

CITY OF ROLLING HILLS, KENTUCKY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

**CITY OF ROLLING HILLS, KENTUCKY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	2 - 5
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statements of Net Position	6
Statements of Activities	7
FUND FINANCIAL STATEMENTS	
Balance Sheets – Governmental Funds	8
Reconciliation of the Balance Sheets – Governmental Funds to the Statements of Net Position	9
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statements of Activities	11
NOTES TO FINANCIAL STATEMENTS.....	12 – 17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules – General Fund	18
Budgetary Comparison Schedules – Special Revenue Fund	19
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 <i>GOVERNMENT AUDITING STANDARDS</i>	20 – 21
SCHEDULE OF FINDINGS AND RESPONSES	22

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Commissioners
City of Rolling Hills, Kentucky

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Rolling Hills, Kentucky as of and for the years ended June 30, 2016 and 2015, 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 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 City'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 City'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 opinion.

Opinion

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 Rolling Hills, Kentucky, as of June 30, 2016 and 2015, and the respective changes in financial position for the years 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 discussion and analysis and budgetary comparison information on pages 2 - 5 and 18-19 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of the City of Rolling Hills, Kentucky'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 City of Rolling Hills, Kentucky's internal control over financial reporting and compliance.



Welenken CPAs
Louisville, Kentucky
January 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rolling Hills' ("City") discussion and analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City's financial statements provided in this document.

Financial Highlights

- The City's net position increased by \$17,879 as a result of capital grants and additional tax revenues.
- The cost of the City's general governmental activities totaled \$76,445.
- During the year, the City's cash decreased by approximately \$41,000 due in part to the payment of a large accounts payable balance from the prior year.
- During the year, the City received an operating grant of \$10,000 for the installation of handicap accessible curbing.
- The City installed a semi-truck entrance for Rolling Hills Plaza shopping center.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Required supplementary information in addition to the basic financial statements is also included.

A. Government-Wide Financial Statements

Government-wide financial statements include the Statement of Net Position and the Statement of Activities. The statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. In accrual accounting, revenues earned and expenses incurred in the fiscal year are taken into account in the financial statements regardless of when cash is actually received or paid.

The Statement of Net Position provides information on all City assets and liabilities, with the difference between assets and liabilities reported as net position. Increases or decreases in the net position over time are one indicator of whether the City's financial health is improving, stagnating, or deteriorating. Information on other factors, such as changes in the revenue structure and the condition of the City's assets, is also needed to assess the overall financial situation of the City.

The Statement of Activities provides information on the City's annual revenues and expenses, as well as other transactions that increase or reduce net position.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City only has governmental funds to be presented in the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental funds focus on how money flows to and from those funds and the balances left at year-end that are available for spending. Funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The relationship between the governmental activities (reported in the Statements of Net Position and Statements of Activities) and the governmental funds is described in a reconciliation, which is presented immediately following the fund financial statements. Under accounting guidelines, the City considers both the General Fund and the Special Revenue Fund (municipal road aid) to be major governmental funds.

C. Notes to the Financial Statements

These notes provide additional information needed to fully understand the government-wide and fund financial statements

D. Required Supplementary Information

The City's budgetary comparison schedules for the General Fund and the Special Revenue Fund are presented, in addition to the basic financial statements and accompanying notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously indicated, net position may serve over time as a useful indicator of the City's financial position. A portion of the City's net position, \$162,374, or 29%, reflects its investment in capital assets. The City uses these capital assets to provide service to citizens and thus, these assets are not available for future spending.

An additional portion of City net position, \$89,816, or 16%, represents resources (municipal road aid) that are subject to external restrictions on how they may be used. The remaining balance of \$303,418, or 55%, represents unrestricted net position which may be used to meet the City's ongoing obligations to citizens.

Governmental activities increased City net position by \$17,879. This increase has allowed for additional expendable funds and continues a positive financial trend for the City.

