

**CITY OF ROLLING HILLS, KENTUCKY**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

**CITY OF ROLLING HILLS, KENTUCKY  
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## 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, 2018 and 2017, 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, 2018 and 2017, 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 February 22, 2019, 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 solely 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 the effectiveness of the City of Rolling Hills, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rolling Hills, Kentucky's internal control over financial reporting and compliance.



Welenken CPAs  
Louisville, Kentucky  
February 22, 2019

## **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, 2018. 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 decreased by \$22,530 due in part to the items listed below.
- The City applied sealcoating on certain streets totaling \$67,990.
- The City purchased new street signs totaling \$47,177 that were installed during the fiscal year.

### 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, \$227,313, or 38%, 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, \$28,350, or 5%, represents resources (municipal road aid) that are subject to external restrictions on how they may be used. The remaining balance of \$339,540, or 57%, represents unrestricted net position which may be used to meet the City's ongoing obligations to citizens.

Total assets at June 30, 2018 were \$642,445, of which \$227,313, or 35%, consisted of capital assets. In comparison, total assets at June 30, 2017 and 2016 were \$624,829 and \$562,305, respectively, of which \$173,993, or 28%, and \$162,374, or 29%, consisted of capital assets at June 30, 2017 and 2016, respectively.

A recap of the statements of net position follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 415,132	\$ 450,836	\$ 399,931
Capital assets	<u>227,313</u>	<u>173,993</u>	<u>162,374</u>
Total assets	<u>642,445</u>	<u>624,829</u>	<u>562,305</u>
Total liabilities	<u>47,242</u>	<u>7,096</u>	<u>6,697</u>
Net position:			
Investment in capital assets	227,313	173,993	162,374
Unrestricted	339,540	354,153	303,418
Restricted	<u>28,350</u>	<u>89,587</u>	<u>89,816</u>
Total net position	<u>\$ 595,203</u>	<u>\$ 617,733</u>	<u>\$ 555,608</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A recap of the statements of activities follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues			
Program revenues:			
Charges for services	\$ 19,766	\$ 22,209	\$ 7,389
Capital grants	-	-	10,000
Operating grants and contributions	21,654	25,246	21,446
General revenues:			
Property taxes	124,949	125,522	125,242
Other taxes	81,110	78,309	81,064
Other general revenue	1,287	3,636	6,336
Total revenues	<u>248,766</u>	<u>254,922</u>	<u>251,477</u>
 Program expenses			
General government	77,098	72,360	71,278
Roads and sidewalks	85,377	15,887	25,628
Sanitation	56,933	56,831	56,276
Public safety	28,842	23,055	38,706
Public works	23,046	24,664	41,710
Total expenses	<u>271,296</u>	<u>192,797</u>	<u>233,598</u>
 Change in net position	(22,530)	62,125	17,879
 Net position - beginning of year	<u>617,733</u>	<u>555,608</u>	<u>537,729</u>
 Net position - end of year	<u>\$ 595,203</u>	<u>\$ 617,733</u>	<u>\$ 555,608</u>

Governmental activities decreased the City's net position in fiscal year 2018 by \$22,530. The decrease was attributable in part to the purchase and installation of new road signs throughout the City and sealcoating of streets. Total expenses for 2018 were \$78,499 greater than prior year, as explained above. Total revenues for fiscal year 2018 were \$6,156 less 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 \$365,212, which is a decrease of \$73,554 from prior year. The General Fund is the chief operating fund of the City. At the end of the 2018 fiscal year, the General Fund balance was \$336,862, of which \$257,111 is unassigned, which means it is available for spending at the government's discretion.

The Special Revenue Fund has a total fund balance of \$28,350. The net decrease in the Special Revenue Fund balance was \$61,237 from the prior year due to the City being over budget by \$63,590 on road maintenance.

## 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 \$18,005 less than the final budgeted amounts. The most significant negative variance occurred in the City's land purchase. The most significant positive variance occurred in the City's ground maintenance expense.

In addition, resources available for appropriation were \$26,678 greater than the final budgeted amount. The final budget included \$124,800 of property tax revenue in comparison to the \$127,245 collected. The most significant positive variance occurred in the City's insurance taxes. The most significant negative variance occurred in the City's base court revenue.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### **A. Capital Assets**

The City's investment in capital assets for governmental activities as of June 30, 2018 and 2017, was \$227,313 and \$173,993, respectively (net of accumulated depreciation).

