

CITY OF ROLLING HILLS, KENTUCKY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**CITY OF ROLLING HILLS, KENTUCKY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

	<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 – 18
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules – General Fund	19
Budgetary Comparison Schedules – Special Revenue Fund	20
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.....	21 – 22
SCHEDULE OF FINDINGS AND RESPONSES	23

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, 2017 and 2016, 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 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 Rolling Hills, Kentucky, as of June 30, 2017 and 2016, 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 19 - 20 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 10, 2018, 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

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, 2017. 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 \$62,125 due in part to a new rental property fee and decreases in expenses.
- During the year, the City's cash increased by \$52,649.
- The City repaved roads at a cost of \$19,488.
- The City purchased new street signs for \$7,000 that will be installed in FY 2018.

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, \$173,993, or 28%, 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, \$89,587, or 15%, represents resources (municipal road aid) that are subject to external restrictions on how they may be used. The remaining balance of \$354,153, or 57%, represents unrestricted net position which may be used to meet the City's ongoing obligations to citizens.

Total assets at June 30, 2017 were \$624,829, of which \$173,993, or 28%, consisted of capital assets. In comparison, total assets at June 30, 2016 and 2015 were \$562,305 and \$590,745, respectively, of which \$162,374, or 29%, and \$156,333, or 26%, consisted of capital assets at June 30, 2016 and 2015, respectively.

A recap of the statements of net position follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 450,836	\$ 399,931	\$ 434,412
Capital assets	<u>173,993</u>	<u>162,374</u>	<u>156,333</u>
Total assets	<u>624,829</u>	<u>562,305</u>	<u>590,745</u>
 Total liabilities	 <u>7,096</u>	 <u>6,697</u>	 <u>53,016</u>
 Net position:			
Investment in capital assets	173,993	162,374	156,333
Unrestricted	354,153	303,418	310,677
Restricted	<u>89,587</u>	<u>89,816</u>	<u>70,719</u>
Total net position	<u>\$ 617,733</u>	<u>\$ 555,608</u>	<u>\$ 537,729</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

A recap of the statements of activities follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Program revenues:			
Charges for services	\$ 22,209	\$ 7,389	\$ 4,867
Capital grants	-	10,000	-
Operating grants and contributions	25,246	21,446	22,891
General revenues:			
Property taxes	125,330	125,242	112,376
Other taxes	78,309	81,064	75,966
Other general revenue	3,828	6,336	15,695
Total revenues	254,922	251,477	231,795
 Program expenses			
General government	72,360	71,278	83,444
Roads and sidewalks	15,887	25,628	23,970
Sanitation	56,831	56,276	56,276
Public safety	23,055	38,706	30,120
Public works	24,664	41,710	29,238
Total expenses	192,797	233,598	223,048
 Change in net position	62,125	17,879	8,747
 Net position - beginning of year	555,608	537,729	528,982
 Net position - end of year	<u>\$ 617,733</u>	<u>\$ 555,608</u>	<u>\$ 537,729</u>

Governmental activities increased the City's net position in fiscal year 2017 by \$62,125. The increase was attributable in part to the addition of a new fee for rental property owners within the City. Also, total expenses for fiscal year 2017 were less than prior year's by \$40,801. Total revenues for fiscal year 2017 were \$3,445 greater than prior year.

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 \$438,766, which is an increase of \$49,932 from prior year. The General Fund is the chief operating fund of the City. At the end of the 2017 fiscal year, the General Fund balance was \$349,179, of which \$217,179 is unassigned, which means it is available for spending at the government's discretion.

The Special Revenue Fund has a total fund balance of \$89,587. The net decrease in the Special Revenue Fund balance was \$229 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 \$10,391 less than the final budgeted amounts. The most significant negative variance occurred in the City's street lights expense. The most significant positive variance occurred in the City's police/safety expense.

In addition, resources available for appropriation were \$29,870 greater than the final budgeted amount. The final budget included \$120,000 of property tax revenue in comparison to the \$124,948 collected. The most significant positive variance occurred in the City's licenses, fee, fines, and miscellaneous income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The City's investment in capital assets for governmental activities as of June 30, 2017 and 2016, is \$173,993 and \$162,374, respectively (net of accumulated depreciation).