Total assets at June 30, 2016 were \$562,305, of which \$162,374, or 29%, consisted of capital assets. In comparison, total assets at June 30, 2015 and 2014 were \$590,745 and \$563,549, respectively, of which \$156,333, or 26%, and \$123,602, or 22%, consisted of capital assets at June 30, 2015 and 2014, respectively.

A recap of the statements of net position follows:

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 399,931	\$ 434,412
Capital assets	<u>162,374</u>	<u>156,333</u>
Total assets	<u>562,305</u>	<u>590,745</u>
Total liabilities	<u>6,697</u>	<u>53,016</u>
Net position:		
Investment in capital assets	162,374	156,333
Unrestricted	303,418	310,677
Restricted	<u>89,816</u>	<u>70,719</u>
Total net position	<u>\$ 555,608</u>	<u>\$ 537,729</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total revenues for the 2016 fiscal year, were \$251,477, as compared to fiscal year 2015 and 2014 total revenues of \$231,795 and \$238,367, respectively. Approximately 50%, or \$125,242, of current year revenue is from property taxes, which is the largest source of revenue for the City. Property taxes were assessed at .193 per \$100 of assessed value.

Total expenses for the 2016 fiscal year were \$233,598, which was \$10,550 greater than the 2015 fiscal year total expenses of \$223,048. Total expenses for the 2015 fiscal year were \$30,011 greater than the 2014 fiscal year total expenses of \$193,037.

A recap of the statements of activities follows:

	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 7,389	\$ 4,867
Capital grants	10,000	-
Operating grants and contributions	19,091	22,891
General revenues:		
Property taxes	125,242	112,376
Other taxes	81,064	75,966
Intergovernmental income	2,355	-
Other general revenue	6,336	15,695
Total revenues	251,477	231,795
Program expenses		
General government	76,445	83,444
Roads and sidewalks	20,461	23,970
Sanitation	56,276	56,276
Public safety	38,706	30,120
Public works	41,710	29,238
Total expenses	233,598	223,048
Increase in net position	\$ 17,879	\$ 8,747

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial reporting focus of the City of Rolling Hills' *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information, particularly *unassigned fund balance*, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$388,834. The General Fund is the chief operating fund of the City. At the end of the 2016 fiscal year, the General Fund balance was \$299,018, of which \$171,873 is unassigned, which means it is available for spending at the government's discretion.

The Special Revenue Fund has a total fund balance of \$89,816. The net increase in the Special Revenue Fund balance was \$19,097 from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City's original budget remained the same. The actual charges to appropriations (expenditures) were \$8,661 less than the final budgeted amounts. The most significant negative variance occurred in the City's police contract expense. The most significant positive variance occurred in the City maintenance (ground and road) expense.

In addition, resources available for appropriation were \$37,732 greater than the final budgeted amount. The final budget included \$51,500 of insurance tax revenue in comparison to the \$66,333 collected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The City's investment in capital assets for governmental activities as of June 30, 2016 is \$162,374 (net of accumulated depreciation). This investment in capital assets includes infrastructure, street signs, and furniture and equipment.

B. Long-Term Debt

The City has no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

There are currently no economic factors that are expected to change the outlook of the revenues or expenses for the City in the next year. In addition, no rate changes or large budget changes are anticipated.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general financial overview of the City. Questions or requests for additional financial information may be addressed to Philip S. Jaeger, Mayor, City of Rolling Hills, P.O. Box 22445, Louisville, KY 40252.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF ROLLING HILLS, KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	Governmental Activity	
	2016	2015
ASSETS		
Cash	\$ 192,920	\$ 234,167
Certificates of deposit	181,501	180,659
Property taxes receivable	8,298	6,252
Other receivables	16,867	12,957
Prepaid expenses	345	377
Capital assets, net of depreciation	162,374	156,333
Total Assets	562,305	590,745
 LIABILITIES		
Accounts payable	5,800	52,117
Accrued expenses	897	899
Total Liabilities	6,697	53,016
 NET POSITION		
Investment in capital assets	162,374	156,333
Unrestricted	303,418	310,677
Restricted	89,816	70,719
Total Net Position	\$ 555,608	\$ 537,729

See accompanying Notes to Financial Statements.

