

February 14, 2019

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Worthington Hills, Kentucky for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Worthington Hills, Kentucky are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful life of capital assets is based on historical lives of similar assets and management's evaluation of the estimated useful life. We evaluated the key factors and assumptions used to develop the estimated useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

Certain information requested from prior management was not provided in a complete or timely manner.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 14, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the required supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Mayor, City Commissioners, and management of the City of Worthington Hills, Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Welenken CPAs

CITY OF WORTHINGTON HILLS, KENTUCKY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

**CITY OF WORTHINGTON HILLS, KENTUCKY
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2015**

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	2 - 5
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	6
Statement of Activities	7
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	8
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	11
NOTES TO FINANCIAL STATEMENTS.....	12 – 17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	18
Budgetary Comparison Schedule – Special Revenue Fund.....	19
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20 – 21
SCHEDULE OF FINDINGS AND RESPONSES	22 – 23

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Worthington Hills, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Worthington Hills, Kentucky, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2-5 and 18-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2019, on our consideration of the City of Worthington 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 Worthington 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 Worthington Hills, Kentucky's internal control over financial reporting and compliance.



Welenken CPAs

Louisville, Kentucky
February 14, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Worthington Hills's (the City) discussion and analysis provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Since this information is designed to focus on the current year 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 \$47,164.
- The City spent approximately \$5,399 in road and speed hump repairs and maintenance.
- Snow removal expenses totaled \$46,034.

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. Other supplemental 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 City adopts an annual appropriated budget for both funds as required by state statute. Budgetary comparison statements have been provided for the general fund and the road fund for the reader to demonstrate compliance with the adopted budget.

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. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

can be readily converted to cash. The relationship between the governmental activities (reported in the Statement of Net Position and Statement 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

This report presents certain required supplementary information concerning the City's budgetary comparison schedules for the General Fund and the Special Revenue Fund, 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, \$11,498, or 2%, reflects its net investment in capital assets. The City uses these capital assets to provide services to residents therefore, these assets are not available for future spending.

An additional portion of City net position, \$366,613, or 58%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$247,737, or 40%, represents unrestricted net position.

Governmental activities increased City net position by \$47,164.

Condensed Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>
Current and other assets	\$ 622,228	\$ 575,544	\$ 46,684
Capital assets	<u>11,498</u>	<u>15,734</u>	(4,236)
Total assets	<u>633,726</u>	<u>591,278</u>	<u>42,448</u>
Current and other liabilities	<u>7,878</u>	<u>12,594</u>	(4,716)
Total liabilities	<u>7,878</u>	<u>12,594</u>	(4,716)
Net position:			
Invested in capital assets, net	11,498	15,734	(4,236)
Restricted	366,613	333,422	33,191
Unrestricted	<u>247,737</u>	<u>229,528</u>	<u>18,209</u>
Total net position	<u>\$ 625,848</u>	<u>\$ 578,684</u>	<u>\$ 47,164</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statements of Activities Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Increase/ (Decrease)</u>
Revenues:				
Program revenue:				
Operating grants	\$ 33,265	\$ 35,142	(\$ 1,877)	(5.34%)
General revenue:				
Property taxes	235,803	206,388	29,415	14.25%
Other taxes	112,142	74,386	37,756	50.76%
Investment	5,669	2,187	3,482	159.21%
Other income	<u>71</u>	<u>8,227</u>	<u>(8,156)</u>	<u>(99.14%)</u>
Total revenues	<u>386,950</u>	<u>326,330</u>	<u>60,620</u>	18.58%
Expenses:				
General government	\$ 156,383	\$ 148,181	\$ 8,202	5.54%
Sanitation	108,849	108,095	754	0.70%
Public safety	21,668	26,118	(4,450)	(17.04%)
Roads and sidewalks	<u>52,886</u>	<u>104,044</u>	<u>(51,158)</u>	<u>(49.17%)</u>
Total expenses	<u>339,786</u>	<u>386,438</u>	<u>(46,652)</u>	<u>(12.07%)</u>
Change in net position	47,164	(60,108)	107,272	178.47%
Net position – beginning	<u>578,684</u>	<u>638,792</u>	<u>(60,108)</u>	<u>(9.41%)</u>
Net position – ending	<u>\$ 625,848</u>	<u>\$ 578,684</u>	<u>(\$ 47,164)</u>	<u>(8.15%)</u>

Property taxes were assessed at \$0.29 per \$100 of assessed value.