City of Rolling Hills Capital Assets Governmental Activities		
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Infrastructure	\$ 270,902	\$ 251,414
Signs	19,248	12,248
Furniture and equipment	<u>2,042</u>	<u>2,042</u>
	292,192	265,704
Less accumulated depreciation	118,199	103,330
Capital assets, net	<u>\$ 173,993</u>	<u>\$ 162,374</u>

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.

A summary for the 2018 fiscal year budgeted expenses are as follows:

- General government - \$87,150
- Roads and sidewalks - \$45,000
- Sanitation - \$57,000
- Public safety - \$38,000
- Public works - \$35,000

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 Stone 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, 2017 AND 2016

	Governmental Activity	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 245,569	\$ 192,920
Investments	182,597	181,501
Property taxes receivable	4,974	8,298
Other receivables	17,696	16,867
Prepaid expenses	-	345
Capital assets, net of depreciation	<u>173,993</u>	<u>162,374</u>
Total Assets	<u>624,829</u>	<u>562,305</u>
LIABILITIES		
Accounts payable	5,950	5,800
Accrued expenses	<u>1,146</u>	<u>897</u>
Total Liabilities	<u>7,096</u>	<u>6,697</u>
NET POSITION		
Investment in capital assets	173,993	162,374
Unrestricted	354,153	303,418
Restricted	<u>89,587</u>	<u>89,816</u>
Total Net Position	<u>\$ 617,733</u>	<u>\$ 555,608</u>

See accompanying Notes to Financial Statements.

CITY OF ROLLING HILLS, KENTUCKY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

Governmental Activities

PRIMARY GOVERNMENT	2017					2016				
	Charges for Services	Capital Grants	Operating Grants and Contributions	Total		Charges for Services	Capital Grants	Operating Grants and Contributions	Total	
	Expenses				Expenses					
FUNCTIONS/PROGRAMS										
General government	\$ (72,360)	\$ 20,550	\$ -	\$ -	\$ (51,810)	\$ (71,278)	\$ 2,774	\$ -	\$ -	\$ (68,504)
Roads and sidewalks	(15,887)	-	-	19,269	3,382	(25,628)	-	10,000	19,091	3,463
Sanitation	(56,831)	1,659	-	-	(55,172)	(56,276)	4,615	-	-	(51,661)
Public safety	(23,055)	-	-	5,977	(17,078)	(38,706)	-	-	2,355	(36,351)
Public works	(24,664)	-	-	-	(24,664)	(41,710)	-	-	-	(41,710)
Total Primary Government	(192,797)	22,209	-	25,246	(145,342)	(233,598)	7,389	10,000	21,446	(194,763)
GENERAL REVENUES										
Property taxes					125,330					125,242
Delinquent penalties and interest					192					619
Insurance premium taxes					63,585					66,333
Bank franchise deposit tax					10,251					9,440
Public service taxes					4,473					5,291
Investment income					1,164					915
Miscellaneous					2,472					4,802
Total General Revenues					207,467					212,642
CHANGE IN NET ASSETS										
NET POSITION, BEGINNING OF YEAR					62,125					17,879
NET POSITION, END OF YEAR					<u>555,608</u>					<u>537,729</u>
					<u>\$ 617,733</u>					<u>\$ 555,608</u>

See accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

CITY OF ROLLING HILLS, KENTUCKY
BALANCE SHEETS - GOVERNMENTAL FUNDS
JUNE 30, 2017 AND 2016

ASSETS						
	2017			2016		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
Cash	\$ 155,982	\$ 89,587	\$ 245,569	\$ 103,104	\$ 89,816	\$ 192,920
Certificates of deposit	182,597	-	182,597	181,501	-	181,501
Property taxes receivable	4,974	-	4,974	8,298	-	8,298
Other receivables	17,696	-	17,696	16,867	-	16,867
Prepaid expenses	-	-	-	345	-	345
TOTAL ASSETS	\$ 361,249	\$ 89,587	\$ 450,836	\$ 310,115	\$ 89,816	\$ 399,931
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 5,950	\$ -	\$ 5,950	\$ 5,800	\$ -	\$ 5,800
Accrued expenses	1,146	-	1,146	897	-	897
TOTAL LIABILITIES	7,096	-	7,096	6,697	-	6,697
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	4,974	-	4,974	4,400	-	4,400
TOTAL DEFERRED INFLOWS OF RESOURCES	4,974	-	4,974	4,400	-	4,400
FUND BALANCES						
Nonspendable						
Prepaid items	-	-	-	345	-	345
Restricted						
Special Revenue Fund	-	89,587	89,587	-	89,816	89,816
Assigned						
Subsequent year's budget	57,000		57,000	40,300	-	40,300
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	217,179	-	217,179	183,373	-	183,373
TOTAL FUND BALANCES	349,179	89,587	438,766	299,018	89,816	388,834
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 361,249	\$ 89,587	\$ 450,836	\$ 310,115	\$ 89,816	\$ 399,931

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Total fund balances for governmental funds	\$ 438,766	\$ 388,834
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	4,974	4,400
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund	<u>173,993</u>	<u>162,374</u>
Total net position of governmental activities	<u>\$ 617,733</u>	<u>\$ 555,608</u>

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, 2017 AND 2016

	2017			2016		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES						
Property taxes	\$ 124,948	\$ -	\$ 124,948	\$ 127,713	\$ -	\$ 127,713
Insurance taxes	63,585	-	63,585	66,333	-	66,333
Municipal road aid	-	19,269	19,269	-	19,091	19,091
Bank deposit tax	10,251	-	10,251	9,440	-	9,440
Rental property fee	18,200	-	18,200	-	-	-
Licenses, fees, fines, and miscellaneous	4,821	-	4,821	7,576	-	7,576
Cable franchise tax	4,473	-	4,473	5,291	-	5,291
Sanitation revenue	1,659	-	1,659	4,615	-	4,615
Grant income	-	-	-	10,000	-	10,000
Base court revenue	5,977	-	5,977	2,355	-	2,355
Interest income	1,156	8	1,164	909	6	915
Total Revenues	235,070	19,277	254,347	234,232	19,097	253,329
EXPENDITURES						
Sanitation	56,831	-	56,831	56,276	-	56,276
Ground maintenance	24,664	-	24,664	41,710	-	41,710
Police/safety	23,055	-	23,055	38,706	-	38,706
Street lights	24,066	-	24,066	22,047	-	22,047
Road maintenance	1,000	19,506	20,506	31,391	-	31,391
Property valuation assessment	3,279	-	3,279	3,056	-	3,056
Accounting	5,800	-	5,800	5,800	-	5,800
Insurance	6,281	-	6,281	5,609	-	5,609
Legal fees	7,386	-	7,386	8,251	-	8,251
City Clerk/Treasurer salary	8,000	-	8,000	7,200	-	7,200
General government	24,547	-	24,547	19,593	-	19,593
Total Expenditures	184,909	19,506	204,415	239,639	-	239,639
Excess (deficit) of revenues over expenditures	50,161	(229)	49,932	(5,407)	19,097	13,690
CHANGES IN FUND BALANCES	50,161	(229)	49,932	(5,407)	19,097	13,690
FUND BALANCES, BEGINNING OF YEAR	299,018	89,816	388,834	304,425	70,719	375,144
FUND BALANCES, END OF YEAR	\$ 349,179	\$ 89,587	\$ 438,766	\$ 299,018	\$ 89,816	\$ 388,834

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Net change in fund balances - total governmental funds	\$ 49,932	\$ 13,690
The change in net assets reported for governmental activities in the statement of activities is different because:		
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	574	(1,852)
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 (\$26,488 and \$21,999 for 2017 and 2016, respectively) are greater (less) than depreciation (\$14,869 and \$15,958, for 2017 and 2016, respectively) in the current period	<u>11,619</u>	<u>6,041</u>
Change in net assets of governmental activities	<u>\$ 62,125</u>	<u>\$ 17,879</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 Cash Equivalents

The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less (certificates of deposit) to be cash and cash equivalents. The City's checking accounts and money market accounts were insured by federal depository insurance or by collateral held by the custodial banks in the City's name.