**CITY OF ROLLING HILLS, KENTUCKY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

Governmental Activities

	2016					2015			
	Expenses	Charges for Services	Capital Grants	Operating Grants and Contributions	Total	Expenses	Charges for Services	Operating Grants and Contributions	Total
PRIMARY GOVERNMENT									
<u>FUNCTIONS/PROGRAMS</u>									
General government	\$ (76,445)	\$ 2,774	\$ -	\$ -	\$ (73,671)	\$ (83,444)	\$ 4,550	\$ -	\$ (78,894)
Roads and sidewalks	(20,461)	-	10,000	19,091	8,630	(23,970)	-	22,891	(1,079)
Sanitation	(56,276)	4,615	-	-	(51,661)	(56,276)	317	-	(55,959)
Public safety	(38,706)	-	-	-	(38,706)	(30,120)	-	-	(30,120)
Public works	(41,710)	-	-	-	(41,710)	(29,238)	-	-	(29,238)
Total Primary Government	(233,598)	7,389	10,000	19,091	(197,118)	(223,048)	4,867	22,891	(195,290)
GENERAL REVENUES									
Property taxes					125,242				112,376
Penalties and interest on delinquent taxes					619				4,712
Insurance premium taxes					66,333				63,320
Bank franchise deposit tax					9,440				9,292
Public service taxes					5,291				3,354
Intergovernmental income					2,355				-
Investment income					915				893
Miscellaneous					4,802				10,090
Total General Revenues					214,997				204,037
CHANGE IN NET ASSETS					17,879				8,747
NET POSITION, BEGINNING OF YEAR					537,729				528,982
NET POSITION, END OF YEAR					\$ 555,608				\$ 537,729

See accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

**CITY OF ROLLING HILLS, KENTUCKY
BALANCE SHEETS - GOVERNMENTAL FUNDS
JUNE 30, 2016 AND 2015**

	ASSETS					
	2016			2015		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
Cash	\$ 103,104	\$ 89,816	\$ 192,920	\$ 153,224	\$ 80,943	\$ 234,167
Certificates of deposit	181,501	-	181,501	180,659	-	180,659
Property taxes receivable	8,298	-	8,298	6,252	-	6,252
Other receivables	16,867	-	16,867	12,957	-	12,957
Due from General Fund	-	-	-	-	36,297	36,297
Prepaid expenses	345	-	345	377	-	377
	<u>\$ 310,115</u>	<u>\$ 89,816</u>	<u>\$ 399,931</u>	<u>\$ 353,469</u>	<u>\$ 117,240</u>	<u>\$ 470,709</u>
TOTAL ASSETS						
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 5,800	\$ -	\$ 5,800	\$ 5,596	\$ 46,521	\$ 52,117
Accrued expenses	897	-	897	899	-	899
Due to Special Revenue Fund	-	-	-	36,297	-	36,297
	<u>6,697</u>	<u>-</u>	<u>6,697</u>	<u>42,792</u>	<u>46,521</u>	<u>89,313</u>
TOTAL LIABILITIES						
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	4,400	-	4,400	6,252	-	6,252
	<u>4,400</u>	<u>-</u>	<u>4,400</u>	<u>6,252</u>	<u>-</u>	<u>6,252</u>
TOTAL DEFERRED INFLOWS OF RESOURCES						
FUND BALANCES						
Nonspendable						
Prepaid items	345	-	345	377	-	377
Restricted						
Special Revenue Fund	-	89,816	89,816	-	70,719	70,719
Assigned						
Subsequent year's budget	40,300	-	40,300	51,800	-	51,800
Designated for roads	20,000	-	20,000	20,000	-	20,000
Designated for equipment	30,000	-	30,000	30,000	-	30,000
Designated for emergency	25,000	-	25,000	25,000	-	25,000
Unassigned	183,373	-	183,373	177,248	-	177,248
	<u>299,018</u>	<u>89,816</u>	<u>388,834</u>	<u>304,425</u>	<u>70,719</u>	<u>375,144</u>
TOTAL FUND BALANCES						
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 310,115</u>	<u>\$ 89,816</u>	<u>\$ 399,931</u>	<u>\$ 353,469</u>	<u>\$ 117,240</u>	<u>\$ 470,709</u>

See accompanying Notes to Financial Statements.

