

CITY OF DRY RIDGE, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2004

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DRY RIDGE, KENTUCKY**

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

The Honorable William Cull, Mayor and
Members of the City Council
City of Dry Ridge, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dry Ridge, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Dry Ridge, Kentucky, management. 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dry Ridge, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 10, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

May 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of City of Dry Ridge, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's basic financial statements, which begin on page 9.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$4,093,151 (net assets).

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,276,247. This was an increase of \$303,492 in comparison to the prior year.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,251,938 or 98% of the total general fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on page 9 and 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the years activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (roads, buildings, and equipment) to assess the overall *health* of the City.

In the Statement of Net assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** most of the City's basic services are reported here, including the street maintenance, parks and recreation, and general administration. Income taxes, property taxes, and state and federal grants finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer sales and service operations are reported in this activity.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 5. The fund financial statements begin on page 11 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by the State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Road Aid Fund). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provided a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

Proprietary Funds: When the City charges customers for the full cost of the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

For the year ended June 30, 2004, net assets changed as follows:

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 1,483,603	\$ 1,937,240	\$ 3,420,843
Increase (decrease) in net assets	429,512	242,796	672,308
Ending net assets	<u>\$ 1,913,115</u>	<u>2,180,036</u>	<u>4,093,151</u>

The schedule above shows an increase of 29% for governmental activities and an increase of 13% for business-type activities resulting due to annual revenues exceeding annual expenses.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balances. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

Business-type Activities

In reviewing the net (expense)/revenue, the water sales and service function showed net operating income for the year of \$12,155. This function also had \$241,350 in capital contributions and \$10,709 in net non-operating expenses.

THE CITY'S FUNDS

GENERAL FUND BUDGETARY HIGHLIGHTS

The current year budget relied on the expectation of increases in property taxes and licenses and permits. The actual results were in line with budgeted expectations. Actual revenue categories exceeded budgeted amounts by \$218 thousand. Actual expenditures were \$95 thousand under budgeted amounts. As a result, the City ended the year with a fund balance that was \$313 thousand more than what was budgeted.

The following schedule presents a summary of general and special revenue fund revenues and expenditures for the fiscal year ended June 20, 2004, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2004 Amount	Percent of Total	Increase (Decrease) From FYE 03	Percent Increase (Decrease)
Taxes	\$ 369,156	23.19%	\$ 18,500	5.01%
Licenses and permits	719,081	45.18%	71,656	9.96%
Intergovernmental	246,936	15.51%	146,882	59.48%
Charges for services	233,359	14.66%	(414)	-0.18%
Fines and forfeitures	4,805	0.30%	2,705	100.00%
Interest	13,962	0.88%	1,165	8.34%
Miscellaneous	4,395	0.28%	(3,699)	-84.16%
Total revenues	\$ 1,591,694	100.00%	\$ 236,795	

The decrease in charges for services is the result of a decrease in squad run fees.

The decrease in miscellaneous income is the result of a decrease in miscellaneous receipts.

<u>Expenditures</u>	<u>FYE 2004 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) From FYE 03</u>	<u>Percent Increase (Decrease)</u>
General government	\$ 176,584	13.76%	\$ (326)	-0.18%
Police	300,000	23.38%	4,188	1.40%
Fire	496,383	38.69%	92,398	18.61%
Public works	86,435	6.74%	(17,263)	-19.97%
Recreation	32,210	2.51%	30,143	93.58%
Debt service	20,536	1.60%	(25,759)	-125.43%
Capital outlay	<u>170,745</u>	<u>13.31%</u>	<u>87,236</u>	<u>51.09%</u>
Total Expenditures	\$ <u>1,282,893</u>	<u>100.00%</u>	\$ <u>170,617</u>	

General government expenditures decreased as a result of lower professional fees in the current year.

Police expenditures increased as a result of higher fees for the inter-local agreement in the current year.

Fire expenditures increased as a result of increased personnel costs in the current year.

