

WHEELWRIGHT UTILITY COMMISSION
REPORT OF AUDIT OF FINANCIAL STATEMENTS
AND SUPPORTING DATA
YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Wheelwright Utility Commission
Wheelwright, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Wheelwright Utility Commission , as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Wheelwright Utility Commission 's basic financial statement 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement are free from material misstatement.

An audit involves performing procedure to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure 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 presentations 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, I 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.

I believe that the evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Wheelwright Utility Commission, as of June 30, 2020, and the respective changes in financial position and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements of the Wheelwright Utility Commission for the year ended June 30, 2019 are being presented for comparison purposes only. They were audited by Pack and Associates dated November 18, 2019 in which an Unmodified Opinion was expressed on those financial statements.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. I 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 inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

Management has elected to omit the Management 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. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Governmental Auditing Standards

In accordance with Governmental Auditing Standards, I have also issued my report dated April 10, 2021, on my consideration of Wheelwright Utility Commission's internal control over financial reporting and on 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering Wheelwright Utility Commission's internal control over financial reporting and compliance.



WHEELWRIGHT UTILITY COMMISSION
STATEMENT OF NET POSITION
June 30, 2020
(with prior year data for comparison purposes only)

	<u>6/30/2020</u>	<u>6/30/2019</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 309,027	\$ 194,057
Accounts Receivable (Net of Allowance for Delinquencies of \$17,053 in 2020 and \$0 in 2019)	43,396	39,504
Prepaid Expense	<u>-</u>	<u>13,758</u>
Total Current Assets	352,423	247,319
Noncurrent Assets		
Restricted Cash	316,447	310,526
Capital Assets:		
Land	5,000	5,000
Plumbing and Distribution System	3,121,448	3,101,848
Office Building	87,212	87,212
Transportation Equipment	191,523	191,523
Furniture, Fixtures and Equipment	11,047	11,047
Construction in Progress	<u>634,397</u>	<u>584,397</u>
Total Capital Assets	4,050,627	3,981,027
Less: Accumulated Depreciation	<u>(2,458,194)</u>	<u>(2,356,942)</u>
Net Capital Assets	1,592,433	1,624,085
Total Noncurrent Assets	1,908,880	1,934,611
Total Assets	\$ <u>2,261,303</u>	\$ <u>2,181,930</u>

See accompanying notes to the basic financial statements

WHEELWRIGHT UTILITY COMMISSION
STATEMENT OF NET POSITION
6/30/2020
(with prior year data for comparison purposes only)

	<u>6/30/2020</u>	<u>6/30/2019</u>
Liabilities		
Current Liabilities		
Accounts Payable	\$ 11,202	\$ 10,137
Payroll taxes	966	1,004
Accrued Sick and Vacation pay	22,367	
Customer Deposits	58,850	47,571
Settlement Payable		2,000
Accrued Interest Payable	1,410	7,858
Current Portion of Long Term Debt	<u>15,000</u>	<u>15,000</u>
Total Current Liabilities	109,795	83,570
Noncurrent Liabilities		
Long Term Debt less current portion	<u>445,000</u>	<u>460,000</u>
Total Long Term Liabilities	445,000	460,000
Total Liabilities	<u>554,795</u>	<u>543,570</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	1,132,433	1,149,085
Restricted for Capital Projects	-	32,679
Restricted for Debt Service	60,104	49,399
Restricted for Deposits	58,850	47,571
Unrestricted	<u>455,121</u>	<u>359,626</u>
Total Net Position	<u>\$ 1,706,508</u>	<u>\$ 1,638,360</u>

See accompanying notes to the basic financial statements

WHEELWRIGHT UTILITY COMMISSION
STATEMENT OF REVENUE EXPENDITURE AND CHANGES IN NET POSITION
For the Years Ended June 30, 2020 and 2019
(with prior data for comparison purposes only)

	For the Year Ended June 30	
	2020	2019
Operating Revenue:		
Charges for Services	\$ 614,610	\$ 510,227
Collection and Late Fees		405
Other Revenue		205
Other		475
Total Operating Revenue	614,610	511,312
Operating Expenses:		
Water Treatment Supplies	39,302	28,070
Depreciation and Amortization	101,252	98,452
Sewer Operating Expenses	47,707	51,303
Gasoline and Fuel	6,856	7,009
Legal and Professional	5,200	12,000
Office Expense	16,580	6,511
Contracted Services	31,069	39,975
Miscellaneous	1,286	818
Insurance	13,805	8,935
Contractual Services	19,684	19,088
Payroll and Other Taxes	13,720	14,023
Utilities	41,269	50,137
Wages	192,465	172,609
Employee Benefits	1,260	5,356
Maintenance Materials and Supplies	2,764	2,199
Total Operating Expense	534,219	516,485
Operating Income (Loss)	80,391	(5,173)
Non-Operating Revenue (Expense)		
Interest Income		20
Interest Expense	(10,469)	(24,682)
Cessation payments	-	84,000
Administrative and Trustee Fees for Bond	(1,774)	(1,659)
Dividends	-	5,672
Gain (Loss) on Sale of Assets	-	-
Total Non-Operating Revenue (Expenses)	(12,243)	63,351
Income (Loss) Before Capital Contributions	68,148	58,178
Capital Contributions		
Grant Income	-	-
Capital Contributions	-	-
Total Capital Contributions	-	-
Change in Net Position	68,148	58,178
Total Net Position, Beginning	1,638,360	1,580,182
Total Position Assets, Ending	1,706,508	1,638,360

