

CITY OF WELLINGTON
STATE OF KENTUCKY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

CITY OF WELLINGTON
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McIntyre & Wooldridge, PSC
Certified Public Accountants

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Louisville, Kentucky 40220
502/493-9373 or 493-9374 (fax)

Independent Auditor's Report

The Honorable Mayor and
Commissioners of the
City of Wellington, Kentucky

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Wellington, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City'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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 governmental activities and each major fund of the City of Wellington, Kentucky at June 30, 2019, and the respective changes in financial position 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 management's budgetary comparison information on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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 October 17, 2019 on our consideration of the City of Wellington, Kentucky's internal control over financial reporting and on our test 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 result 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

McIntyre & Wooldridge, PSC
McIntyre & Wooldridge, PSC
Louisville, Kentucky
October 17, 2019

BASIC FINANCIAL STATEMENTS

CITY OF WELLINGTON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2019

ASSETS

Current Assets

| | |
|------------------------------------|---------------|
| Cash and cash equivalents | \$ 309,556 |
| Insurance premium taxes receivable | 14,891 |
| Short term investments | <u>41,956</u> |

Total Current Assets 366,403

Other Assets

| | |
|---|----------------|
| Cash and cash equivalents - restricted | 35,089 |
| Municipal aid receivable | 936 |
| Investments | 154,621 |
| Capital assets net of accumulated depreciation of \$214,453 | <u>196,675</u> |

Total Other Assets 387,321

TOTAL ASSETS 753,724

LIABILITIES

Current Liabilities

| | |
|------------------|--------------|
| Accounts payable | <u>2,152</u> |
|------------------|--------------|

TOTAL LIABILITIES 2,152

NET POSITION

| | |
|----------------------------------|----------------|
| Net investment in capital assets | 196,675 |
| Restricted for roads | 36,025 |
| Unrestricted | <u>518,872</u> |

TOTAL NET POSITION \$ 751,572

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

**CITY OF WELLINGTON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2019**

| | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | <u>NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES</u> |
|---|---------------------|---------------------------------|-----------------------------|--|
| | | <u>CHARGES FOR SERVICES</u> | <u>OPERATING GRANTS</u> | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General and administrative | \$ (33,953) | \$ 1,900 | \$ - | \$ (32,053) |
| Public safety: | | | | |
| Fire protection | (37,049) | | | (37,049) |
| Police protection | (15,320) | | 4,444 | (10,876) |
| Public service: | | | | |
| Sanitation | (40,091) | | | (40,091) |
| Roads/Public works | <u>(40,086)</u> | <u>-</u> | <u>11,547</u> | <u>(28,539)</u> |
| Total Governmental Activities | <u>\$ (166,499)</u> | <u>\$ 1,900</u> | <u>\$ 15,991</u> | <u>(148,608)</u> |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | | | | 99,826 |
| Insurance premium taxes- current year | | | | 53,001 |
| Franchise fees | | | | 3,400 |
| Investment income | | | | 5,841 |
| Miscellaneous revenues | | | | <u>919</u> |
| Total General Revenues and Special Item | | | | <u>162,987</u> |
| CHANGE IN NET POSITION | | | | 14,379 |
| NET POSITION, Beginning of year | | | | <u>737,193</u> |
| NET POSITION, End of year | | | | <u>\$ 751,572</u> |

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

CITY OF WELLINGTON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS AND
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2019

| | GENERAL FUND | MUNICIPAL AID ROAD FUND | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|-------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 309,556 | \$ 35,089 | \$ 344,645 |
| Insurance premium taxes receivable | 14,891 | | 14,891 |
| Municipal aid receivable | | 936 | 936 |
| Short-term investments | 41,956 | | 41,956 |
| Investments | 154,621 | - | 154,621 |
| TOTAL ASSETS | \$ 521,024 | \$ 36,025 | \$ 557,049 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 2,152 | \$ - | \$ 2,152 |
| TOTAL LIABILITIES | 2,152 | - | 2,152 |
| FUND BALANCES | | | |
| Restricted | | 36,025 | 36,025 |
| Unassigned | 518,872 | - | 518,872 |
| TOTAL FUND BALANCES | 518,872 | 36,025 | 554,897 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 521,024 | \$ 36,025 | \$ 557,049 |
| TOTAL GOVERNMENTAL FUND BALANCES | | | \$ 554,897 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. This is the amount by which capital outlays exceeded depreciation. | | | 196,675 |
| NET POSITION | | | \$ 751,572 |

