

**CITY OF GRAYSON TOURISM AND
CONVENTION COMMISSION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
City of Grayson Tourism and Convention Commission
Grayson, Kentucky 41143

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Grayson Tourism and Convention Commission (the "Commission"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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. 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 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 governmental activities and each major fund of the City of Grayson Tourism and Convention Commission, as of June 30, 2018, 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 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 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 Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 December 14, 2018, on our consideration of the 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 the Commission's internal control over financial reporting and compliance.

Kelley Dalloway Smith Goolsby, PSC

Ashland, Kentucky
December 14, 2018

CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental- Type Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 41,904
Restricted cash	6,449,402
Accounts receivable	68,233
Prepaid insurance	4,169
Capital assets, being depreciated	213,113
Capital assets, not being depreciated	1,120,189
Total assets	<u>7,897,010</u>
 LIABILITIES	
Accounts payable	42,767
Current portion of long-term debt	117,500
Payroll liabilities	1,977
Total current liabilities	<u>162,244</u>
Long-term debt	<u>7,097,995</u>
Total liabilities	<u>7,260,239</u>
 NET POSITION	
Net investment in capital assets	264,634
Restricted	259,808
Unrestricted	112,329
Total net position	<u>\$ 636,771</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	Program Revenues			<u>Net Expense and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<u>Governmental Activities</u>				
Primary government:				
Governmental activities:				
Tourism and promotion	\$ 73,419	\$ -	\$ 9,018	\$ -
Interest and bond issuance costs	189,382	-	-	-
Total governmental activities	<u>262,801</u>	<u>-</u>	<u>9,018</u>	<u>-</u>
Total primary government	<u>\$ 262,801</u>	<u>\$ -</u>	<u>\$ 9,018</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Restaurant taxes				531,064
Hotel taxes, levied for general purposes				51,132
Investment income				14,683
Other				25,020
Total general revenues and transfers				<u>621,899</u>
Change in net position				368,116
Net position, June 30, 2017				<u>268,655</u>
Net position, June 30, 2018				<u>\$ 636,771</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
BALANCE SHEET AND RECONCILIATION TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Construction Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 41,904	\$ -	\$ 41,904
Restricted cash	259,808	6,189,594	6,449,402
Accounts receivable	68,233	-	68,233
Prepaid insurance	4,169	-	4,169
Total assets	374,114	6,189,594	6,563,708
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	-	42,767	42,767
Payroll liabilities	1,977	-	1,977
Total liabilities	1,977	42,767	44,744
Fund balances			
Unreserved -			
Restricted	259,808	6,146,827	6,406,635
Unassigned	112,329	-	112,329
Total fund balances	\$ 372,137	\$ 6,146,827	\$ 6,518,964

Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Position-

Total governmental fund balance	\$ 6,518,964
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Amounts reported for governmental activities in the
Statement of Net Position are different because:

The following assets (liabilities) used in Governmental Activities are not
financial resources and therefore are not reported in the funds-

Assets:

Capital assets	1,333,302
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Liabilities:

Long-term debt	(7,215,495)
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Net Position, end of year - governmental activities	\$ 636,771
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The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Restaurant tax	\$ 531,064	-	\$ 531,064
Hotel taxes	51,132	-	51,132
Marketing incentive program	9,018	-	9,018
Investment income	21	14,662	14,683
Inkind donation	25,000	-	25,000
Other	20	-	20
Total receipts	<u>616,255</u>	<u>14,662</u>	<u>630,917</u>
Expenditures:			
Current:			
Debt service	70,133	188,754	258,887
Capital outlay	157,754	964,081	1,121,835
Tourism and promotion	66,308	-	66,308
Total expenditures	<u>294,195</u>	<u>1,152,835</u>	<u>1,447,030</u>
Other financing sources (uses):			
Bond proceeds	-	7,285,000	7,285,000
Total other financing sources and uses	-	<u>7,285,000</u>	<u>7,285,000</u>
Net change in fund balances	322,060	6,146,827	6,468,887
Fund balances, June 30, 2017	<u>50,077</u>	<u>-</u>	<u>50,077</u>
Fund balances, June 30, 2018	<u>\$ 372,137</u>	<u>\$ 6,146,827</u>	<u>\$ 6,518,964</u>

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
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, 2018**

NET CHANGE IN FUND BALANCES-TOTAL GOVERNMENTAL FUNDS **\$6,468,887**

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

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(7,111)
Capital outlay	1,121,835

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Amortization of capital lease discounts	(392)
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The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Long-term debt principal payments	-
Capital lease proceeds	(7,285,000)
Discount on capital lease	69,897
	<u>69,897</u>

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 368,116**

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(1) NATURE OF ORGANIZATION AND BASIS OF ACCOUNTING

The City of Grayson Tourism and Convention Commission (the "Commission") was established by City ordinance on September 5, 1995 pursuant to the authority set forth in KRS 91A.350(2) for the purpose of creating and promoting convention and tourist activity in the City of Grayson, Kentucky.