Financial Analysis of the City's Funds

The financial reporting focus of the City's *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 2014-2015 fiscal year, the City governmental funds reported combined ending fund balances of \$587,010. The General Fund's unassigned balance of \$198,797 is available for spending at the government's discretion. The General Fund is the chief operating fund of the City.

At the end of the 2014-2015 fiscal year, the General Fund balance was \$220,397. As a measure of liquidity, a comparison of the unassigned fund balance to total general fund expenditures placed the fund balance at 60% of total expenditures.

The Special Revenue Fund which is restricted for road expenditures has a total fund balance of \$366,613. The net increase in the Special Revenue Fund balance for the fiscal year was \$33,191.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

Actual charges to appropriations (expenditures) were \$5,412 greater than the final budgeted amounts. The largest negative variance occurred in the City's snow removal which was over budget by \$29,509. The most significant positive variance occurred in the City's sign and road repairs, where the budgeted expenses were \$17,414 greater than actual.

In addition, resources available for appropriation were \$33,977 greater than the final budgeted amount. The final budget included \$238,000 of property tax revenue in comparison to the \$237,959 actually collected. In addition, insurance tax revenue was the most significant positive variance at \$35,860.

Capital Assets and Debt Administration

A. Capital Assets

The City's investment in capital assets for governmental activities as of June 30, 2015 is \$11,498 (net of accumulated depreciation).

	Capital Assets	
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Infrastructure	\$ 12,900	\$ 12,900
Equipment	<u>14,732</u>	<u>14,732</u>
	27,632	27,632
Less accumulated depreciation	<u>(16,134)</u>	<u>(11,898)</u>
Capital assets, net	<u>\$ 11,498</u>	<u>\$ 15,734</u>

B. Long-Term Debt

The City had no long-term debt at June 30, 2015.

Economic Factors and Next Year's Budget and Rates

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

A summary for the 2016 fiscal year budgeted expenses are as follows:

General Fund:

- General government - \$175,000
- Roads and sidewalks - \$56,000
- Sanitation - \$115,000
- Public safety - \$22,000

Road Fund:

- Street paving & repairs - \$12,000

Requests for Information

This financial report is designed to provide a general financial overview for those interested in the City of Worthington Hills government finances. Questions or requests for additional financial information may be addressed to Robert Stonum, Mayor, City of Worthington Hills, P.O. Box 22586, Louisville, KY 40252-0586.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF WORTHINGTON HILLS - KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 160,363
Investments	367,131
Property taxes receivable	32,009
Receivable - other	62,725
Capital assets, net of depreciation	<u>11,498</u>
Total Assets	<u>633,726</u>
 LIABILITIES	
Current Liabilities:	
Accounts payable	<u>7,878</u>
Total Liabilities	<u>7,878</u>
 NET POSITION	
Invested in capital assets	11,498
Restricted	366,613
Unrestricted	<u>247,737</u>
Total Net Position	<u>\$ 625,848</u>

See accompanying notes to financial statements.

**CITY OF WORTHINGTON HILLS, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

	Governmental Activities		
PRIMARY GOVERNMENT	Expenses	Operating Grants and Contributions	Total
<u>FUNCTIONS/PROGRAMS</u>			
General government	\$ 156,383	\$ -	\$ (156,383)
Roads and sidewalks	52,886	33,265	(19,621)
Sanitation	108,849	-	(108,849)
Public safety	21,668	-	(21,668)
Total Primary Government	339,786	33,265	(306,521)
 GENERAL REVENUES			
Property taxes			235,803
Insurance taxes			109,360
Franchise fees			2,782
Investment earnings			5,669
Miscellaneous			71
Total general revenues			353,685
 CHANGE IN NET POSITION			47,164
 NET POSITION, BEGINNING OF YEAR			578,684
 NET POSITION, END OF YEAR			\$ 625,848

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

**CITY OF WORTHINGTON HILLS, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

ASSETS

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 160,363	\$ -	\$ 160,363
Investments	36,451	330,680	367,131
Property taxes receivable	32,009	-	32,009
Due from general fund	-	5,657	5,657
Receivable - other	32,449	30,276	62,725
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 261,272</u>	<u>\$ 366,613</u>	<u>\$ 627,885</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES

LIABILITIES			
Accounts payable	\$ 7,878	\$ -	\$ 7,878
Due to special revenue fund	5,657	-	5,657
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>13,535</u>	<u>-</u>	<u>13,535</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	27,340	-	27,340
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>27,340</u>	<u>-</u>	<u>27,340</u>
FUND BALANCES			
Restricted			
Special Revenue Fund	-	366,613	366,613
Assigned			
Subsequent year's budget	21,600	-	21,600
Unassigned	198,797	-	198,797
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>220,397</u>	<u>366,613</u>	<u>587,010</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 261,272</u>	<u>\$ 366,613</u>	<u>\$ 627,885</u>

See accompanying notes to financial statements.

