

CITY OF ROLLING HILLS, KENTUCKY
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**CITY OF ROLLING HILLS, KENTUCKY
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YEARS ENDED JUNE 30, 2019 AND 2018**

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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, 2019 and 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2019 and 2018, 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 December 3, 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
December 3, 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, 2019. 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 \$33,381.
- The City purchased land totaling \$206,500. The City's long term plan is to develop the land into a park for the City.
- The City obtained long-term financing to purchase the land through the Kentucky Bond Corporation, which is affiliated with Kentucky League of Cities.

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, \$412,510, or 66%, 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, \$34,939, or 5%, represents resources (municipal road aid) that are subject to external restrictions on how they may be used. The remaining balance of \$181,135, or 29%, represents unrestricted net position which may be used to meet the City's ongoing obligations to citizens.

Total assets at June 30, 2019 were \$852,772, of which \$412,510, or 48%, consisted of capital assets. In comparison, total assets at June 30, 2018 and 2017 were \$642,445 and \$624,829, respectively, of which \$227,313, or 35%, and \$173,993, or 28%, consisted of capital assets at June 30, 2018 and 2017 respectively.

A recap of the statements of net position follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 440,262	\$ 415,132	\$ 450,836
Capital assets	<u>412,510</u>	<u>227,313</u>	<u>173,993</u>
Total assets	<u>852,772</u>	<u>642,445</u>	<u>624,829</u>
Current liabilities	28,355	47,242	7,096
Long-term debt	<u>195,833</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>224,188</u>	<u>47,242</u>	<u>7,096</u>
Net position:			
Investment in capital assets	412,510	227,313	173,993
Unrestricted	181,135	339,540	354,153
Restricted	<u>34,939</u>	<u>28,350</u>	<u>89,587</u>
Total net position	<u>\$ 628,584</u>	<u>\$ 595,203</u>	<u>\$ 617,733</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

A recap of the statements of activities follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
Program revenues:			
Charges for services	\$ 20,046	\$ 19,766	\$ 22,209
Operating grants and contributions	24,043	21,654	25,246
General revenues:			
Property taxes	129,894	124,949	125,330
Other taxes	91,965	81,110	78,309
Other general revenue	4,944	1,287	3,828
Total revenues	270,892	248,766	254,922
Program expenses			
General government	76,160	77,098	72,360
Roads and sidewalks	34,239	85,377	15,887
Sanitation	56,968	56,933	56,831
Public safety	33,626	28,842	23,055
Public works	23,947	23,046	24,664
Interest and costs on long-term debt	12,571	-	-
Total expenses	237,511	271,296	192,797
Change in net position	33,381	(22,530)	62,125
Net position - beginning of year	595,203	617,733	555,608
Net position - end of year	\$ 628,584	\$ 595,203	\$ 617,733

Governmental activities increased the City's net position in fiscal year 2019 by \$33,381. The increase was attributable to revenues greater than expenses. Total expenses for 2019 were \$33,785 less than prior year. Prior year expenses included sealcoating of streets. Total revenues for fiscal year 2019 were \$22,126 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 \$420,061, which is an increase of \$54,849 from prior year. The General Fund is the chief operating fund of the City. At the end of the 2019 fiscal year, the General Fund balance was \$385,122, of which \$260,122 is unassigned, which means it is available for spending at the government's discretion.

The Special Revenue Fund has a total fund balance of \$34,939. The net increase in the Special Revenue Fund balance was \$6,589 from the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its original budget. The actual charges to appropriations (expenditures) were \$38,943 less than the final budgeted amounts. There were no significant negative variances. The most significant positive variance occurred in the City's ground maintenance expense, which was \$21,613 under budget.

In addition, resources available for appropriation were \$14,068 greater than the final budgeted amount. The final budget included \$127,619 of property tax revenue in comparison to the \$130,726 collected. The most significant positive variance occurred in the City's insurance taxes, which was \$4,447 over final budget. There were no significant negative variances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The City's investment in capital assets for governmental activities as of June 30, 2019 and 2018, was \$412,510 and \$227,313, respectively (net of accumulated depreciation).

