright, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Wheelwright Utility Commission, component unit of the City of Wheelwright, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the 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 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 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Wheelwright Utility Commission as of June 30, 2013, 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 13 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.

In addition, management had omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2014, on our consideration of the Wheelwright Utility Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wheelwright Utility Commission's internal control over financial reporting and compliance.



Prestonsburg, Kentucky
May 8, 2014

WHEELWRIGHT UTILITY COMMISSION
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 June 30, 2013

ASSETS

CURRENT ASSETS

Cash	\$ 187,533
Accounts receivable	32,262
Prepaid expense	5,167
TOTAL CURRENT ASSETS	<u>224,962</u>

PROPERTY AND EQUIPMENT

Property, plant and equipment	3,215,127
Less: accumulated depreciation	<u>(1,849,975)</u>
Net property and equipment	1,365,152
Land	<u>5,000</u>
TOTAL PROPERTY AND EQUIPMENT	<u>1,370,152</u>

OTHER ASSETS

Restricted cash and cash equivalents	20,041
Construction in progress	<u>33,550</u>
TOTAL OTHER ASSETS	<u>53,591</u>

TOTAL ASSETS	<u>\$ 1,648,705</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 8,528
Payroll tax payable	1,063
Customer deposits	24,767
Current portion bonds payable	<u>23,016</u>
TOTAL CURRENT LIABILITIES	<u>57,374</u>

NONCURRENT LIABILITIES

Bonds payable	<u>195,573</u>
TOTAL NONCURRENT LIABILITIES	<u>195,573</u>
TOTAL LIABILITIES	<u>252,947</u>

NET ASSETS

Invested in capital assets, net of related debt	1,185,113
Restricted for debt service	20,006
Unrestricted	<u>190,639</u>
TOTAL NET ASSETS	<u>1,395,758</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,648,705</u>
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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, 2013

OPERATING REVENUES	
Charges for services	\$ 391,793
Collection and late fees	1,879
Tap fees	939
Other revenues	2,493
TOTAL OPERATING REVENUES	<u>397,104</u>
OPERATING EXPENSES	
Salaries and wages	211,047
Payroll taxes	16,859
Workers' compensation	8,876
Maintenance materials and supplies	12,209
Water operating expense	15,353
Sewer operating expense	23,527
Gas purchases	34,387
Lab testing fees	12,813
Contractual services	10,388
Insurance- General	11,776
Insurance- Health	52,885
Insurance- Life	806
Bond	320
Legal and professional services	16,800
Office expenses	5,903
Postage	3,340
Utilities	47,524
Telephone	5,543
Depreciation	90,457
Gasoline and diesel fuel	11,543
Service charges	47
Miscellaneous	939
TOTAL OPERATING EXPENSES	<u>593,342</u>
OPERATING INCOME (LOSS)	(196,238)
NONOPERATING REVENUE (EXPENSE)	
Grant revenue	33,550
Interest income	202
Interest expense	(18,764)
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>14,988</u>
CHANGE IN NET ASSETS	(181,250)
TOTAL NET ASSETS - BEGINNING	1,577,008
TOTAL NET ASSETS - ENDING	<u>\$ 1,395,758</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 452,916
Payments to suppliers	(293,512)
Payments to employees	(211,047)
Customer meter deposits	<u>4,635</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(47,008)</u>

CASH FLOW FROM INVESTING ACTIVITIES

Proceeds from grant	33,550
Construction in progress	(33,550)
Interest on cash and cash equivalents	<u>202</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>202</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(14,357)
Interest paid	<u>(18,764)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(33,121)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (79,927)

CASH AND CASH EQUIVALENTS:

Beginning of Year	<u>287,501</u>
End of Year	<u>\$ 207,574</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (196,238)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	90,457
Change in assets and liabilities:	
Account receivables	55,812
Other receivables	5,253
Prepaid expenses	913
Accounts and other payables	(7,840)
Customer deposits	<u>4,635</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (47,008)</u>

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

WHEELWRIGHT UTILITY COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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, 2013. 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, 2013

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, 2013
NOTE 3: FIXED ASSETS

A summary of fixed assets for the year ended June 30, 2013 follows:

	Cost	Accumulated Depreciation	Net Investments
Land	\$ 5,000	\$ 0	\$ 5,000
Utility Plants	2,941,015	1,662,877	1,278,138
Office Building & Improvements	117,212	43,956	73,256
Equipment & Vehicles	147,153	135,557	11,596
Office Equipment	9,747	7,585	2,162
Total	<u>\$ 3,220,127</u>	<u>\$ 1,849,975</u>	<u>\$ 1,370,152</u>

A summary of the changes in property and equipment for the year ended June 30, 2013 follows:

	Land	Utility Plants	Office Building	Equipment & Vehicles	Office Equipment	Total
Balance - July 1, 2012	\$ 5,000	\$ 1,351,958	\$ 77,150	\$ 22,177	\$ 4,324	\$ 1,460,609
Acquisitions/improvements	0	0	0	0	0	0
Retirements/disposals	0	0	0	0	0	0
Depreciation expense	0	(73,820)	(3,894)	(10,581)	(2,162)	(90,457)
Balance - June 30, 2013	<u>\$ 5,000</u>	<u>\$ 1,278,138</u>	<u>\$ 73,256</u>	<u>\$ 11,596</u>	<u>\$ 2,162</u>	<u>\$ 1,370,152</u>

Current year depreciation expense for 2013 is \$73,820 utility plants, \$3,894 for office building, \$10,581 for equipment and vehicles, and \$2,162 for office equipment which totals \$90,457 for the year.