**CITY OF ROLLING HILLS, KENTUCKY
RECONCILIATION OF THE BALANCE SHEETS - GOVERNMENTAL
FUNDS TO THE STATEMENTS OF NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Total fund balances for governmental funds	\$ 388,834	\$ 375,144
Total net position reported for governmental activities in the statement of net position is different because:		
Certain property tax collections and other revenues are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds	4,400	6,252
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund	162,374	156,333
Total net position of governmental activities	\$ 555,608	\$ 537,729

See accompanying Notes to Financial Statements.

CITY OF ROLLING HILLS, KENTUCKY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES						
Property taxes	\$ 127,713	\$ -	\$ 127,713	\$ 121,449	\$ -	\$ 121,449
Insurance taxes	66,333	-	66,333	63,320	-	63,320
Municipal road aid	-	19,091	19,091	-	22,891	22,891
Bank deposit tax	9,440	-	9,440	9,292	-	9,292
Licenses, fees, fines, and miscellaneous	7,576	-	7,576	14,640	-	14,640
Cable TV franchise	5,291	-	5,291	3,354	-	3,354
Sanitation revenue	4,615	-	4,615	317	-	317
Grant income	10,000	-	10,000	-	-	-
Base court revenue	2,355	-	2,355	-	-	-
Interest income	909	6	915	887	6	893
Total Revenues	<u>234,232</u>	<u>19,097</u>	<u>253,329</u>	<u>213,259</u>	<u>22,897</u>	<u>236,156</u>
EXPENDITURES						
Sanitation	56,276	-	56,276	56,276	-	56,276
Ground maintenance	41,710	-	41,710	29,238	-	29,238
Police/Safety	38,706	-	38,706	30,120	-	30,120
Street lights	22,047	-	22,047	24,896	-	24,896
Road maintenance	31,391	-	31,391	-	61,798	61,798
Property valuation assessment	3,056	-	3,056	2,957	-	2,957
Accounting	5,800	-	5,800	5,600	-	5,600
Insurance	5,609	-	5,609	4,912	-	4,912
Legal fees	8,251	-	8,251	6,637	-	6,637
City Clerk/Treasurer salary	7,200	-	7,200	7,200	-	7,200
General government	19,593	-	19,593	26,145	-	26,145
Total Expenditures	<u>239,639</u>	<u>-</u>	<u>239,639</u>	<u>193,981</u>	<u>61,798</u>	<u>255,779</u>
Excess (deficit) of revenues over expenditures	<u>(5,407)</u>	<u>19,097</u>	<u>13,690</u>	<u>19,278</u>	<u>(38,901)</u>	<u>(19,623)</u>
CHANGES IN FUND BALANCES	<u>(5,407)</u>	<u>19,097</u>	<u>13,690</u>	<u>19,278</u>	<u>(38,901)</u>	<u>(19,623)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>304,425</u>	<u>70,719</u>	<u>375,144</u>	<u>285,147</u>	<u>109,620</u>	<u>394,767</u>
FUND BALANCES, END OF YEAR	<u>\$ 299,018</u>	<u>\$ 89,816</u>	<u>\$ 388,834</u>	<u>\$ 304,425</u>	<u>\$ 70,719</u>	<u>\$ 375,144</u>

See accompanying Notes to Financial Statements.