Investments

Certificates of deposit with a maturity greater than three months, are valued at amortized cost, which approximates fair value. The City maintains investments in certificates of deposit with maturities varying from 1 to 4 years.

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 become 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, 2017 and 2016 totaling \$89,587 and \$89,816, respectively.

Unrestricted Net Position – This category represents net position not appropriable 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 10, 2018, the date the financial statements were available to be issued.

NOTE C – DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The City invests surplus cash at local financial institutions. This investment plan subjects the City to custodial credit risk, the risk that in the event of financial institution failure the City's deposits may not be recovered. However, the City considers this risk immaterial.

The City categorizes deposits at local financial institutions to give an indication of the level of custodial credit risk assumed by the City at fiscal year end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uncollateralized.

Deposits, categorized by level of risk as June 30, 2017 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash					
PNC Bank	\$ 174,606	\$ 174,606	\$ -	\$ -	\$ 174,606
Chase Bank	89,587	89,587	-	-	89,587
Investments	<u>182,597</u>	<u>182,597</u>	-	-	<u>182,597</u>
	<u>\$ 446,790</u>	<u>\$ 446,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 446,790</u>

At June 30, 2017, the breakdown of investments in certificates of deposit with maturities were as follows:

	<u>Investment Maturities</u>	
	<u>Less than</u>	<u>1-5 years</u>
Total	<u>1 year</u> <u>\$ -</u>	<u>1-5 years</u> <u>\$ 182,597</u>

CITY OF ROLLING HILLS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS

NOTE D – CAPITAL ASSETS

	<u>2017</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$ 251,414	\$ 19,488	\$ -	\$ 270,902
Street signs	12,248	7,000	-	19,248
Furniture and equipment	<u>2,042</u>	<u>-</u>	<u>-</u>	<u>2,042</u>
Total Cost	265,704	26,488	-	292,192
Less: accumulated depreciation	(103,330)	(14,869)	-	(118,199)
Net Book Value	<u>\$ 162,374</u>	<u>\$ 11,619</u>	<u>\$ -</u>	<u>\$ 173,993</u>
	<u>2016</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$ 229,415	\$ 21,999	\$ -	\$ 251,414
Street signs	12,248	-	-	12,248
Furniture and equipment	<u>2,042</u>	<u>-</u>	<u>-</u>	<u>2,042</u>
Total Cost	243,705	21,999	-	265,704
Less: accumulated depreciation	(87,372)	(15,958)	-	(103,330)
Net Book Value	<u>\$ 156,333</u>	<u>\$ 6,041</u>	<u>\$ -</u>	<u>\$ 162,374</u>

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

	<u>2016</u>	<u>2016</u>
General government	\$ -	\$ 5,166
Roads and sidewalks	14,869	10,792
Total	<u>\$ 14,869</u>	<u>\$ 15,958</u>

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

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ROLLING HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULES - GENERAL FUND
YEARS ENDED JUNE 30, 2017 AND 2016