**CITY OF WORTHINGTON HILLS, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total fund balances for governmental funds	\$ 587,010
Total net position reported for governmental activities in the statement of net position 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	27,340
Capital assets, net of depreciation, used in governmental activities are not financial resources and, therefore, not reported in the general fund	<u>11,498</u>
Total net position of governmental activities	<u><u>\$ 625,848</u></u>

See accompanying notes to financial statements.

CITY OF WORTHINGTON HILLS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 237,959	\$ -	\$ 237,959
Insurance taxes	109,360	-	109,360
Franchise fees	2,782	-	2,782
Municipal road aid	-	33,265	33,265
Intergovernmental	71	-	71
Interest income	430	5,239	5,669
	<u>350,602</u>	<u>38,504</u>	<u>389,106</u>
EXPENDITURES			
Sanitation	108,849	-	108,849
Open space maintenance	26,125	-	26,125
Snow removal	46,034	-	46,034
Salaries	56,519	-	56,519
Street lighting	23,836	-	23,836
Police protection	21,668	-	21,668
Sign and road repairs	586	4,813	5,399
Attorney fees	12,992	-	12,992
Accounting fees	7,850	-	7,850
Utilities	4,659	-	4,659
Office equipment	2,532	-	2,532
General government	16,458	-	16,458
Bank charges	-	500	500
Insurance	1,351	-	1,351
Property valuation	778	-	778
	<u>330,237</u>	<u>5,313</u>	<u>335,550</u>
Excess of revenues over expenditures	<u>20,365</u>	<u>33,191</u>	<u>53,556</u>
CHANGES IN FUND BALANCES	<u>20,365</u>	<u>33,191</u>	<u>53,556</u>
FUND BALANCES, BEGINNING OF YEAR	<u>200,032</u>	<u>333,422</u>	<u>533,454</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 220,397</u></u>	<u><u>\$ 366,613</u></u>	<u><u>\$ 587,010</u></u>

See accompanying notes to financial statements.

**CITY OF WORTHINGTON HILLS, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Changes in fund balances - governmental funds	\$ 53,556
---	-----------

The change in net position reported for governmental activities in the statement of net position 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	(2,156)
--	---------

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 asset purchases capitalized	-
Depreciation expense	(4,236)
	(4,236)

Change in net position of governmental activities	<u><u>\$ 47,164</u></u>
---	-------------------------

See accompanying notes to financial statements.

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

NOTE A - DESCRIPTION OF ORGANIZATION

The City of Worthington Hills, Kentucky (the City) 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: municipal services, including care and maintenance of streets, police protection, garbage collection, and 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 statement of net position and the statement of activities) report information on all 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 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 WORTHINGTON 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. The City in general considers revenues available if they are collected within 180 days after year-end, except for property taxes, which the City considers available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, interest, special assessments, charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met.

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.

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Cash and Cash Equivalents

The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

Investments

Investments of the primary government are valued at cost, which approximates fair value. All investments of the City comply with the Kentucky Revised Statutes concerning the types of investments allowed.

Property Taxes and Other Receivables

Property taxes and other receivables are recorded at gross amount 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, which include equipment and infrastructure (i.e. road paving, sidewalks, signage, etc.), 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 cost 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.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources

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

Net Position/Fund Balances

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

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

Restricted Net Position – Net position that is restricted by external sources or by law are reported separately as restricted net position. When assets are required to be retained in perpetuity, the non-expendable net position is 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 received from the Commonwealth of Kentucky.

Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “invested in capital assets”.

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.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balances (Continued)

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 City Commission has provided otherwise in its commitment or assignment functions.

Subsequent Events

The City has evaluated subsequent events through February 14, 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's investments at June 30, 2015 consisted of certificates of deposit held at local banks. The market value equaled the cost of these investments at June 30, 2015. These investments subject the City to custodial credit risk, which is the risk that in the event of bank failure the City's deposits may not be recovered. However, the City considers this risk immaterial, and as such, the City does not have a formal investment policy to deal with such risk.

The City categorizes deposits and investments at local financial institutions to give an indication of the level of custodial credit risk assumed by the City.