The Commission membership consists of seven people appointed by the Mayor pursuant to the authority set forth in KRS 91A.350(2). Appointments are for a term of three years. A chairman and a treasurer are elected from the membership of the Commission.

The funds for the Commission are derived from transient room and restaurant taxes authorized by Kentucky Revised Statutes. The transient room and restaurant taxes are collected by the City Treasurer and remitted to the Commission on a monthly basis.

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

For financial statement reporting purposes, the Commission is considered a single purpose governmental entity. The Commission's basic financial statements consist of fund financial statements presented with adjustments reconciling to government-wide financial statements.

Government-Wide Financial Statements

The government-wide statements are financial statements (i.e., the Statement of Net Position and the Statement of Activities) that report information on all of the activities of the Commission.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. The financial statements include adjustments with explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and revenues for each governmental program.

Net position is reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

The accounts of the Commission are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund and account group are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements, in this report as follows:

Governmental Fund

General fund - the General fund is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund. This is a major fund of the Commission.

Construction Fund

Construction fund - the Construction fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the Commission.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, investment earnings and fees received from other governments are revenue sources that are deemed both measureable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period).

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measureable and are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Assets

Certain proceeds of the Commission's capital lease obligation, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. In the absence of specific statutory provisions governing the issuance of capital leases, these monies may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make.

Capital Assets

Capital assets include furniture, fixtures, equipment, and building and improvements owned by the Commission. These assets are reported in the government-wide financial statements. Capital assets are stated on the basis of historical cost, or, if contributed, at fair market value at the dates received. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Equipment & Vehicles	3-20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Debt Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgeting

The Commission prepares an annual budget as required by the City of Grayson in establishing budgetary data reflected in the financial statement. The Commission's budget is approved by the Board of Commissioners.

Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the Commission itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the action to remove or change the constraint;
- Assigned fund balance - amounts the Commission intends to use for a specific purpose (such as encumbrances); intent can be expressed by the Commission or by an official or body to which the Commission delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

(3) DEPOSITS AND OBLIGATIONS WITH FINANCIAL INSTITUTIONS

At June 30, 2018 the carrying amount was \$6,491,306. The bank balance is categorized as follows:

Amount insured by the FDIC	\$ 501,702
Amount collateralized	5,997,225
Total bank balance	<u>\$ 6,498,927</u>

(4) INCOME TAXES

The Commission qualifies as a local government taxing district and therefore is exempt from federal and state income taxes.

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

<u>Governmental Activities</u>	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
Capital Assets, Not Depreciated:				
Land	\$ -	\$ 775,000	\$ -	\$ 775,000
Construction in progress	-	345,189	-	345,189
Capital Assets, Depreciated:				
Buildings	282,251	-	-	282,251
Equipment	-	1,646	-	1,646
Totals at historical cost	<u>\$ 282,251</u>	<u>\$ 1,121,835</u>	<u>\$ -</u>	<u>\$ 1,404,086</u>
Accumulated depreciation	(63,673)	(7,111)	-	(70,784)
Capital assets, net	<u>\$ 218,578</u>	<u>\$ 1,114,724</u>	<u>\$ -</u>	<u>\$ 1,333,302</u>

Depreciation expense charged to operations during the year ended June 30, 2018 was \$7,111. During 2018, the Commission received an in-kind donation of land valued at \$25,000 equal to its fair value and is recorded as in-kind revenue and capital outlay in the financial statements.