**CITY OF ROLLING HILLS, KENTUCKY
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Net change in fund balances - total governmental funds	\$ 13,690	\$(19,623)
<p>The change in net assets reported for governmental activities in the statement of activities is different because:</p>		
<p style="padding-left: 40px;">Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds</p>	(1,852)	(4,361)
<p>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 and reported as depreciation expense. This is the amount by which capital outlays (\$21,999 and \$46,520 for 2016 and 2015, respectively) are greater (less) than depreciation (\$15,958 and \$13,789, for 2016 and 2015, respectively) in the current period</p>	<u>6,041</u>	<u>32,731</u>
Change in net assets of governmental activities	<u><u>\$ 17,879</u></u>	<u><u>\$ 8,747</u></u>

See accompanying Notes to Financial Statements.

CITY OF ROLLING HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF ORGANIZATION

The City of Rolling Hills, Kentucky (City) was incorporated in 1966, and operates under the Kentucky Revised Statutes, as amended. The City operates under the Mayor-Commissioner form of government and provides the following services as authorized by its charter: streets, sanitation, public improvements, planning and zoning, and general administrative services. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statements of net position and the statements of activities) report information on all the activities of the City. The effect of interfund activity has been removed from these statements.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental type activities are those financed through property taxes, intergovernmental revenues, municipal aid, and other non-exchange revenues and are usually reported in governmental and internal service funds. The City has no business-type activities.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and (2) grants and contributions, including special assessments, that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Reporting on governmental-type activities is based on FASB Statements and Interpretations issued after November 30, 1989, except where they conflict or contradict GASB pronouncements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF ROLLING HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Special Revenue Fund is used to account for the proceeds or specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. Municipal road aid revenue and road expenditures are accounted for within this fund.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 recognized when earned or, for property tax revenues, in the period for which levied, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property taxes, franchise taxes, licenses, municipal road aid, 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 City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City including any authorized revisions.

Management's Use of 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 the reported amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

CITY OF ROLLING HILLS, KENTUCKY NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Certificates of Deposit

The City's checking accounts, money market accounts and certificates of deposit were insured by federal depository insurance or by collateral held by the custodial banks in the City's name. Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and in deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States or its agencies. Certificates of deposit with a maturity greater than three months, are valued at cost, which approximates fair value.

Property Taxes and Other Receivables

Property taxes and other receivables are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

Capital Assets

Capital assets are reported in the governmental activity column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Under the requirements of GASB Statement No. 34, the City is considered a Phase 3 government as its total annual revenues are less than \$10 million. Such governments are not required to report major general infrastructure assets, although the City has chosen to record these assets prospectively from July 1, 2003.

Capital assets of the City are depreciated using the straight-line method over their estimated useful lives.

Deferred Inflows of Resources

In addition to liabilities, the balance sheets – governmental funds report a separate section for deferred inflows of resources. This separate financial statement element is for certain receivables that are not available to pay for current-period expenditures and arises only under the modified accrual basis of accounting. Accordingly, the items, unavailable revenue, is reported only in the balance sheets – governmental funds. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts became available.

**CITY OF ROLLING HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balances

In the statement of net position, the difference between the City's assets and liabilities is recorded as net position. The three components of net position are as follows:

Net Investment in Capital Assets – This category records capital assets net of accumulated depreciation.

Restricted Net Position – Net position that is restricted by external sources such as banks or by law are reported separately as restricted net position. When assets are required to be retained in perpetuity, these non-expendable net positions are recorded separately from expendable net position. These are components of restricted net position. The City has restricted net position related to municipal road aid monies at June 30, 2016 and 2015 totaling \$89,816 and \$70,719, respectively.

Unrestricted Net Position – This category represents net position not appropriate for expenditures or legally segregated for a specific future use.

In the balance sheet of governmental funds, fund balances are segregated as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of the other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commission. The Commission is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commission.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Commission adopted policy, only the City Commission may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Commission has provided otherwise in its commitment or assignment functions. However, the City reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**CITY OF ROLLING HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The City has evaluated subsequent events through January 27, 2017, the date the financial statements were available to be issued.