	Capital Assets Governmental Activities	
	June 30, 2019	June 30, 2018
Infrastructure	\$ 283,502	\$ 283,502
Signs	54,177	54,177
Land	215,300	8,800
Furniture and equipment	4,798	4,798
	<u>557,777</u>	<u>351,277</u>
Less accumulated depreciation	145,267	123,964
Capital assets, net	<u>\$ 412,510</u>	<u>\$ 227,313</u>

B. Long-Term Debt

The City entered into an agreement with Kentucky Bond Corporation during the 2019 fiscal year to borrow \$215,000 to be repaid over 15 years. The outstanding balance at June 30, 2019 was \$205,833. The City did not have any long-term debt in fiscal year 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's budget for fiscal year 2020 includes debt repayment. The City has no rate changes for the next fiscal year.

A summary for the 2020 fiscal year budgeted expenses are as follows:

- General government - \$66,440
- Roads and sidewalks - \$50,000
- Sanitation - \$62,500
- Street lights - \$26,000
- Public safety - \$36,000
- Public works - \$90,700
- Debt repayment - \$17,660

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, 2019 AND 2018

	Governmental Activity	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 271,221	\$ 208,956
Investments	138,526	183,646
Property taxes receivable	1,846	2,678
Other receivables	28,669	19,852
Capital assets		
Land	215,300	-
Capital assets, net of depreciation	197,210	227,313
Total Assets	852,772	642,445
 LIABILITIES		
Accounts payable	17,138	46,100
Accrued expenses	1,217	1,142
Non-current liabilities:		
Note payable - due within one year	10,000	-
Note payable - due in more than one year	195,833	-
Total Liabilities	224,188	47,242
 NET POSITION		
Investment in capital assets	412,510	227,313
Unrestricted	181,135	339,540
Restricted	34,939	28,350
Total Net Position	\$ 628,584	\$ 595,203

See accompanying Notes to Financial Statements.

**CITY OF ROLLING HILLS, KENTUCKY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	Governmental Activities							
	2019				2018			
PRIMARY GOVERNMENT	Expenses	Charges for Services	Operating Grants and Contributions	Total	Expenses	Charges for Services	Operating Grants and Contributions	Total
<u>FUNCTIONS/PROGRAMS</u>								
General government	\$ (76,160)	\$ 15,600	\$ -	\$ (60,560)	\$ (77,098)	\$ 17,800	\$ -	\$ (59,298)
Roads and sidewalks	(34,239)	-	19,599	(14,640)	(85,377)	-	19,346	(66,031)
Sanitation	(56,968)	4,446	-	(52,522)	(56,933)	1,966	-	(54,967)
Public safety	(33,626)	-	4,444	(29,182)	(28,842)	-	2,308	(26,534)
Public works	(23,947)	-	-	(23,947)	(23,046)	-	-	(23,046)
Interest and costs on long-term debt	(12,571)	-	-	(12,571)	-	-	-	-
Total Primary Government	(237,511)	20,046	24,043	(193,422)	(271,296)	19,766	21,654	(229,876)
GENERAL REVENUES								
Property taxes				129,894				124,949
Insurance premium taxes				68,447				66,113
Bank franchise deposit tax				18,941				10,520
Public service taxes				4,577				4,477
Investment income				3,994				1,357
Loss on disposal of assets				-				(120)
Miscellaneous				950				50
Total General Revenues				226,803				207,346
CHANGE IN NET ASSETS				33,381				(22,530)
NET POSITION, BEGINNING OF YEAR				595,203				617,733
NET POSITION, END OF YEAR				\$ 628,584				\$ 595,203

See accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

**CITY OF ROLLING HILLS, KENTUCKY
BALANCE SHEETS - GOVERNMENTAL FUNDS
JUNE 30, 2019 AND 2018**

ASSETS

	2019			2018		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
Cash and cash equivalents	\$ 237,870	\$ 33,351	\$ 271,221	\$ 140,606	\$ 68,350	\$ 208,956
Certificates of deposit	138,526	-	138,526	183,646	-	183,646
Property taxes receivable	1,846	-	1,846	2,678	-	2,678
Other receivables	27,081	1,588	28,669	19,852	-	19,852
TOTAL ASSETS	<u>\$ 405,323</u>	<u>\$ 34,939</u>	<u>\$ 440,262</u>	<u>\$ 346,782</u>	<u>\$ 68,350</u>	<u>\$ 415,132</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 17,138	\$ -	\$ 17,138	\$ 6,100	\$ 40,000	\$ 46,100
Accrued expenses	1,217	-	1,217	1,142	-	1,142
TOTAL LIABILITIES	<u>18,355</u>	<u>-</u>	<u>18,355</u>	<u>7,242</u>	<u>40,000</u>	<u>47,242</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	1,846	-	1,846	2,678	-	2,678
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,846</u>	<u>-</u>	<u>1,846</u>	<u>2,678</u>	<u>-</u>	<u>2,678</u>

FUND BALANCES

Restricted						
Special Revenue Fund	-	3,939	3,939	-	21,350	21,350
Assigned						
Subsequent year's budget	50,000	31,000	81,000	4,751	7,000	11,751
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	260,122	-	260,122	257,111	-	257,111
TOTAL FUND BALANCES	<u>385,122</u>	<u>34,939</u>	<u>420,061</u>	<u>336,862</u>	<u>28,350</u>	<u>365,212</u>

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

<u>\$ 405,323</u>	<u>\$ 34,939</u>	<u>\$ 440,262</u>	<u>\$ 346,782</u>	<u>\$ 68,350</u>	<u>\$ 415,132</u>
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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, 2019 AND 2018**

	2019	2018
Total fund balances for governmental funds	\$ 420,061	\$ 365,212
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.	1,846	2,678
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund.	197,210	227,313
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(205,833)	-
Total net position of governmental activities	\$ 413,284	\$ 595,203

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, 2019 AND 2018

	2019			2018		
	General Fund	Special Revenue Fund	Total Governmental Funds	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES						
Property taxes	\$ 130,726	\$ -	\$ 130,726	\$ 127,245	\$ -	\$ 127,245
Insurance taxes	68,447	-	68,447	66,113	-	66,113
Municipal road aid	-	19,599	19,599	-	19,346	19,346
Bank deposit tax	18,941	-	18,941	10,520	-	10,520
Rental property fee	12,200	-	12,200	13,800	-	13,800
Licenses, fees, fines, and miscellaneous	4,350	-	4,350	4,050	-	4,050
Cable franchise tax	4,578	-	4,578	4,477	-	4,477
Sanitation revenue	4,446	-	4,446	1,966	-	1,966
Base court revenue	4,444	-	4,444	2,308	-	2,308
Interest income	3,955	40	3,995	1,349	7	1,356
Total Revenues	252,087	19,639	271,726	231,828	19,353	251,181
EXPENDITURES						
Sanitation	56,968	-	56,968	56,933	-	56,933
Ground maintenance	23,947	-	23,947	23,046	-	23,046
Police/safety	33,626	-	33,626	28,842	-	28,842
Street lights	23,458	-	23,458	22,347	-	22,347
Road maintenance and signs	439	13,050	13,489	47,177	80,590	127,767
Property valuation assessment	3,445	-	3,445	3,397	-	3,397
Accounting	6,250	-	6,250	6,100	-	6,100
Insurance	5,676	-	5,676	5,671	-	5,671
Legal fees	7,490	-	7,490	8,164	-	8,164
City Clerk/Treasurer salary	8,000	-	8,000	8,000	-	8,000
Land purchase	206,500	-	206,500	8,800	-	8,800
General government	21,290	-	21,290	25,668	-	25,668
Debt service:						
Principal	9,167	-	9,167	-	-	-
Interest	6,318	-	6,318	-	-	-
Cost of debt issuance	6,253	-	6,253	-	-	-
Total Expenditures	418,827	13,050	431,877	244,145	80,590	324,735
Excess (deficiency) of revenues over (under) expenditures	<u>(166,740)</u>	<u>6,589</u>	<u>(160,151)</u>	<u>(12,317)</u>	<u>(61,237)</u>	<u>(73,554)</u>
OTHER FINANCING SOURCES						
Proceeds from debt	215,000	-	215,000	-	-	-
Total other financing sources	215,000	-	215,000	-	-	-
CHANGES IN FUND BALANCES	48,260	6,589	54,849	(12,317)	(61,237)	(73,554)
FUND BALANCES, BEGINNING OF YEAR	336,862	28,350	365,212	349,179	89,587	438,766
FUND BALANCES, END OF YEAR	\$ 385,122	\$ 34,939	\$ 420,061	\$ 336,862	\$ 28,350	\$ 365,212