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

**CITY OF WELLINGTON , KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>GENERAL FUND</u> | <u>MUNICIPAL AID ROAD FUND</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|------------------------------------|-------------------------|--|---|
| REVENUES | | | |
| Property taxes | \$ 99,826 | \$ - | \$ 99,826 |
| Insurance premium taxes | 53,001 | | 53,001 |
| Franchise fees | 3,400 | | 3,400 |
| Police protection grant | 4,444 | | 4,444 |
| Municipal road aid | | 11,547 | 11,547 |
| Rental permit fees | 1,900 | | 1,900 |
| Investment income | 5,303 | 538 | 5,841 |
| Miscellaneous revenues | 919 | | 919 |
| | <hr/> | <hr/> | <hr/> |
| Total Revenues | 168,793 | 12,085 | 180,878 |
| EXPENDITURES | | | |
| General and administrative | 33,953 | | 33,953 |
| Public safety: | | | |
| Fire protection | 37,049 | | 37,049 |
| Police protection | 15,320 | | 15,320 |
| Public service: | | | |
| Sanitation | 40,091 | | 40,091 |
| Roads/Public works | 12,627 | | 12,627 |
| Capital outlays | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 139,040 | - | 139,040 |
| NET CHANGE IN FUND BALANCES | | | |
| | 29,753 | 12,085 | 41,838 |
| FUND BALANCES, Beginning of year | <hr/> 489,119 | <hr/> 23,940 | <hr/> 513,059 |
| FUND BALANCES, End of year | <hr/> <u>\$ 518,872</u> | <hr/> <u>\$ 36,025</u> | <hr/> <u>\$ 554,897</u> |

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

**CITY OF WELLINGTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30,2019**

Net change in fund balances - total governmental funds \$ 41,838

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
are allocated over their estimated useful lives as depreciation
expense:

This is the amount by which depreciation exceeded
capital outlays in the current period (27,459)

Change in net position as reflected on the Statement of Activities \$ 14,379

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

CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Wellington, Kentucky (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City operates under a Commission-Mayor form of government and provides the following services as authorized by its charter: general government, public service, public safety and sanitation.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

These financial statements follow the provisions of GASB Statement No. 34 (as amended) - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. However, the City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of the basic financial statements.

Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Currently the city does not engage in any business-type activities.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure.

Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. That portion of the debt is included in the same net position component as the unspent proceeds.

CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The City’s policy is to use restricted assets first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

The Statement of Net Position and Statement of Activities reflect financial information of the City as a whole. These statements include the primary government and its component units if applicable. Government-wide statements distinguish between governmental and business-type activities. Currently, the City does not engage in any business-type, inter-governmental revenues, and other non-exchange revenues type activities.

The statement of activities presents direct expenses, which are clearly identifiable with a specific function or segment. Program revenues include 1) grants from the State of Kentucky for public safety/police protection 2) Kentucky Municipal Aid grants for public safety/road improvements, repairs and maintenance. Taxes and other revenue items are reported as general revenues.

Fund Financial Statements

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, receipts and expenditures for expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds of the City are all governmental fund types described as follows:

- **General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Municipal Aid Road Fund** – The Municipal Aid Road Fund is restricted to road construction, repairs and maintenance.

**CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The City considers all of its funds to be major funds.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues are recognized in the year for which they are due. This method differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds. Expenses are classified by function.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each governmental program. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting for governmental fund types.

The modified accrual basis of accounting recognizes revenues when they are “measurable and available”. Measurable means the amount can be determined. Available means collectable within the period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, insurance premium taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the city.

Budgetary Accounting

The budget information reflected in the financial statements is the annual budget adopted by the City in accordance with the provisions of Kentucky law. It is presented to the

**CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Commission in the form of an ordinance and may be amended by subsequent ordinance or by municipal order. The City's policy is to use restricted assets according to budgeted amounts.

Budgetary Comparison Schedule

As required by generally accepted government accounting principles, the budget comparison schedules have been prepared in the same form as the legally adopted budget; therefore its form and content varies somewhat from the Statement of Revenues, Expenditures and Changes in Fund Balances on page 6. The City prepares its annual budget on the modified accrual basis of accounting which is consistent with the funds financial statements.