	Capital Assets Governmental Activities	
	June 30, 2018	June 30, 2017
Infrastructure	\$ 283,502	\$ 270,902
Signs	54,177	19,248
Land	8,800	-
Furniture and equipment	4,798	2,042
	<u>351,277</u>	<u>292,192</u>
Less accumulated depreciation	<u>123,964</u>	<u>118,199</u>
Capital assets, net	<u>\$ 227,313</u>	<u>\$ 173,993</u>

#### **B. Long-Term Debt**

The City has no long-term debt.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In fiscal year 2019, the City purchased land and financed the purchase with a bond issue. The City's budget for fiscal year 2019 includes debt repayment. The City has no rate changes for the next fiscal year.

A summary for the 2019 fiscal year budgeted expenses are as follows:

- General government - \$87,360
- Roads and sidewalks - \$27,000
- Sanitation - \$57,000
- Public safety - \$37,500
- Public works - \$45,560
- Land purchase - \$206,500
- Debt repayment - \$21,850

### 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 Elissa Gustafsson, 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, 2018 AND 2017**

	Governmental Activity	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 208,956	\$ 245,569
Investments	183,646	182,597
Property taxes receivable	2,678	4,974
Other receivables	19,852	17,696
Capital assets, net of depreciation	227,313	173,993
Total Assets	642,445	624,829
 <b>LIABILITIES</b>		
Accounts payable	46,100	5,950
Accrued expenses	1,142	1,146
Total Liabilities	47,242	7,096
 <b>NET POSITION</b>		
Investment in capital assets	227,313	173,993
Unrestricted	339,540	354,153
Restricted	28,350	89,587
Total Net Position	\$ 595,203	\$ 617,733

See accompanying Notes to Financial Statements.

**CITY OF ROLLING HILLS, KENTUCKY  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2018 AND 2017**

Governmental Activities

	2018				2017			
	Expenses	Charges for Services	Operating Grants and Contributions	Total	Expenses	Charges for Services	Operating Grants and Contributions	Total
<b>PRIMARY GOVERNMENT</b>								
<u>FUNCTIONS/PROGRAMS</u>								
General government	\$ (77,098)	\$ 17,800	\$ -	\$ (59,298)	\$ (72,360)	\$ 20,550	\$ -	\$ (51,810)
Roads and sidewalks	(85,377)	-	19,346	(66,031)	(15,887)	-	19,269	3,382
Sanitation	(56,933)	1,966	-	(54,967)	(56,831)	1,659	-	(55,172)
Public safety	(28,842)	-	2,308	(26,534)	(23,055)	-	5,977	(17,078)
Public works	(23,046)	-	-	(23,046)	(24,664)	-	-	(24,664)
Total Primary Government	(271,296)	19,766	21,654	(229,876)	(192,797)	22,209	25,246	(145,342)
<b>GENERAL REVENUES</b>								
Property taxes				124,949				125,522
Insurance premium taxes				66,113				63,585
Bank franchise deposit tax				10,520				10,251
Public service taxes				4,477				4,473
Investment income				1,357				1,164
Loss on disposal of assets				(120)				-
Miscellaneous				50				2,472
Total General Revenues				207,346				207,467
<b>CHANGE IN NET ASSETS</b>				(22,530)				62,125
<b>NET POSITION, BEGINNING OF YEAR</b>				617,733				555,608
<b>NET POSITION, END OF YEAR</b>				<u>\$ 595,203</u>				<u>\$ 617,733</u>

See accompanying Notes to Financial Statements.

## **FUND FINANCIAL STATEMENTS**

**CITY OF ROLLING HILLS, KENTUCKY  
BALANCE SHEETS - GOVERNMENTAL FUNDS  
JUNE 30, 2018 AND 2017**

**ASSETS**

	<b>2018</b>			<b>2017</b>		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
Cash and cash equivalents	\$ 140,606	\$ 68,350	\$ 208,956	\$ 155,982	\$ 89,587	\$ 245,569
Certificates of deposit	183,646	-	183,646	182,597	-	182,597
Property taxes receivable	2,678	-	2,678	4,974	-	4,974
Other receivables	19,852	-	19,852	17,696	-	17,696
<b>TOTAL ASSETS</b>	<b><u>\$ 346,782</u></b>	<b><u>\$ 68,350</u></b>	<b><u>\$ 415,132</u></b>	<b><u>\$ 361,249</u></b>	<b><u>\$ 89,587</u></b>	<b><u>\$ 450,836</u></b>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**