NOTE C – CAPITAL ASSETS

	<u>2016</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$ 229,414	\$ 21,999	\$ -	\$ 251,413
Street signs	12,248	-	-	12,248
Furniture and equipment	<u>2,042</u>	<u>-</u>	<u>-</u>	<u>2,042</u>
Total Cost	243,704	21,999	-	265,703
Less: accumulated depreciation	<u>(87,371)</u>	<u>(15,958)</u>	<u>-</u>	<u>(103,329)</u>
Net Book Value	<u>\$ 156,333</u>	<u>\$ 6,041</u>	<u>\$ -</u>	<u>\$ 162,374</u>

	<u>2015</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$ 182,894	\$ 46,520	\$ -	\$ 229,414
Street signs	12,248	-	-	12,248
Furniture and equipment	<u>2,042</u>	<u>-</u>	<u>-</u>	<u>2,042</u>
Total Cost	197,184	46,520	-	243,704
Less: accumulated depreciation	<u>(73,582)</u>	<u>(13,789)</u>	<u>-</u>	<u>(87,371)</u>
Net Book Value	<u>\$ 123,602</u>	<u>\$ 32,731</u>	<u>\$ -</u>	<u>\$ 156,333</u>

Depreciation expense was charged to functions of the primary government as follows:

	<u>2016</u>	<u>2015</u>
General government	\$ 5,166	\$ 5,096
Roads and sidewalks	10,792	8,693
Total	<u>\$ 15,958</u>	<u>\$ 13,789</u>

**CITY OF ROLLING HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS**

NOTE D – INTERFUND DUE TO/DUE FROM

At June 30, 2015, the general fund owed the special revenue fund for expenses paid by the special revenue fund on behalf of the general fund. The balance due at June 30, 2015 was \$36,297. This balance was paid in full during fiscal year 2016.

NOTE E – PROPERTY TAXES

As generally provided in the Constitution of the Commonwealth of Kentucky, the City's property tax is levied each July 1 on the assessed value listed as of the prior January 1 for all real property located in the City. The Jefferson County Property Valuation Administrator establishes assessed values. The face value amount payment dates are July 1 to September 1. All unpaid taxes become delinquent September 1 and are assessed a 20% penalty and 1% interest per month until paid.

Property taxes revenues are recognized when they become available. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

NOTE F – RESTATEMENT OF PRIOR YEAR NET POSITION AND FUND BALANCES

The following restatement was recorded to the beginning net position of the government-wide statement of activities as a result of a correction of overstated property taxes receivable:

Net position at June 30, 2014, as previously reported	\$550,615
Adjustment for property taxes receivable	<u>(21,633)</u>
Net position at July 1, 2014, as restated	<u>\$528,982</u>