The categories are described as follows:

- Category 1: Insured or collateralized with securities held by the City or by 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 at June 30, 2015 are as follows:

Account	Bank Balance	Category		
		1	2	3
PNC	\$ 107,944	\$ 107,944	\$ -	\$ -
First Capital	419,551	250,000	-	169,551
	<u>\$ 527,495</u>	<u>\$ 357,944</u>	<u>\$ -</u>	<u>\$ 169,551</u>

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

NOTE D – CAPITAL ASSETS

	<u>Year Ending June 30, 2015</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Infrastructure	\$ 12,900	\$ -	\$ -	\$ 12,900
Equipment	<u>14,732</u>	<u>-</u>	<u>-</u>	<u>14,732</u>
Total Cost	27,632	-	-	27,632
Less: accumulated depreciation	(<u>11,898</u>)	(<u>4,236</u>)	<u>-</u>	(<u>16,134</u>)
Net Book Value	<u>\$ 15,734</u>	<u>(\$ 4,236)</u>	<u>\$ -</u>	<u>\$ 11,498</u>

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

General government	\$ 1,453
Roads and sidewalks	<u>2,783</u>
Total	<u>\$ 4,236</u>

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 tax payments are due and payable when levied. All unpaid taxes become delinquent December 1.

Property tax revenues are recognized when they become available. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided. A discount of 2% shall be allowed on tax bills paid prior to August 1. Bills paid after that date but before September 1 are not allowed a discount or subject to a penalty. All bills paid after August 30 are charged interest of 11% on the base tax. All bills paid after September 30 are charged an addition 1% monthly interest on the base tax until paid. The City has no policy regarding lien dates.

NOTE F - COMMITMENTS

The City maintains contractual relationships relating to services provided for the benefit of the City. These commitments include annual contractual obligations for sanitation and maintenance services. All contracts are current and no invoices are outstanding.

NOTE G – RELATED PARTY TRANSACTIONS

During the fiscal year, the City made a food purchase from a company owned by the Mayor. Total purchases from this company totaled \$60.

During the fiscal year, the Mayor and Treasurer's daughter's were paid by the City to provide additional help mailing tax notices. The amounts paid for these services totaled \$980.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF WORTHINGTON HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance, July 1	\$ 200,032	\$ 200,032	\$ 200,032	\$ -
Resources (inflows):				
Property taxes	238,000	238,000	237,959	(41)
Insurance taxes	73,500	73,500	109,360	35,860
Franchise fees	5,000	5,000	2,782	(2,218)
Intergovernmental	-	-	71	71
Interest income	-	-	430	430
Miscellaneous	125	125	-	(125)
	<u>516,657</u>	<u>516,657</u>	<u>550,634</u>	<u>33,977</u>
Amounts available for appropriation	<u>516,657</u>	<u>516,657</u>	<u>550,634</u>	<u>33,977</u>
Charges to appropriations (outflows):				
Sanitation	115,000	115,000	108,849	6,151
Open space maintenance	40,000	40,000	26,125	13,875
Snow removal	16,525	16,525	46,034	(29,509)
Salaries, taxes, and processing fees	49,000	49,000	56,519	(7,519)
Street lighting	25,000	25,000	23,836	1,164
Police protection	22,000	22,000	21,668	332
Sign and road repairs	18,000	18,000	586	17,414
Attorney fees	1,100	1,100	12,992	(11,892)
Accounting services	-	-	7,850	(7,850)
Utilities	5,300	5,300	4,659	641
Office equipment	2,500	2,500	2,532	(32)
General government	22,400	22,400	16,458	5,942
Insurance	2,000	2,000	1,351	649
Property valuation	6,000	6,000	778	5,222
	<u>324,825</u>	<u>324,825</u>	<u>330,237</u>	<u>(5,412)</u>
Total charges to appropriations	<u>324,825</u>	<u>324,825</u>	<u>330,237</u>	<u>(5,412)</u>
Budgetary fund balance, June 30	<u>\$ 191,832</u>	<u>\$ 191,832</u>	<u>\$ 220,397</u>	<u>\$ 28,565</u>