**LIABILITIES**

Accounts payable	\$ 6,100	\$ 40,000	\$ 46,100	\$ 5,950	\$ -	\$ 5,950
Accrued expenses	1,142	-	1,142	1,146	-	1,146
<b>TOTAL LIABILITIES</b>	<b><u>7,242</u></b>	<b><u>40,000</u></b>	<b><u>47,242</u></b>	<b><u>7,096</u></b>	<b><u>-</u></b>	<b><u>7,096</u></b>

**DEFERRED INFLOWS OF RESOURCES**

Unavailable revenue - property taxes	2,678	-	2,678	4,974	-	4,974
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>2,678</u></b>	<b><u>-</u></b>	<b><u>2,678</u></b>	<b><u>4,974</u></b>	<b><u>-</u></b>	<b><u>4,974</u></b>

**FUND BALANCES**

Restricted						
Special Revenue Fund	-	21,350	21,350	-	89,587	89,587
Assigned						
Subsequent year's budget	4,751	7,000	11,751	57,000	-	57,000
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	257,111	-	257,111	217,179	-	217,179
<b>TOTAL FUND BALANCES</b>	<b><u>336,862</u></b>	<b><u>28,350</u></b>	<b><u>365,212</u></b>	<b><u>349,179</u></b>	<b><u>89,587</u></b>	<b><u>438,766</u></b>

**TOTAL LIABILITIES, DEFERRED INFLOWS  
OF RESOURCES, AND FUND BALANCES**

<b><u>\$ 346,782</u></b>	<b><u>\$ 68,350</u></b>	<b><u>\$ 415,132</u></b>	<b><u>\$ 361,249</u></b>	<b><u>\$ 89,587</u></b>	<b><u>\$ 450,836</u></b>
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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, 2018 AND 2017**

	2018	2017
Total fund balances for governmental funds	\$ 365,212	\$ 438,766
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	2,678	4,974
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund	227,313	173,993
Total net position of governmental activities	\$ 595,203	\$ 617,733

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, 2018 AND 2017**

	<b>2018</b>			<b>2017</b>		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 127,245	\$ -	\$ 127,245	\$ 124,948	\$ -	\$ 124,948
Insurance taxes	66,113	-	66,113	63,585	-	63,585
Municipal road aid	-	19,346	19,346	-	19,269	19,269
Bank deposit tax	10,520	-	10,520	10,251	-	10,251
Rental property fee	13,800	-	13,800	18,200	-	18,200
Licenses, fees, fines, and miscellaneous	4,050	-	4,050	4,821	-	4,821
Cable franchise tax	4,477	-	4,477	4,473	-	4,473
Sanitation revenue	1,966	-	1,966	1,659	-	1,659
Base court revenue	2,308	-	2,308	5,977	-	5,977
Interest income	1,349	7	1,356	1,156	8	1,164
Total Revenues	<u>231,828</u>	<u>19,353</u>	<u>251,181</u>	<u>235,070</u>	<u>19,277</u>	<u>254,347</u>
<b>EXPENDITURES</b>						
Sanitation	56,933	-	56,933	56,831	-	56,831
Ground maintenance	23,046	-	23,046	24,664	-	24,664
Police/safety	28,842	-	28,842	23,055	-	23,055
Street lights	22,347	-	22,347	24,066	-	24,066
Road maintenance and signs	47,177	80,590	127,767	1,000	19,488	20,488
Property valuation assessment	3,397	-	3,397	3,279	-	3,279
Accounting	6,100	-	6,100	5,800	-	5,800
Insurance	5,671	-	5,671	6,281	-	6,281
Legal fees	8,164	-	8,164	7,386	-	7,386
City Clerk/Treasurer salary	8,000	-	8,000	8,000	-	8,000
Land purchase	8,800	-	8,800	-	-	-
General government	25,668	-	25,668	24,547	18	24,565
Total Expenditures	<u>244,145</u>	<u>80,590</u>	<u>324,735</u>	<u>184,909</u>	<u>19,506</u>	<u>204,415</u>
Excess (deficit) of revenues over expenditures	<u>(12,317)</u>	<u>(61,237)</u>	<u>(73,554)</u>	<u>50,161</u>	<u>(229)</u>	<u>49,932</u>
<b>CHANGES IN FUND BALANCES</b>	<u>(12,317)</u>	<u>(61,237)</u>	<u>(73,554)</u>	<u>50,161</u>	<u>(229)</u>	<u>49,932</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>349,179</u>	<u>89,587</u>	<u>438,766</u>	<u>299,018</u>	<u>89,816</u>	<u>388,834</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 336,862</u>	<u>\$ 28,350</u>	<u>\$ 365,212</u>	<u>\$ 349,179</u>	<u>\$ 89,587</u>	<u>\$ 438,766</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, 2018 AND 2017**

	2018	2017
Net change in fund balances - total governmental funds	\$ (73,554)	\$ 49,932
 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		
	(2,297)	574
 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		
Capital outlay	71,333	26,488
Depreciation expense	(17,892)	(14,869)
Loss on disposal of assets	(120)	-
Change in net assets of governmental activities	\$ (22,530)	\$ 62,125

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.