Public works expenditures decreased as a result of lower repair and maintenance costs in the current year.

Recreation expenditures increased as a result of increased park maintenance costs in the current year.

Debt service expenditures decreased as a result of debt balances being lower in the current year.

Capital outlay expenditures increased as a result of increased purchases of capital equipment in the current year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the city had \$5.1 million invested in a broad range of capital assets, including buildings, park facilities, roads, and the utility system. This amount represents a net increase of \$650 thousand or 14.5%, over last year.

	Governmental Activities		Business-type Activities	
	2004	2003	2004	2003
Land	\$ 35,000	35,000	\$ 2,000	2,000
Buildings	451,008	451,008	-	-
Utility system	-	-	3,660,466	3,206,634
Infrastructure	27,450	-	-	-
Improvements	1,332	-	-	-
Vehicles	591,367	471,732	-	-
Equipment	182,885	138,605	114,365	111,296
Furniture & fixtures	9,923	9,425	-	-
Totals	<u>\$ 1,298,965</u>	<u>1,105,770</u>	<u>\$ 3,776,831</u>	<u>\$ 3,319,930</u>

This year's major additions included:

Pumper truck	\$ 119,635
Utility system improvements	453,832
Infrastructure	22,450
New computers	14,489
Total	<u>\$ 610,406</u>

Debt

At year-end, the City had \$478 thousand in outstanding debt compared to \$294 thousand last year. That is an increase of 63% as shown in the following table.

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Kentucky Infrastructure Authority						
(backed by fee revenues)	\$ -	\$ -	\$ 242,001	\$ 252,876	\$ 242,001	\$ 252,876
Rural development bond (backed by fee revenues)	-	-	209,000	-	209,000	-
Capital lease	27,155	41,241	-	-	27,155	41,241
Totals	<u>\$ 27,155</u>	<u>\$ 41,241</u>	<u>\$ 451,001</u>	<u>\$ 252,876</u>	<u>\$ 478,156</u>	<u>\$ 294,117</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk/Treasurer at 31 Broadway, Dry Ridge, Kentucky.

William Cull
Mayor

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,027,098	\$ 442,291	\$ 1,469,389
Receivables	267,100	136,114	403,214
Prepaid insurance	61,924	-	61,924
Due from other funds	-	17,967	17,967
Capital assets:			
Land	35,000	2,000	37,000
Buildings	451,008	-	451,008
Utility system	-	3,660,466	3,660,466
Infrastructure	27,450	-	27,450
Improvements	1,332	-	1,332
Vehicles	591,367	-	591,367
Equipment	182,885	114,365	297,250
Furniture & fixtures	9,923	-	9,923
Less accumulated depreciation	(646,249)	(1,638,760)	(2,285,009)
TOTAL ASSETS	<u>2,008,838</u>	<u>2,734,443</u>	<u>4,743,281</u>
LIABILITIES			
Current liabilities:			
Accounts payable	39,090	75,036	114,126
Accrued liabilities	11,511	13,224	24,735
Customer deposits	-	38,600	38,600
Due to other funds	17,967	-	17,967
Noncurrent liabilities:			
Due within one year	17,837	11,880	29,717
Due in more than one year	9,318	415,617	424,935
TOTAL LIABILITIES	<u>95,723</u>	<u>554,357</u>	<u>650,080</u>
NET ASSETS			
Invested in capital assets, net of related debt	625,561	1,710,574	2,336,135
Restricted for:			
Special revenue	24,309	-	24,309
Unrestricted	1,263,245	469,462	1,732,707
TOTAL NET ASSETS	<u>\$ 1,913,115</u>	<u>\$ 2,180,036</u>	<u>\$ 4,093,151</u>

See accompanying notes.