Component Units

There are no governmental component units incorporated in the basic government-wide financial statements. A *component unit* is a legally separate entity that is included in the primary government's financial reporting entity using the criteria of the Government Standards Accounting Board.

Cash and Cash Equivalents, Short-term and Other Investments

Cash and cash equivalents include amounts deposited in checking and sweep accounts and a money market savings account. For purposes of these financial statements, the City considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased and are readily convertible to cash.

Short term investments consist of certificates of deposit with maturities within one year of June, 30, 2019. Investments consist of certificates of deposit with maturities beyond one year of June 30, 2019.

Generally, the City's investing activities are managed under the custody of the City Treasurer. Investing is performed in accordance with investment policies complying with state statutes and the City Charter. City funds may be invested in: (1) obligations of the United States and its agencies and instrumentalities, (2) obligations of any corporation of the United States government, (3) certificates of deposits in institutions insured by the Federal Deposit Insurance Corporation, and (4) bonds or certificates of indebtedness of the Commonwealth of Kentucky.

The City maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). However, at June 30, 2019, the City had bank accounts at one of its banks with deposit balances of \$504,702 which were only insured by FDIC for \$250,000, leaving \$254,702 of uninsured and uncollateralized funds.

**CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Cash and cash equivalents, short-term investments are further described in Notes 2, 3, and 4.

Property Taxes and Property Tax Receivable

Property taxes are levied as of August 15, 2018 on the assessed value listed as of January 1, 2018 for all real and personal property located in the City. The tax assessed for the year ended June 30, 2019 to finance general fund operations was based on \$.1824 per \$100 of assessed valuation for real and personal property. The total assessed value of the tax roll on January 1, 2018, upon which the levy for 2019 fiscal year was based, was \$54,834,530 resulting in gross taxes of \$100,018. The gross tax (or face value) is due if paid by December 31, 2018 and a 10% penalty is assessed if paid after December 31, 2018. On tax bills paid after January 31, 2019, a 12% penalty is due. If paid after February 28, 2019, a penalty of 12% and interest of 1.50% per month is charged thereafter plus a lien filing fee of \$100.

Insurance Premium Taxes

An insurance premium tax is imposed on insurance premiums collected by insurance companies on policies within the City limits. Insurance premium taxes are assessed at a tax rate of 5%.

Capital Assets

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental fund statements and capitalized (recorded and accounted for) in the government-wide statements of net position at cost.

Effective for the year ended June 30, 2004, the City implemented GASB Statement Number 34. One of the requirements of GASB 34 is to capitalize and depreciate infrastructure expenditures and other capital assets. The City elected to implement this standard prospectively, as it related to the capitalization of infrastructure and land expenditures. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost.

Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The minimum capitalization threshold is any individual item with a total cost greater than \$500.

The estimated useful lives of various classes of capital assets are as follow:

| | |
|--------------------------------|----------|
| Street lighting | 15 years |
| Road and sidewalk improvements | 15 years |
| Equipment | 5 years |

Impairment of Capital Assets

In accordance with GASB Statement No. 42 “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” the City’s management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were identified or recognized for the year ended June 30, 2019.

Net Position/Fund Equity

Net position is the difference between assets and liabilities. Net positions are restricted when constraints are placed on asset use either externally imposed by creditors, grantors or contributors or regulations of governments, or imposed by law.

The Government Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes for governmental fund financial statements.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

1. *Nonspendable*, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

**CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

3. *Committed* fund balance classification includes amounts that can be used only for
4. the specific purposes determined by a formal action of the City Commission,
5. *Assigned* fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and classifications.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental funds are classified by character and function. In the fund financial statements governmental funds report expenditures of financial resources.