	2017					2016					Variance with Final Budget Positive (Negative)	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)			
	Original	Final		Original	Final	Original	Final		Original	Final		
Resources (inflows):												
Property taxes	\$ 120,000	\$ 120,000	\$ 124,948	\$ 4,948	\$ 120,000	\$ 120,000	\$ 127,713	\$ 7,713				
Insurance taxes	60,000	60,000	63,585	3,585	51,500	51,500	66,333	14,833				
Bank deposit tax	9,000	9,000	10,251	1,251	9,000	9,000	9,440	440				
Licenses, fees, fines, and miscellaneous	8,600	8,600	23,021	14,421	8,400	8,400	7,576	(824)				
Cable TV franchise	4,500	4,500	4,473	(27)	4,500	4,500	5,291	791				
Sanitation revenue	3,100	3,100	1,659	(1,441)	3,100	3,100	4,615	1,515				
Grants	-	-	-	-	-	-	10,000	10,000				
Base court revenue	4,500	-	5,977	5,977	-	-	2,355	2,355				
Interest income	-	-	1,156	1,156	-	-	909	909				
Amounts available for appropriation	209,700	205,200	235,070	29,870	196,500	196,500	234,232	37,732				
Charges to appropriations (outflows):												
Sanitation	56,300	56,300	56,831	(531)	56,300	56,300	56,276	24				
Ground maintenance	27,600	27,600	25,664	1,936	87,500	87,500	73,101	14,399				
Police/safety	31,800	31,800	23,055	8,745	32,200	32,200	38,706	(6,506)				
Street lights	22,000	22,000	24,066	(2,066)	21,000	21,000	22,047	(1,047)				
Property valuation assessment	3,000	3,000	3,279	(279)	3,000	3,000	3,056	(56)				
Accounting	5,600	5,600	5,800	(200)	5,500	5,500	5,800	(300)				
Insurance	6,000	6,000	6,281	(281)	6,000	6,000	5,609	391				
Legal fees	9,000	9,000	7,386	1,614	6,600	6,600	8,251	(1,651)				
City Clerk/Treasurer salary	8,000	8,000	8,000	-	7,200	7,200	7,200	-				
General government	26,000	26,000	24,547	1,453	23,000	23,000	19,593	3,407				
Total charges to appropriations	195,300	195,300	184,909	10,391	248,300	248,300	239,639	8,661				
Net change in fund balance	14,400	9,900	50,161	40,261	(51,800)	(51,800)	(5,407)	46,393				
Fund balance - beginning	299,018	299,018	299,018	-	304,425	304,425	304,425	-				
Fund balance - ending	\$ 313,418	\$ 308,918	\$ 349,179	\$ 40,261	\$ 252,625	\$ 252,625	\$ 299,018	\$ 46,393				

CITY OF ROLLING HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULES - SPECIAL REVENUE FUND
YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016				Variance with Final Budget	
	Budgeted Amounts		Actual Amounts	Positive (Negative)	Budgeted Amounts		Actual Amounts	Positive (Negative)		
	Original	Final			Original	Final				
Resources (inflows):										
Municipal road aid	\$ 20,500	\$ 20,500	\$ 19,269	\$ (1,231)	\$ 20,500	\$ 20,500	\$ 19,091	\$ (1,409)		
Interest income	-	-	8	8	-	-	6	6		
Amounts available for appropriation	<u>20,500</u>	<u>20,500</u>	<u>19,277</u>	<u>(1,223)</u>	<u>20,500</u>	<u>20,500</u>	<u>19,097</u>	<u>(1,403)</u>		
Charges to appropriations (outflows):										
Road maintenance	<u>20,500</u>	<u>20,500</u>	<u>19,506</u>	<u>994</u>	<u>20,500</u>	<u>20,500</u>	<u>-</u>	<u>20,500</u>		
Total charges to appropriations	<u>20,500</u>	<u>20,500</u>	<u>19,506</u>	<u>994</u>	<u>20,500</u>	<u>20,500</u>	<u>-</u>	<u>20,500</u>		
Net change in fund balance	-	-	(229)	(229)	-	-	19,097	19,097		
Fund balance - beginning	<u>89,816</u>	<u>89,816</u>	<u>89,816</u>	<u>-</u>	<u>70,719</u>	<u>70,719</u>	<u>70,719</u>	<u>-</u>		
Fund balance - ending	<u>\$ 89,816</u>	<u>\$ 89,816</u>	<u>\$ 89,587</u>	<u>\$ (229)</u>	<u>\$ 70,719</u>	<u>\$ 70,719</u>	<u>\$ 89,816</u>	<u>\$ 19,097</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, 2017, 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 10, 2018.

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. 2017-1 and 2017-2.

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

Welenken CPAs

Louisville, Kentucky
January 10, 2018

CITY OF ROLLING HILLS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

Findings:

- 2017-1 Based on the City's limited number of accounting personnel, the City lacks proper segregation of duties within the accounting function.
- 2017-2 Material misstatements to the financial statements were identified and corrected as a result of the audit.

Management's Response to Audit Findings:

- 2017-1 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.
- 2017-2 The City Commission will actively monitor and review the monthly general ledger to avoid misstatements in the financial statements.