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, 2019 AND 2018**

	2019	2018
Net change in fund balances - total governmental funds	\$ 54,849	\$(73,554)
<p>The change in net assets reported for governmental activities in the statement of activities is different because:</p>		
<p style="padding-left: 40px;">Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.</p>	(834)	(2,297)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	206,500	71,333
Depreciation expense	(21,301)	(17,892)
Loss on disposal of assets	-	(120)
<p>Long-term debt proceeds provide current financial resources to governmental funds, however issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, however the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Note payable proceeds	(215,000)	-
Principle payments	9,167	-
Change in net assets of governmental activities	\$ 33,381	\$(22,530)

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.

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.

CITY OF ROLLING HILLS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018 totaling \$34,939 and \$28,350, 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 December 3, 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 does not have a formal policy on deposits and investments or custodial credit risk.

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, 2019 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	\$ 176,206	\$ 176,206	\$ -	\$ -	\$ 176,206
Chase Bank	46,493	46,493	-	-	46,493
Stock Yards Bank	33,351	33,351	-	-	33,351
L&N Credit Union	154,905	154,905	-	-	154,905
	<u>\$ 410,955</u>	<u>\$ 410,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 410,955</u>

At June 30, 2019, 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>\$138,526</u>	<u>\$ -</u>	<u>\$138,526</u>

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

NOTE D – CAPITAL ASSETS

	<u>2019</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$283,502	\$ -	\$ -	\$ 283,502
Street signs	54,177	-	-	54,177
Land	8,800	206,500	-	215,300
Furniture and equipment	<u>4,798</u>	<u>-</u>	<u>-</u>	<u>4,798</u>
Total Cost	351,277	206,500	-	557,777
Less: accumulated depreciation	(<u>123,964</u>)	(<u>21,303</u>)	<u>-</u>	(<u>145,267</u>)
Net Book Value	<u>\$227,313</u>	<u>\$ 185,197</u>	<u>\$ -</u>	<u>\$ 412,510</u>

	<u>2018</u>			
	<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	(<u>118,199</u>)	(<u>17,893</u>)	<u>12,128</u>	(<u>123,964</u>)
Net Book Value	<u>\$173,993</u>	<u>\$ 53,440</u>	(<u>\$ 120</u>)	<u>\$ 227,313</u>

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

	<u>2019</u>	<u>2018</u>
General government	\$ 552	\$ 505
Roads and sidewalks	<u>20,751</u>	<u>17,388</u>
Total	<u>\$ 21,303</u>	<u>\$ 17,893</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 – LONG-TERM DEBT

The City entered into an agreement with Kentucky Bond Corporation (KBC) on August 2, 2018 for financing the purchase of land. The agreement terminates on February 1, 2033. The agreement requires monthly payments of principal, interest, and fees. The note has a 3.25% interest rate. In the event of default, KBC may take one or any combinations of the following remedial steps; 1) levy all the taxable property in the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due, 2) take legal title to, and sell or re-lease the Project or any portion thereof, or 3) take whatever action at law or in equity that may appear necessary or desirable to enforce its rights in and to the Project under the lease.