Fair Value of Financial Investments

The carrying amount of cash, receivables, investments and payables approximates their fair market values as of June 30, 2019.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires City's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following accounts with Republic Bank:

General Fund

| | |
|--|----------------|
| Operating checking/sweep account yielding .02% per annum | \$ 80,265 |
| Money market account yielding .35% per annum | <u>229,291</u> |
| Total | 309,556 |

Municipal Aid Fund

| | |
|---|---------------|
| Checking/sweep account yielding 1.71% per annum | <u>35,089</u> |
|---|---------------|

| | |
|---------------------------------|------------------|
| Total Cash and Cash Equivalents | <u>\$344,645</u> |
|---------------------------------|------------------|

**CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 3-SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

General Fund

| | |
|---|-----------|
| One year certificate of deposit which matures on February 28, 2020 yielding 2.00% per annum | \$ 41,956 |
|---|-----------|

NOTE 4-INVESTMENTS

| | |
|---|------------|
| Three year certificate of deposit which matures on September 28, 2020, yielding 1.98% per annum | \$ 154,621 |
|---|------------|

NOTE 5- CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2019 consists of the following:

| | <u>Balance</u> <u>6-30-18</u> | <u>Additions</u> | <u>Balance</u> <u>6-30-19</u> |
|----------------------------------|----------------------------------|-------------------------|----------------------------------|
| Street lighting | \$ 48,910 | | \$ 48,910 |
| Sidewalk improvements | 191,366 | | 191,366 |
| Road improvements | 144,337 | | 144,337 |
| Street signs and posts | 25,030 | | 25,030 |
| Equipment | <u>1,485</u> | <u>-</u> | <u>1,485</u> |
| | 411,128 | | 411,128 |
| Accumulated depreciation | <u>186,994</u> | <u>27,459</u> | <u>214,453</u> |
| Total Capital Assets, Net | <u>\$224,134</u> | <u>\$ 27,459</u> | <u>\$196,675</u> |

The cost and related accumulated depreciation for each capital asset category at June 30, 2019 is as follows:

| | <u>Cost</u> | <u>Accumulated</u> <u>Depreciation</u> | <u>Net</u> |
|------------------------|-------------------------|---|-------------------------|
| Street lighting | \$ 48,910 | \$ 18,769 | \$ 30,141 |
| Sidewalk improvements | 191,366 | 76,417 | 114,949 |
| Road improvements | 144,337 | 110,653 | 33,684 |
| Street signs and posts | 25,030 | 7,129 | 17,901 |
| Equipment | <u>1,485</u> | <u>1,485</u> | <u>-</u> |
| Totals | <u>\$411,128</u> | <u>\$ 214,453</u> | <u>\$196,675</u> |

**CITY OF WELLINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 5- CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Depreciation was charged to function on the Statement of Activities as follows:

| | |
|--------------------|----------|
| Roads/Public works | \$27,459 |
|--------------------|----------|

NOTE 6 – MANAGEMENT RISK

The City is subject to normal insurance risks as other cities of its size. The City carries general liability, worker’s compensation, errors and omissions and bond coverage. The City has not had any significant reduction in coverage in the past year.

NOTE 7 – COMMITMENTS

The City entered into a sanitation contract to provide waste removal and recycling services to its residents at a monthly cost of \$13 per household, with an average monthly total cost of \$3,341 through June 30, 2021.

The City has an annual contract with its lawn care provider from March to December of 2019 for a total contract amount of \$7,856.

The City has an agreement for police protection service requiring the city to pay \$40 per patrol hours. The City’s average patrol hours are thirty hours per month; consequently, the estimated annual cost is \$14, 400 for calendar year 2019.

NOTE 8- CONTINGENCIES

Presently, there is no known pending litigation nor any asserted legal claims against the City.

NOTE 9 – SUBSEQUENT EVENTS

City management has evaluated subsequent events through October 17, 2019, which is the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**CITY OF WELLINGTON, KENTUCKY
BUDGETARY COMPARISON SCHEDULES
FOR YEAR ENDED JUNE 30, 2019**

| | GENERAL FUND | | | |
|---|----------------------------|-------------------------|-------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE) |
| BEGINNING FUND BALANCE AT JUNE 30, 2018 | \$ 400,000 | \$ 400,000 | \$ 489,119 | \$ 89,119 |
| REVENUE | | | | |
| Assessments | 99,000 | 99,000 | 99,826 | 826 |
| Insurance premium tax | 48,000 | 50,000 | 53,001 | 3,001 |
| Miscellaneous revenue | 11,300 | 11,300 | 15,966 | 4,666 |
| Total Revenues | <u>158,300</u> | <u>160,300</u> | <u>168,793</u> | <u>8,493</u> |
| EXPENDITURES | | | | |
| Garbage and recycling | 40,100 | 40,150 | 40,091 | 59 |
| Fire protection | 37,000 | 37,100 | 37,049 | 51 |
| Police protection | 14,000 | 16,200 | 15,320 | 880 |
| General and administrative | 67,200 | 66,850 | 46,580 | 20,270 |
| Total Expenditures | <u>158,300</u> | <u>160,300</u> | <u>139,040</u> | <u>21,260</u> |
| SURPLUS | - | - | 29,753 | 29,753 |
| ENDING FUND BALANCE AT JUNE 30, 2019 | <u>\$ 400,000</u> | <u>\$ 400,000</u> | <u>\$ 518,872</u> | <u>\$ 118,872</u> |