CITY OF WORTHINGTON HILLS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance, July 1	\$ 333,422	\$ 333,422	\$ 333,422	\$ -
Resources (inflows):				
Road aid	25,000	25,000	33,265	8,265
Interest income	<u>-</u>	<u>-</u>	<u>5,239</u>	<u>5,239</u>
Amounts available for appropriation	<u>358,422</u>	<u>358,422</u>	<u>371,926</u>	<u>13,504</u>
Charges to appropriations (outflows):				
Bank charges	-	-	500	(500)
Road maintenance	<u>18,475</u>	<u>18,475</u>	<u>4,813</u>	<u>13,662</u>
Total charges to appropriations	<u>18,475</u>	<u>18,475</u>	<u>5,313</u>	<u>13,162</u>
Budgetary fund balance, June 30	<u><u>\$ 339,947</u></u>	<u><u>\$ 339,947</u></u>	<u><u>\$ 366,613</u></u>	<u><u>\$ 26,666</u></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 Worthington 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 Worthington Hills, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Worthington Hills, Kentucky's basic financial statements, and have issued our report thereon dated February 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Worthington 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 Worthington Hills, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Worthington 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses; 2015-1 through 2015-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Worthington Hills, Kentucky'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2015-6 through 2015-9.

City of Worthington Hills, Kentucky's Response to Findings

The City of Worthington Hills, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Worthington Hills, Kentucky's responses 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 14, 2019

**CITY OF WORTHINGTON HILLS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Findings:

2015-1 The City was unable to provide a complete trail balance for the audit in a timely manner.

Management's Response: Accurate accounting records were not kept for the fiscal year ending 6/30/15. The new City Treasurer, who took office on 1/1/2019, recreated a complete trial balance as requested by the Auditor. Procedures for monthly accounting and reconciling are now in place.

2015-2 Accurate financial records are not maintained because the City's internal financial information is prepared on the cash basis of accounting. The City does not prepare monthly bank reconciliations.

Management's Response: The new City Treasurer prepares monthly bank reconciliations as part of compiling a more accurate set of financials as requested by the Auditor.

2015-3 The City lacks adequate segregation of duties as it relates to the internal accounting function of the City. The same individual is responsible for receiving and opening the mail, preparing deposits and taking them to the bank, writing the checks to vendors, and reconciling the bank accounts of the City.

Management's Response: Under new procedures implemented 1/1/2019, two City Commission Members make the mail run and log mail removed from the City's PO Box. At least one of the individuals from the mail run waits while the City Clerk verifies mail to the mail log, and while the City Clerk opens the mail. City Clerk prepares the deposit and the individual from the mail run verifies all received checks are accounted for. Bank deposit is made and two deposit slips are obtained; one for City Clerk and one for City Treasurer. The City Clerk does not have access to Quickbooks. The City Treasurer records the deposits in Quickbooks from records obtained from the City Clerk. The City Treasurer reconciles the bank accounts, and all City Commission Members have the means to reconcile the bank statements to the Monthly Financial Reports. The City Clerk prepares all invoices to be paid. Invoices approved by a majority of City Commission Members at the City Meeting, are then paid by the City Treasurer either online, or prepare checks, which require dual signatures before being dispatched.

2015-4 Expenditures were not reviewed and approved by the City Commission. In addition, it appears that certain expenditures did not directly relate to City business.

Management's Response: As of 1/1/2019 all invoices and expenditure receipts are now reviewed and approved by a majority of City Commission Members at the City Meeting prior to being paid. The current City Commission Members can not comment on expenditures from 2015, since they were not a part of the City Commission at that time.

2015-5 Certain wages were advanced and paid without using the City's payroll vendor and those wages were not included on the City's payroll tax forms. Also, certain wages paid were in excess of ordained amounts.

Management's Response: All City Commission Members now receive copies of all City bank statements each month, and all elected and most appointed City Commission Members have attended the Kentucky League of Cities 2019 City Official Academy held in January 2019, which covered authorized use of City Revenues.

**CITY OF WORTHINGTON HILLS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

2015-6 The City did not maintain adequate bonding insurance.

Management's Response: *As of 1/1/2019, the City began the process of obtaining adequate bonding insurance through KLCIS. As of 2/6/2019, a \$750,000 Surety Bond has been approved and issued by Great American.*

2015-7 The City did not properly file Forms 1099.

Management's Response: *The City properly filed Forms 1096 and 1099 for the 2018 tax year, and procedures are in place to obtain the proper Forms W9 and issue Forms 1099, 1096, and 1099SF in a timely manner.*

2015-8 At June 30, 2015, the City had cash, cash equivalents and certificates of deposit in excess of insured or collateralized amounts.

Management's Response: *The City is in the process of moving all funds to Independence Bank, and Independence Bank has assured the City all funds will be properly collateralized.*

2015-9 The City levied a tax rate that exceeded the compensating tax rate (as defined by Kentucky Revised Statutes).

Management's Response: *The excessive tax rate was found to be unlawful. Refund checks for the excessive tax were issued to the City's property owners.*