Changes in long-term obligations for the year ended June 30, 2019, are as follows:

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>	<u>Due within one year</u>
Notes from direct borrowings	<u>\$ -</u>	<u>\$215,000</u>	<u>(\$ 9,167)</u>	<u>\$205,833</u>	<u>\$10,000</u>

Debt service requirements on long-term debt at June 30, 2019, are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
2020	\$ 10,000	\$ 6,689	\$ 965	\$ 17,654
2021	10,000	6,364	940	17,304
2022	12,083	6,040	915	19,038
2023	15,000	5,647	884	21,531
2024	15,000	5,159	847	21,006
2025-2029	75,000	18,538	3,672	97,210
2030-2033	<u>68,750</u>	<u>5,268</u>	<u>2,022</u>	<u>76,040</u>
	<u>\$205,833</u>	<u>\$53,705</u>	<u>\$10,245</u>	<u>\$269,783</u>

The City paid \$6,318 in interest expense and \$6,253 in fees during fiscal year 2019.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ROLLING HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULES - GENERAL FUND
YEARS ENDED JUNE 30, 2019 AND 2018

	2019				2018			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Resources (inflows):								
Property taxes	\$ 127,619	\$ 127,619	\$ 130,726	\$ 3,107	\$ 124,800	\$ 124,800	\$ 127,245	\$ 2,445
Insurance taxes	42,000	64,000	68,447	4,447	42,000	42,000	66,113	24,113
Bank deposit tax	10,250	18,900	18,941	41	9,000	9,000	10,520	1,520
Licenses, fees, fines, and miscellaneous	13,600	15,400	16,550	1,150	15,904	15,904	17,850	1,946
Cable TV franchise	4,400	4,400	4,578	178	4,000	4,000	4,477	477
Sanitation revenue	4,460	4,400	4,446	46	4,446	4,446	1,966	(2,480)
Base court revenue	5,000	3,300	4,444	1,144	5,000	5,000	2,308	(2,692)
Interest income	-	-	3,955	3,955	-	-	1,349	1,349
Bond issue proceeds	-	215,000	215,000	-	-	-	-	-
Amounts available for appropriation	<u>207,329</u>	<u>453,019</u>	<u>467,087</u>	<u>14,068</u>	<u>205,150</u>	<u>205,150</u>	<u>231,828</u>	<u>26,678</u>
Charges to appropriations (outflows):								
Sanitation	57,000	57,000	56,968	32	57,000	57,000	56,933	67
Ground maintenance	45,560	45,560	23,947	21,613	35,000	35,000	23,046	11,954
Police/safety	37,500	37,500	33,626	3,874	38,000	38,000	28,842	9,158
Road signs	-	2,000	439	1,561	45,000	45,000	47,177	(2,177)
Street lights	22,000	25,000	23,458	1,542	22,000	22,000	22,347	(347)
Property valuation assessment	3,500	3,500	3,445	55	3,500	3,500	3,397	103
Accounting	6,000	6,000	6,250	(250)	5,950	5,950	6,100	(150)
Insurance	8,000	6,000	5,676	324	6,000	6,000	5,671	329
Legal fees	10,000	10,000	7,490	2,510	10,000	10,000	8,164	1,836
City Clerk/Treasurer salary	8,000	8,000	8,000	-	8,000	8,000	8,000	-
General government	26,100	26,100	18,534	7,566	25,700	25,700	22,912	2,788
Land purchase	-	206,500	206,500	-	-	-	8,800	(8,800)
Bond issue - fees and principal payments	-	21,850	21,738	112	-	-	-	-
Technical upgrades	2,760	2,760	2,756	4	6,000	6,000	2,756	3,244
Total charges to appropriations	<u>226,420</u>	<u>457,770</u>	<u>418,827</u>	<u>38,943</u>	<u>262,150</u>	<u>262,150</u>	<u>244,145</u>	<u>18,005</u>
Excess of revenues over (under) expenditures	<u>(19,091)</u>	<u>(4,751)</u>	<u>48,260</u>	<u>53,011</u>	<u>(57,000)</u>	<u>(57,000)</u>	<u>(12,317)</u>	<u>44,683</u>
Other financing sources								
Budgeted use of surplus	<u>1,690</u>	<u>4,751</u>	<u>-</u>	<u>(4,751)</u>	<u>57,000</u>	<u>57,000</u>	<u>-</u>	<u>(57,000)</u>
Total other financing sources	<u>1,690</u>	<u>4,751</u>	<u>-</u>	<u>(4,751)</u>	<u>57,000</u>	<u>57,000</u>	<u>-</u>	<u>(57,000)</u>
Net change in fund balance	(17,401)	-	48,260	48,260	-	-	(12,317)	(12,317)
Fund balance - beginning	<u>336,862</u>	<u>336,862</u>	<u>336,862</u>	<u>-</u>	<u>349,179</u>	<u>349,179</u>	<u>349,179</u>	<u>-</u>
Fund balance - ending	<u>\$ 317,771</u>	<u>\$ 332,111</u>	<u>\$ 385,122</u>	<u>\$ 53,011</u>	<u>\$ 292,179</u>	<u>\$ 292,179</u>	<u>\$ 336,862</u>	<u>\$ 44,683</u>