(6) LONG-TERM DEBT

A summary of changes in long-term debt (including current portion) of the Commission for the year ended June 30, 2018 is as follows:

<u>Governmental Activities</u>	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>
Capital lease to Kentucky Bond Corporation of \$7,285,000, due in monthly installments through January 2048, imputed interest rate of 4.79%	\$ -	\$ 7,285,000	\$ -	\$ 7,285,000
Discount on bonds	-	(69,897)	392	(69,505)
	<u>\$ -</u>	<u>\$ 7,215,103</u>	<u>\$ 392</u>	<u>\$ 7,215,495</u>

Minimum future principal and interest requirements relating to the above capital leases are as follows at June 30, 2018:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total Requirements</u>
2019	\$ 117,500	\$ 264,564	\$ 20,310	\$ 402,374
2020	152,083	254,094	18,669	424,846
2021	157,083	249,531	18,289	424,903
2022	162,083	244,819	17,896	424,798
2023	167,083	239,956	17,491	424,530
2024-2028	910,417	1,121,594	80,938	2,112,949
2029-2033	1,071,667	972,389	68,813	2,112,869
2034-2038	1,278,750	778,869	54,413	2,112,032
2039-2043	1,547,083	529,778	37,191	2,114,052
2044-2048	1,721,251	198,917	15,119	1,935,287
	<u>\$ 7,285,000</u>	<u>\$ 8,854,511</u>	<u>\$ 349,129</u>	<u>\$ 12,488,640</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
 BUDGETARY COMPARISON SCHEDULE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES				
Hotel tax	\$ 56,000	\$ 56,000	\$ 51,132	\$ (4,868)
Restaurant tax	-	-	531,064	531,064
Marketing incentive program	10,500	10,500	9,018	(1,482)
Investment income	25	25	21	(4)
In-kind donation	-	-	25,000	25,000
Other	-	-	20	20
Total revenues	<u>66,525</u>	<u>66,525</u>	<u>616,255</u>	<u>549,730</u>
EXPENDITURES				
Advertising	13,800	13,800	10,069	3,731
Local community grants	11,350	11,350	11,050	300
Fairs and events	9,850	9,850	5,469	4,381
Dues	1,000	1,000	1,140	(140)
Capital outlay	-	-	157,754	(157,754)
Insurance	2,700	2,700	1,325	1,375
Debt service	-	-	70,133	(70,133)
Professional services	1,000	1,000	827	173
Office supplies	2,325	2,325	4,110	(1,785)
Utilities	5,500	5,500	4,715	785
Postage	-	-	325	(325)
Payroll	14,500	14,500	20,382	(5,882)
Maintenance and repair	4,300	4,300	6,555	(2,255)
Other	200	200	341	(141)
Total expenditures	<u>66,525</u>	<u>66,525</u>	<u>294,195</u>	<u>(227,670)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	322,060	322,060
Fund balance, June 30, 2017	<u>-</u>	<u>-</u>	<u>50,077</u>	<u>50,077</u>
Fund balance, June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,137</u>	<u>\$ 372,137</u>



Kelley Galloway
Smith Goolsby, PSC

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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 THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners of
City of Grayson Tourism and Convention Commission
Grayson, 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 governmental activities and each major fund of City of Grayson Tourism and Convention Commission, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Grayson Tourism and Convention Commission's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Grayson Tourism and Convention 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 City of Grayson Tourism and Convention Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Grayson Tourism and Convention Commission'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 entity'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. 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 a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Grayson Tourism and Convention 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001.

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.

Kelley Dalloway Smith Doolley, PSC

Ashland, Kentucky
December 14, 2018

**CITY OF GRAYSON TOURISM AND CONVENTION COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

Finding 2018-01

Budget

During the current year, the City of Grayson Tourism and Convention Commission did not amend their budget to reflect the collection of restaurant tax that began in November 2017 and initial construction costs. As a result, the budget is not an accurate reflection of the Commission's financial status. Management and the Board of Commissioners should amend the budget for any significant changes in operation as they occur.

Management's Response

The restaurant tax was passed in 2017 and the first tax payments were received by the Commission in November 2017. The restaurant tax funds were not a part of the Commission's 2017-2018 fiscal year operating budget. All restaurant tax funds were segregated into a separate account and earmarked 100% for capital projects and related debt service. The funds were not available for use as any part of the Commission's operating budget for general use. For the 2018-2019 fiscal year, the Commission developed, presented, and gained approval from the Grayson City Council for collection and usage of the monies related to the restaurant tax.

Finding 2018-02

Checks written to cash

We noted that the City of Grayson Tourism and Convention Commission wrote a check to cash in the amount of \$2,025 which was used to reimburse volunteers for expenses related to the Kentucky State Fair. As a result, this money could be more easily misappropriated. Management and the Board of Commissioners should only reimburse volunteers with checks.

Management's Response

The referenced monies were specifically used for reimbursements to Kentucky State Fair volunteers for travel and food expenses incurred during their designated work hours to man the tourism advertising booth. These funds were not for labor and the Commission has retained an accurate accounting of all individuals that received funds. In the future, the Commission will consider alternate, but practical, methods of reimbursing volunteers.