| | MUNICIPAL ROAD AID FUND | | |
|--------------------------------------|--|------------------|---|
| | ORIGINAL AND FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE) |
| BEGINNING BALANCE AT JUNE 30, 2018 | \$ 23,000 | \$ 23,940 | \$ 940 |
| REVENUES | | | |
| Road fund revenue | 11,100 | 11,547 | 447 |
| Investment income | 100 | 538 | 438 |
| Total Revenues | <u>11,200</u> | <u>12,085</u> | <u>885</u> |
| EXPENDITURES | | | |
| Municipal road aid fund expenditures | - | - | - |
| SURPLUS (DEFICIT) | <u>11,200</u> | <u>12,085</u> | <u>885</u> |
| ENDING FUND BALANCE AT JUNE 30, 2019 | <u>\$ 34,200</u> | <u>\$ 36,025</u> | <u>\$ 1,825</u> |

REQUIRED SUPPLEMENTARY INFORMATION

McIntyre & Wooldridge, PSC
Certified Public Accountants

3103 Breckenridge Lane, Suite 3
Louisville, Kentucky 40220
502/493-9373 or 493-9374 (fax)

The Honorable Mayor and
Commissioners of the City
Of Wellington, Kentucky

**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***

We have audited the financial statements of the governmental activities and major funds as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the City of Wellington's (the City) basic financial statements and have issued our report thereon dated October 17, 2019. 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 of the financial statements, we considered the City'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item finding 2019-1 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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, as finding 2019-2.

The City of Wellington, Kentucky's response to the findings identified in our audit are described in the accompanying schedule of findings. The City'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.

McIntyre & Wooldridge, PSC

McIntyre & Wooldridge, PSC

Louisville, Kentucky

October 17, 2019

FINDING 2019-1-INTERNAL CONTROL

Finding type-Significant deficiency in internal control

Criteria/Condition/Cause: The City currently does not have a proper segregation of accounting duties as the City's Treasurer performs the accounting functions and the treasurer functions. However, as a mitigating factor, City policy requires dual signatures on all checks.

Recommendation: Under the circumstances, an oversight function is a crucial mitigating control in reducing the City's risk for potential misappropriation of assets and/or misstatement of financial statements. We recommend the City designate a City official, preferably with an accounting or financial background, to perform and specifically document the following oversight procedures on a checklist on a monthly basis:

- Agree the cash balances per bank statements to the bank balance reflected on the bank reconciliation and to general ledger for all bank accounts
- Agree the City book balance on the financial statements, treasurer's report and general ledger to the book balance reflected on the bank reconciliation
- Review the bank reconciling items (outstanding checks and deposits in transit) for propriety
- Investigate significant fluctuations in cash accounts during the month and document findings and explanations/resolutions
- Review bank transfers (by tracing bank accounts to/from reciprocal accounts) and unusual cash disbursements for propriety
- Judgmentally review check copies to verify bona fide expenditures

Each of the checklist procedures should be initialed/dated by oversight reviewer and be retained and attached to the treasurer's report and related bank statement and bank reconciliation. The oversight should be performed within 30 days of the City's receipt of the bank statement.

City Management's Response: Management agrees with the finding and will designate a Council member to perform and more specifically document the oversight procedures described and recommended by the auditor.

COMPLIANCE WITH LAWS AND REGULATIONS

FINDING 2019-2

At June 30, 2019 the City had four bank accounts with one of its banks which had deposit balances aggregating \$504,702, of which only \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and there was no collateralization agreement with bank to cover the excess funds, as is required by Kentucky law.

Recommendation-Finding 2019-2

We recommend the City obtain a collateralization agreement whereby the bank would pledge securities in the City's name to cover the uninsured excess.

City Management's Response: -Finding 2019-2

City management agrees with the auditor's finding and has already discussed the matter of obtaining the collateralization agreement with its bank.