See accompanying notes to the basic financial statements

WHEELWRIGHT UTILITY COMMISSION
Statement of Cash Flows
For the Years Ended June 30, 2020 and 2019
(with prior year data for comparison purposes only)

	For the Year Ended June 30	
	2020	2019
Cash flows from operating activity		
Cash received from customers	\$ 610,718	\$ 507,420
Cash payments to suppliers for goods and services	(219,185)	(298,272)
Cash payment to employees	(185,078)	(185,658)
Cash received from deposits	11,279	3,661
Net cash provided by operating activities	217,734	27,151
Cash flows from noncapital financing activities		
Cessation payments received	-	84,000
Net Cash Provided (Used) By Noncapital Financing Activities	-	84,000
Cash flows from capital and related financing activities		
(Increase) decrease in Restricted Assets Accounts		-
Loan Proceeds		-
Interest Paid	(10,469)	(24,807)
Principle Payment on Long term Debt	(15,000)	(161,934)
Asministrative and Trust Fees for bond	(1,774)	(1,675)
Acquistion and construction of capital assets	(19,600)	(60,000)
Decrease (Increase) in Consturction in progress	(50,000)	
Proceeds from insurance recovery	-	
Proceeds on Sale of Assets	-	
Net cash provided by (used for) capital and related financing activities	(96,843)	(248,416)
Cash flows from investing activities		
Proceeds from earnings on investments		5,692
Net cash provided by (used for) investing activities	-	5,692
Total increase (decrease) in cash and cash equivalents	120,891	(131,573)
Cash and cash equivalents at beginning of year	504,583	636,156
Cash and cash equivalents at end of year (Note 2)	\$ 625,474	\$ 504,583
<u>Reconciliation of Cash</u>		
Cash	309,027	194,057
Restricted Cash	316,447	310,526
<u>CASH AT END OF THE YEAR</u>	\$ 625,474	\$ 504,583

See accompanying notes to the basic financial statements

WHEELWRIGHT UTILITY COMMISSION
Statement of Cash Flows
For the Years Ended June 30, 2020 and 2019
(with prior year data for comparison purposes only)

	For the Year Ended June 30	
	2020	2019
Reconciliation of Income from operations to net cash provided by operated activities:		
Income from operations	\$ 80,391	\$ (5,173)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Operating Activities:		
Depreciation and amortization	101,252	98,452
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	18,475	(28,631)
Decrease (increase) in prepaid expense	13,758	(13,758)
Increase (decrease) in accounts payable and other payable	(973)	(27,400)
Increase (decrease) in customer deposits	11,279	3,661
Increase (decrease) in accrued interest	(6,448)	-
Net cash provided by operating activities	\$ 217,734	\$ 27,151

WHEELWRIGHT UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1 – Summary of Significant Accounting Policies

The significant policies of the Commission are as follows:

Organization and Business Activities – The Wheelwright Utility Commission (the “Commission”) is a governmental organization with its primary activities consisting of sale of water and sewer and gas services to approximately 350 homes and businesses in and around Wheelwright, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes to operate a water distribution system.

Basis of Accounting – The accounting and reporting policies of the Wheelwright Utility Commission relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable for local governments. Generally accepted accounting principles for local Governments includes those principles presented by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publications entitled Audits of State and Local Governments and by the Financial Accounting Standards Board (when applicable). As allowed in section PBO of GASB’s Codification of Governmental Accounting and Financial Reporting Standards the Commission has elected not to apply Financial Accounting Board Statements and Interpretations, Accounting Research Bulletins of the Committee of Accounting Principle Board Opinions, and Accounting Research Bulletins of the Committee of Accounting and Procedures issued after November 30, 1969. The Commission first applies restricted resources when an expense is incurred for restricted and unrestricted purposes. The more significant policies of the Commission are described below.