NOTE 4: REVENUE BONDS PAYABLE

At June 30, 2013 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.

\$ 124,576

WHEELWRIGHT UTILITY COMMISSION
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2013

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. \$ 80,550

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. 13,463

Total	218,589
Less Current Portion	<u>(23,016)</u>
Total	<u>\$ 195,573</u>

Cash paid for interest on bonds payable during the current year was \$18,569.

Principal and interest payments on bonds are as follows:

	Principal	Interest	Total
2014	23,016	10,163	33,179
2015	10,023	9,249	19,272
2016	10,515	8,757	19,272
2017	11,033	8,239	19,272
2018	11,576	7,696	19,272
2019-2023	67,040	29,419	96,459
2024-2028	85,386	10,867	96,253

NOTE 5: RESTRICTED ASSET

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 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, 2013 the water system's reserve was \$20,006.

Wheelwright Utility Commission maintains a separate bank account for the receipt of grant revenues from Kentucky Infrastructure Authority. These funds are designated for improvements to the water plant. The balance of this account at June 30, 2013 was \$35.

WHEELWRIGHT UTILITY COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6: CONSTRUCTION IN PROGRESS

Construction in progress is stated at cost and includes direct costs of construction. During the year ended June 30, 2013 the Wheelwright Utility Commission incurred \$33,550 for engineering and administrative expenses related to renovations of the water plant. Construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the asset for its intended use are completed. Depreciation commences upon capitalization over the asset's useful life.

NOTE 7: COMPENSATED ABSENCES

Accrued compensated absences estimate has not been made for the year ended June 30, 2013. This cost is not expected to have a significant impact on the Company's financial statements.

NOTE 8: 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 9: SUBSEQUENT EVENTS

The Wheelwright Utility Commission has evaluated subsequent events through May 8, 2014.

WHEELWRIGHT UTILITY COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 PROPRIETARY FUND
 For the Year Ended June 30, 2013

	Budget	Actual Amounts	Variance from Budget
REVENUES			
Charges for services	\$ 459,996	\$ 391,793	\$ (68,203)
Collection and late fees	0	1,879	1,879
Tap fees	0	939	939
Other revenues	0	2,493	2,493
Grant revenues	33,650	33,550	(100)
Interest income	0	202	202
Miscellaneous income	65,759	0	(65,759)
TOTAL REVENUES	<u>559,405</u>	<u>430,856</u>	<u>(128,549)</u>
EXPENSES			
Salaries and payroll taxes	228,224	227,906	318
Workers' compensation	8,876	8,876	0
Fuel and maintenance	25,134	23,752	1,382
Water operating expense	35,343	15,353	19,990
Sewer operating expense	19,294	23,527	(4,233)
Gas purchases	31,784	34,387	(2,603)
Lab testing fees	13,768	12,813	955
Contractual services	10,488	10,388	100
Insurance- General	12,300	12,096	204
Insurance- Life & Health	55,910	53,691	2,219
Legal and professional services	16,800	16,800	0
Office expenses	6,762	5,903	859
Postage	2,856	3,340	(484)
Utilities	44,490	47,524	(3,034)
Telephone	5,183	5,543	(360)
Uniforms	534	0	534
Depreciation	0	90,457	(90,457)
Service charges	0	47	(47)
Miscellaneous	0	939	(939)
Interest	18,764	18,764	0
TOTAL EXPENSES	<u>536,510</u>	<u>612,106</u>	<u>(75,596)</u>
TOTAL REVENUE OVER EXPENSES	<u>\$ 22,895</u>	<u>\$ (181,250)</u>	<u>\$ (204,145)</u>

See accompanying note to required supplementary information.

WHEELWRIGHT UTILITY COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

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.

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

To the Commissioners
Wheelwright Utility Commission
Wheelwright, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Wheelwright Utility Commission, component unit of the City of Wheelwright, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which comprise Wheelwright Utility Commission's basic financial statements and have issued our report thereon dated May 8, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2013-1]

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wheelwright Utility Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that 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 questioned costs. Wheelwright Utility Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Pack & Associates

Prestonsburg, Kentucky
May 8, 2014

**WHEELWRIGHT UTILITY COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

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**

2013-1 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: Financial statements generated by accounting software were presented to the auditor. Upon close examination it was realized that several material accounts were absent from the balance sheet such as accounts receivable, fixed assets, and long-term debt. It appears that neither these accounts nor their respective beginning balances had been set up in the accounting system when it was acquired. Also during the audit it was discovered that two bank accounts opened during the year were not accounted for in the financial statements. It was determined that these financial statements were incomplete and inaccurate. A large number of adjustments were made in order to correct these misstatements.

Recommendation: Staff with accounting functions should receive adequate training. Staff should review the audit report and record June 30, 2013 ending balances in the accounting program.

Management Comment: Management believes additional training of the accounting system and better understanding of accounting principles 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, 2013**

**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.

Subsequent review: This condition remains. Staff is dependent on accounting software to prepare financial statements. Little familiarity with generally accepted accounting principles causes misstatements in the financial statements to remain undetected.