Property taxes receivable decreased \$21,633 on the government-wide statement of net position and the balance sheet - government funds at June 30, 2015. Deferred inflows of resources – unavailable revenue – property taxes also decreased by this same amount on the balance sheet – governmental funds at June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ROLLING HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULES - GENERAL FUND
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016				2015			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Budgetary undesignated fund balance, July 1	\$ 304,425	\$ 304,425	\$ 304,425	\$ -	\$ 285,147	\$ 285,147	\$ 285,147	\$ -
Resources (inflows):								
Property taxes	120,000	120,000	127,713	7,713	120,000	120,000	121,449	1,449
Insurance taxes	51,500	51,500	66,333	14,833	51,500	51,500	63,320	11,820
Bank deposit tax	9,000	9,000	9,440	440	8,500	8,500	9,292	792
Licenses, fees, fines, and miscellaneous	8,400	8,400	7,576	(824)	2,000	2,000	14,640	12,640
Cable TV franchise	4,500	4,500	5,291	791	4,500	4,500	3,354	(1,146)
Sanitation revenue	3,100	3,100	4,615	1,515	3,100	3,100	317	(2,783)
Grants	-	-	10,000	10,000	-	-	-	-
Base court revenue	-	-	2,355	2,355	-	-	-	-
Interest income	-	-	909	909	-	-	887	887
Amounts available for appropriation	<u>500,925</u>	<u>500,925</u>	<u>538,657</u>	<u>37,732</u>	<u>474,747</u>	<u>474,747</u>	<u>498,406</u>	<u>23,659</u>
Charges to appropriations (outflows):								
Sanitation	56,300	56,300	56,276	24	56,200	56,200	56,276	(76)
Ground maintenance	87,500	87,500	73,101	14,399	34,300	34,300	29,238	5,062
Police/Safety	32,200	32,200	38,706	(6,506)	32,000	32,000	30,120	1,880
Street lights	21,000	21,000	22,047	(1,047)	19,000	19,000	24,896	(5,896)
Property valuation assessment	3,000	3,000	3,056	(56)	3,000	3,000	2,957	43
Accounting	5,500	5,500	5,800	(300)	5,300	5,300	5,600	(300)
Insurance	6,000	6,000	5,609	391	5,000	5,000	4,912	88
Legal fees	6,600	6,600	8,251	(1,651)	6,600	6,600	6,637	(37)
City Clerk/Treasurer salary	7,200	7,200	7,200	-	7,200	7,200	7,200	-
General government	23,000	23,000	19,593	3,407	23,000	23,000	26,145	(3,145)
Total charges to appropriations	<u>248,300</u>	<u>248,300</u>	<u>239,639</u>	<u>8,661</u>	<u>191,600</u>	<u>191,600</u>	<u>193,981</u>	<u>(2,381)</u>
Budgetary undesignated fund balance, June 30	<u>\$ 252,625</u>	<u>\$ 252,625</u>	<u>\$ 299,018</u>	<u>\$ 46,393</u>	<u>\$ 283,147</u>	<u>\$ 283,147</u>	<u>\$ 304,425</u>	<u>\$ 21,278</u>

**CITY OF ROLLING HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULES - SPECIAL REVENUE FUND
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>				<u>2015</u>			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Budgetary fund balance, July 1	\$ 70,719	\$ 70,719	\$ 70,719	\$ -	\$ 109,620	\$ 109,620	\$ 109,620	\$ -
Resources (inflows):								
Municipal road aid	20,500	20,500	19,091	(1,409)	20,500	20,500	22,891	2,391
Interest income	-	-	6	6	-	-	6	6
Amounts available for appropriation	<u>91,219</u>	<u>91,219</u>	<u>89,816</u>	<u>(1,403)</u>	<u>130,120</u>	<u>130,120</u>	<u>132,517</u>	<u>2,397</u>
Charges to appropriations (outflows):								
Road maintenance	20,500	20,500	-	20,500	20,500	20,500	61,798	(41,298)
Total charges to appropriations	<u>20,500</u>	<u>20,500</u>	<u>-</u>	<u>20,500</u>	<u>20,500</u>	<u>20,500</u>	<u>61,798</u>	<u>(41,298)</u>
Budgetary fund balance, June 30	<u>\$ 70,719</u>	<u>\$ 70,719</u>	<u>\$ 89,816</u>	<u>\$ 19,097</u>	<u>\$ 109,620</u>	<u>\$ 109,620</u>	<u>\$ 70,719</u>	<u>\$ (38,901)</u>

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

To the Honorable Mayor and City Commissioners
City of Rolling Hills, Kentucky

We have audited, 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, the financial statements of the governmental activities and each major fund of City of Rolling Hills, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2017.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2016-1 and 2016-2.

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.

Compliance and Other Matters

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

City of Rolling Hills, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Welenken CPAs

Louisville, Kentucky
January 27, 2017

**CITY OF ROLLING HILLS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Findings:

- 2016-1 Based on the City's limited number of accounting personnel, the City lacks proper segregation of duties within the accounting function.
- 2016-2 Material misstatements to the financial statements were identified and corrected as a result of the audit.

Management's Response to Audit Findings:

- 2016-1 The City Commission updated the accounting software to a multi-user license which allows the Finance Commissioner and Mayor to easily review, advise and have instant visibility to the City's accounting records.
- 2016-2 The City Commission will actively monitor and review the monthly general ledger to avoid misstatements in the financial statements.