Basis of Presentation

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the Commission uses Proprietary Fund financial statement reporting including a Statement of Net Assets, Statements of Revenues, Expenditures and Changes in Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets includes the Commission’s assets and liabilities and provides Information about the nature and amounts of investments in resources (assets) and the obligations to the Commission’s creditors (liabilities). The difference between the assets and liabilities is shown as net assets. The statement also provides the basis of evaluating the capital structure of the Commission and assessing its liquidity and financial flexibility.

The statement of Revenue, Expenditure and Changes in Net Assets accounts for the current year’s revenue and expense. This statement measures the success of the Commission’s operations over the past year and determines whether the Commission has recovered its cost through user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash disbursements, and changes in cash resulting from operations and investments during the reporting period.

WHEELWRIGHT UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

The Notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

The Commission's basic financial statements include the accounts of all Commission operations. The Commission's criteria for including organizations as component units with the Commission's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Standards includes whether:

- The Organization is legally separate (can sue and be sued in their own name).
- The Commission holds the corporate powers of the organization.
- The Commission appoints voting majority of the organization.
- The Organization has the potential to impose a financial benefit/burden on the Association.
- There is fiscal dependency by the organization on the Commission.

Component Unit Presentation – Based on the aforementioned criteria the Commission has no component units.

Cash - For the purpose of the statement of cash flows, the Commission considers cash to include cash on hand and unrestricted cash in bank.

Inventory – Inventory consists primarily of pipes and supplies to be used for future expansion and repairs of existing lines. Inventory is valued at the lower of cost or market under first – in, first- out (FIFO) method.

Allowance for Doubtful Accounts – The Commission utilizes the allowance method for accounting for bad debts. This method is based on historical experience and evaluation of outstanding accounts at year end. The Allowance for Doubtful as of June 30, 2020 and 2019 is \$17,053 and \$0.

Operating and Non – Operating Revenue – Only water and solid waste revenue and related service charges and penalties are considered as operating revenue.

Applying Resources – Restricted resources are applied first for expenses incurred for which both restricted and unrestricted net assets are available.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results can differ from those estimates.

WHEELWRIGHT UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 – Restricted Cash Accounts

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 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, 2020 the water system's reserve was \$20,057.

The Kentucky Bond Corporation First Series 2014 lease 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, 2020 the unspent portion was \$256,373.

b) Debt service reserve fund. Proceeds of \$22,717 were set aside for principal and interest payments due in February , 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, 2020, the balance in the sinking fund was \$17,300.

Note 3 – Prepaid Items

Prepaid items include prepayment of service contracts, software rights and insurance. These amounts represent payments made in the current year for which services will be provided in the subsequent fiscal year.

Note 4 – Deposits with Financial Institutions

As of June 30, 2020, the company had amounts of \$625,474 on deposit with financial institutions with \$250,000 insured by FDIC and \$375,474 insured by pledged US Treasury Bills.

As of June 30, 2019, the company had amounts of \$504,583 on deposit with financial institutions with \$250,000 insured by FDIC and \$290,474 insured by pledged US Treasury Bills.

WHEELWRIGHT UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 5 – Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for the potential recognition or disclosure through April 10, 2021, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively impact Net Assets. Other financial impact could occur however such potential impact is unknown at this time.

On November 17, 2020 The Commission received letter from Energy and Environment Cabinet Department for Natural Resources granting \$2,050,000 AML Economic and Community Development Pilot Program to construct a new 432,000 GPD membrane filtration process water treatment plant.

Note 6 – Risk Management

Significant losses covered by commercial insurance with premiums (based on industry information adjusted for any Commission Claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year or the prior years.

Note 7 – Concentrations of Credit Risk

Concentrations of credit risk are limited due to the large number of customers comprising the Commission's customer base.

Note 8 - Property and Equipment

Capital assets, which include property, plant, equipment and vehicles, are reported in the applicable governmental column in the government – wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight – line method. Estimated useful lives are as follows.

Depreciation has been calculated on each class of depreciable property using the straight – line method. Estimated useful lives are as follows:

Buildings	20 – 50 Years
Improvements	20 – 50 Years
Vehicles	5 – 10 Years
Equipment	7 – 20 Years

WHEELWRIGHT UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 8 - Property and Equipment (Continued)

The following summarizes the changes to capital assets for 2020:

	Balance 07/01/19	Additions	Disposals	Balance 06/30/20
Land	\$ 5,000	\$ 0	\$ -0-	\$ 5,000
Utility Plant	3,101,848	0	0	3,101,848
Equipment and Vehicles	191,523	7,500	0	199,023
Office Equipment	11,047	0	0	11,047
Office Building and Improvements	87,212	12,100	-0-	99,312
Construction in Progress	<u>584,397</u>	<u>50,000</u>	<u>0-</u>	<u>634,397</u>
TOTAL ASSETS	\$ 3,981,027	\$ 69,600	\$ 0	\$ 4,050,627
Less				
Accumulated Depreciation				
Utility Plant	2,122,906	88,927	0	2,211,833
Office Building and Improvements	58,550	3,951	0	62,501
Equipment and Vehicles	165,070	8,151	0	173,221
Office Equipment	<u>10,416</u>	<u>223</u>	<u>-0-</u>	<u>10,639</u>
Total Accumulated	2,356,942	101,252	0	2,458,194
Balance – June 30	<u>\$ 1,624,085</u>			<u>\$ 1,592,433</u>

The following summarizes the changes to capital assets for 2019:

	Balance 07/01/18	Additions	Disposals	Balance 06/30/19
Land	\$ 5,000	\$ 0	\$ -0-	\$ 5,000
Utility Plant	3,101,848	0	0	3,101,848
Equipment and Vehicles	191,523	0	0	191,523
Office Equipment	11,047	0	0	11,047
Office Building and Improvements	87,212	0	-0-	87,212
Construction in Progress	<u>584,397</u>	<u>0</u>	<u>0-</u>	<u>584,397</u>
TOTAL ASSETS	\$ 3,981,027	\$ 0	\$ 0	\$ 3,981,027
Less				
Accumulated Depreciation				
Utility Plant	2,034,901	88,005	0	2,122,906
Office Building and Improvements	55,406	3,144	0	58,550
Equipment and Vehicles	157,990	7,080	0	165,070
Office Equipment	<u>10,193</u>	<u>223</u>	<u>-0-</u>	<u>10,416</u>
Total Accumulated	2,258,490	98,452	0	2,356,942
Balance – June 30	<u>\$ 1,722,537</u>			<u>\$ 1,624,085</u>

WHEELWRIGHT UTILITY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 –Bonds Payable

All bonds are secured by the Water Distributions system and related assets unless stated as non – secured:

Kentucky Bond Corporation First Series 2014

The City of Wheelwright entered into a \$550,000 lease agreement with the Kentucky Bond Corporation on February 28, 2014 to finance upgrades and improvements to the raw water intake system and the water treatment plant. The bond carries interest rates of 4% - 8% and matures on February 1, 2041. Interest is payable semiannually on August 1 and February 1 and principal is due February 1.

Changes in outstanding debt

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
KBC	\$ 475,000	\$ 0	\$ 15,000	\$ 460,000	\$15,000

Note

Following are maturities of long – term debt as of June 30, 2020:

<u>June 30</u>	<u>Fees</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,600	\$ 15,000	\$ 16,923
2022	1,563	15,000	16,585
2023	1,525	15,000	16,210
2024	1,487	15,000	15,760
2025	1,450	15,000	15,310
2026-2030	6,564	100,000	67,780
2031-2035	5,275	115,000	48,400
2036-2040	3,675	150,000	22,800
2041-2045	500	20,000	800
Total	<u>\$ 23,639</u>	<u>\$ 460,000</u>	<u>\$ 220,568</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**

April 10, 2021

To the Board of Commissioners
Wheelwright Utility Commission
Wheelwright, Kentucky

I 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 governmental activities, the business-type activities of the Wheelwright Utility Commission, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Wheelwright Utility Commission's basic financial statements and have issued my report thereon dated April 10, 2021.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my 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, I do not express an opinion on the effectiveness of the Wheelwright Utility Commission internal control.

My 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 were not identified. However, as described below, I identified certain deficiencies in internal control that I consider to be material weakness and significant deficiencies.

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. I consider the deficiencies described below to be material weakness.

- 1.) Commission records are not being maintained properly on the modified accrual basis of accounting.
- 2.) Capital Assets should be recorded and maintained with proprietary fund accounting.

Views of responsible officials:

The Commission will work on improving the accounting system to contain them

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

However, I did identify certain deficiencies in internal control, described below that I consider to be significant deficiencies.

1. Because of the size of the Wheelwright Utility Commission and the small number of persons it employs, it is not possible from a practical perspective, to achieve segregation of duties in many areas. As a result, a highly structured internal control system cannot exist. Management and the Commission should remain aware of the integrity of the employees and the need to provide appropriate supervision.
2. The staff is competent, capable and performs daily and monthly functions well.

Views of responsible officials:

While the Commission Agrees with this, they feel it would not be cost beneficial for them to add more staff.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wheelwright Utility Commission financial statements are free from material misstatement, I 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 my tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

Wheelwright Utility Commission Response to Findings

Wheelwright Utility Commission Response to findings identified previously were not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, I 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.

Richard F. Paulmann, CPA, LLC.