#### **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 2 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 became available.

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

### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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:

**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, 2018 and 2017 totaling \$28,350 and \$89,587, 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 February 22, 2019, 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, 2018 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	\$ 141,788	\$ 141,788	\$ -	\$ -	\$ 141,788
Chase Bank	142,434	142,434	-	-	142,434
L&N Credit Union	152,975	152,975	-	-	152,975
	<u>\$ 437,197</u>	<u>\$ 437,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 437,197</u>

At June 30, 2018, the breakdown of investments in certificates of deposit with maturities were as follows:

<u>Total</u>	<u>Investment Maturities</u>	
	<u>Less than 1 year</u>	<u>1-5 years</u>
<u>\$183,646</u>	<u>\$ -</u>	<u>\$183,646</u>

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

**NOTE D – CAPITAL ASSETS**

	<b><u>2018</u></b>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$270,902	\$ 12,600	\$ -	\$ 283,502
Street signs	19,248	47,177	( 12,248)	54,177
Land	-	8,800	-	8,800
Furniture and equipment	<u>2,042</u>	<u>2,756</u>	<u>-</u>	<u>4,798</u>
Total Cost	292,192	71,333	( 12,248)	351,277
Less: accumulated depreciation	( 118,199)	( 17,893)	<u>12,128</u>	( 123,964)
Net Book Value	<u>\$173,993</u>	<u>\$ 53,440</u>	( \$ 120)	<u>\$ 227,313</u>

	<b><u>2017</u></b>			
	<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)	<u>-</u>	( 118,199)
Net Book Value	<u>\$162,374</u>	<u>\$ 11,619</u>	<u>\$ -</u>	<u>\$ 173,993</u>

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

	<u>2018</u>	<u>2017</u>
General government	\$ 505	\$ -
Roads and sidewalks	17,388	14,869
Total	<u>\$ 17,893</u>	<u>\$ 14,869</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.

**NOTE F – SUBSEQUENT EVENT**

During July 2018, the City purchased land totaling \$206,500. The City also obtained financing totaling \$215,000 from the Kentucky League of Cities for this purchase. Monthly payments of \$1,838 for interest and principal became payable on September 3, 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF ROLLING HILLS, KENTUCKY  
BUDGETARY COMPARISON SCHEDULES - GENERAL FUND  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018				2017			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
<b>Resources (inflows):</b>								
Property taxes	\$ 124,800	\$ 124,800	\$ 127,245	\$ 2,445	\$ 127,000	\$ 127,000	\$ 124,948	\$ (2,052)
Insurance taxes	42,000	42,000	66,113	24,113	60,000	60,000	63,585	3,585
Bank deposit tax	9,000	9,000	10,520	1,520	9,000	9,000	10,251	1,251
Licenses, fees, fines, and miscellaneous	15,904	15,904	17,850	1,946	7,300	7,300	23,021	15,721
Cable TV franchise	4,000	4,000	4,477	477	4,500	4,500	4,473	(27)
Sanitation revenue	4,446	4,446	1,966	(2,480)	3,100	3,100	1,659	(1,441)
Base court revenue	5,000	5,000	2,308	(2,692)	4,500	4,500	5,977	1,477
Interest income	-	-	1,349	1,349	-	-	1,156	1,156
Miscellaneous income	-	-	-	-	1,300	1,300	-	(1,300)
Amounts available for appropriation	<u>205,150</u>	<u>205,150</u>	<u>231,828</u>	<u>26,678</u>	<u>216,700</u>	<u>216,700</u>	<u>235,070</u>	<u>18,370</u>
<b>Charges to appropriations (outflows):</b>								
Sanitation	57,000	57,000	56,933	67	56,300	56,300	56,831	(531)
Ground maintenance	35,000	35,000	23,046	11,954	27,600	27,600	25,664	1,936
Police/safety	38,000	38,000	28,842	9,158	86,800	86,800	23,055	63,745
Road signs	45,000	45,000	47,177	(2,177)	-	-	-	-
Street lights	22,000	22,000	22,347	(347)	22,000	22,000	24,066	(2,066)
Property valuation assessment	3,500	3,500	3,397	103	3,000	3,000	3,279	(279)
Accounting	5,950	5,950	6,100	(150)	5,800	5,800	5,800	-
Insurance	6,000	6,000	5,671	329	6,000	6,000	6,281	(281)
Legal fees	10,000	10,000	8,164	1,836	9,000	9,000	7,386	1,614
City Clerk/Treasurer salary	8,000	8,000	8,000	-	8,000	8,000	8,000	-
General government	25,700	25,700	22,912	2,788	26,000	26,000	24,547	1,453
Land purchase	-	-	8,800	(8,800)	-	-	-	-
Technical upgrades	6,000	6,000	2,756	3,244	-	-	-	-
Total charges to appropriations	<u>262,150</u>	<u>262,150</u>	<u>244,145</u>	<u>18,005</u>	<u>250,500</u>	<u>250,500</u>	<u>184,909</u>	<u>65,591</u>
Excess of revenues over (under) expenditures	<u>(57,000)</u>	<u>(57,000)</u>	<u>(12,317)</u>	<u>44,683</u>	<u>(33,800)</u>	<u>(33,800)</u>	<u>50,161</u>	<u>83,961</u>
<b>Other financing sources</b>								
Budgeted use of surplus	57,000	57,000	-	(57,000)	33,800	33,800	-	(33,800)
Total other financing sources	<u>57,000</u>	<u>57,000</u>	<u>-</u>	<u>(57,000)</u>	<u>33,800</u>	<u>33,800</u>	<u>-</u>	<u>(33,800)</u>
Net change in fund balance	-	-	(12,317)	(12,317)	-	-	50,161	50,161
Fund balance - beginning	<u>349,179</u>	<u>349,179</u>	<u>349,179</u>	<u>-</u>	<u>299,018</u>	<u>299,018</u>	<u>299,018</u>	<u>-</u>
Fund balance - ending	<u>\$ 292,179</u>	<u>\$ 292,179</u>	<u>\$ 336,862</u>	<u>\$ 44,683</u>	<u>\$ 265,218</u>	<u>\$ 265,218</u>	<u>\$ 349,179</u>	<u>\$ 83,961</u>