CITY OF ROLLING HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULES - SPECIAL REVENUE FUND
YEARS ENDED JUNE 30, 2019 AND 2018

	2019				2018			
	<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	\$ 18,000	\$ 18,000	\$ 19,599	\$ 1,599	\$ 17,000	\$ 17,000	\$ 19,346	\$ 2,346
Interest income	-	-	40	40	-	-	7	7
Amounts available for appropriation	<u>18,000</u>	<u>18,000</u>	<u>19,639</u>	<u>1,639</u>	<u>17,000</u>	<u>17,000</u>	<u>19,353</u>	<u>2,353</u>
Charges to appropriations (outflows):								
Road maintenance	<u>55,000</u>	<u>25,000</u>	<u>13,050</u>	<u>11,950</u>	<u>17,000</u>	<u>17,000</u>	<u>80,590</u>	<u>(63,590)</u>
Total charges to appropriations	<u>55,000</u>	<u>25,000</u>	<u>13,050</u>	<u>11,950</u>	<u>17,000</u>	<u>17,000</u>	<u>80,590</u>	<u>(63,590)</u>
Excess of revenues over (under) expenditures	<u>(37,000)</u>	<u>(7,000)</u>	<u>6,589</u>	<u>13,589</u>	<u>-</u>	<u>-</u>	<u>(61,237)</u>	<u>(61,237)</u>
Other financing sources								
Budgeted use of surplus	<u>55,000</u>	<u>7,000</u>	<u>-</u>	<u>(7,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>55,000</u>	<u>7,000</u>	<u>-</u>	<u>(7,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	18,000	-	6,589	6,589	-	-	(61,237)	(61,237)
Fund balance - beginning	<u>28,350</u>	<u>28,350</u>	<u>28,350</u>	<u>-</u>	<u>89,587</u>	<u>89,587</u>	<u>89,587</u>	<u>-</u>
Fund balance - ending	<u>\$ (8,650)</u>	<u>\$ 21,350</u>	<u>\$ 34,939</u>	<u>\$ 13,589</u>	<u>\$ 89,587</u>	<u>\$ 89,587</u>	<u>\$ 28,350</u>	<u>\$ (61,237)</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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Rolling Hills, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Rolling Hills, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rolling Hills, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

A handwritten signature in black ink that reads "Welenken CPAs". The letters are cursive and somewhat stylized.

Welenken CPAs

Louisville, Kentucky
December 3, 2019