**CITY OF ROLLING HILLS, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULES - SPECIAL REVENUE FUND**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>				<b>2017</b>			
	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>			<u>Original</u>	<u>Final</u>		
Resources (inflows):								
Municipal road aid	\$ 17,000	\$ 17,000	\$ 19,346	\$ 2,346	\$ 20,500	\$ 20,500	\$ 19,269	\$ (1,231)
Interest income	-	-	7	7	-	-	8	8
Amounts available for appropriation	<u>17,000</u>	<u>17,000</u>	<u>19,353</u>	<u>2,353</u>	<u>20,500</u>	<u>20,500</u>	<u>19,277</u>	<u>(1,223)</u>
Charges to appropriations (outflows):								
Road maintenance	<u>17,000</u>	<u>17,000</u>	<u>80,590</u>	<u>(63,590)</u>	<u>27,000</u>	<u>27,000</u>	<u>19,506</u>	<u>7,494</u>
Total charges to appropriations	<u>17,000</u>	<u>17,000</u>	<u>80,590</u>	<u>(63,590)</u>	<u>27,000</u>	<u>27,000</u>	<u>19,506</u>	<u>7,494</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(61,237)</u>	<u>(61,237)</u>	<u>(6,500)</u>	<u>(6,500)</u>	<u>(229)</u>	<u>6,271</u>
Other financing sources								
Budgeted use of surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,500</u>	<u>6,500</u>	<u>-</u>	<u>(6,500)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,500</u>	<u>6,500</u>	<u>-</u>	<u>(6,500)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(61,237)</u>	<u>(61,237)</u>	<u>-</u>	<u>-</u>	<u>(229)</u>	<u>(229)</u>
Fund balance - beginning	<u>89,587</u>	<u>89,587</u>	<u>89,587</u>	<u>-</u>	<u>89,816</u>	<u>89,816</u>	<u>89,816</u>	<u>-</u>
Fund balance - ending	<u>\$ 89,587</u>	<u>\$ 89,587</u>	<u>\$ 28,350</u>	<u>\$ (61,237)</u>	<u>\$ 83,316</u>	<u>\$ 83,316</u>	<u>\$ 89,587</u>	<u>\$ 6,271</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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 22, 2019.

**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; 2018–1.

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  
February 22, 2019

**CITY OF ROLLING HILLS, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2018**

**Findings:**

2018-1 Based on the City's limited number of accounting personnel, the City lacks proper segregation of duties within the accounting function.

**Management's Response to Audit Findings:**

2018-1 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.