CITY OF DRY RIDGE, KENTUCKY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2004

	General Fund	Municipal Aid Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,002,789	\$ 24,309	\$ 1,027,098
Taxes receivable	183,786	-	183,786
Other receivables	83,314	-	83,314
Prepaid insurance	61,924	-	61,924
TOTAL ASSETS	\$ 1,331,813	\$ 24,309	\$ 1,356,122
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 39,090	\$ -	\$ 39,090
Accrued liabilities	11,511	-	11,511
Due to other funds	17,967	-	17,967
Deferred revenue	11,307	-	11,307
Total liabilities	79,875	-	79,875
Fund balances:			
Unreserved, reported in:			
General fund	1,251,938	-	1,251,938
Municipal aid fund	-	24,309	24,309
Total fund balances	1,251,938	24,309	1,276,247
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,331,813	\$ 24,309	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

652,716

Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.

11,307

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

(27,155)

Net assets of governmental activities.

\$ 1,913,115

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General Fund	Municipal Aid Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 369,156	\$ -	\$ 369,156
Licenses and permits	719,081	-	719,081
Intergovernmental	246,936	29,686	276,622
Charges for services	233,359	-	233,359
Fines and forfeitures	4,805	-	4,805
Interest	13,962	199	14,161
Miscellaneous	4,395	-	4,395
TOTAL REVENUES	<u>1,591,694</u>	<u>29,885</u>	<u>1,621,579</u>
EXPENDITURES			
Current:			
General government	176,584	-	176,584
Police	300,000	-	300,000
Fire	496,383	-	496,383
Public works	86,435	-	86,435
Streets	-	12,744	12,744
Recreation	32,210	-	32,210
Debt service principal	18,426	-	18,426
Debt service interest	2,110	-	2,110
Capital outlay	170,745	22,450	193,195
TOTAL EXPENDITURES	<u>1,282,893</u>	<u>35,194</u>	<u>1,318,087</u>
Excess (deficiency) of revenues over (under) expenditures	<u>308,801</u>	<u>(5,309)</u>	<u>303,492</u>
Net change in fund balances	308,801	(5,309)	303,492
Fund balances - beginning	<u>943,137</u>	<u>29,618</u>	<u>972,755</u>
Fund balances - ending	<u>\$ 1,251,938</u>	<u>\$ 24,309</u>	<u>\$ 1,276,247</u>

See accompanying notes.

CITY OF DRY RIDGE, KENTUCKY**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances - total governmental fund (page 12)

\$ 303,492

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

107,594

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

18,426

Change in net assets of governmental activities

\$ 429,512

CITY OF DRY RIDGE, KENTUCKY
GENERAL FUND
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 335,700	\$ 361,100	\$ 369,156	\$ 8,056
Licenses and permits	600,000	615,000	719,081	104,081
Intergovernmental	373,100	178,200	246,936	68,736
Charges for services	202,000	202,000	233,359	31,359
Fines and forfeitures	4,700	4,700	4,805	105
Interest	9,500	10,000	13,962	3,962
Miscellaneous	1,000	2,900	4,395	1,495
TOTAL REVENUES	1,526,000	1,373,900	1,591,694	217,794
EXPENDITURES				
Current:				
General government	195,825	206,025	176,584	29,441
Police	300,000	300,000	300,000	-
Fire	669,915	528,850	496,383	32,467
Public works	103,400	103,400	86,435	16,965
Recreation	20,000	48,000	32,210	15,790
Debt service principal	-	19,000	18,426	574
Debt service interest	-	2,100	2,110	(10)
Capital outlay	170,835	170,835	170,745	90
TOTAL EXPENDITURES	1,459,975	1,378,210	1,282,893	95,317
Excess (deficiency) of revenues over (under) expenditures	66,025	(4,310)	308,801	313,111
Net change in fund balances	66,025	(4,310)	308,801	313,111
Fund balances - beginning	943,137	943,137	943,137	-
Fund balances - ending	\$ 1,009,162	\$ 938,827	\$ 1,251,938	\$ 313,111

See accompanying notes.

CITY OF DRY RIDGE, KENTUCKY**MUNICIPAL ROAD AID FUND****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL****For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 29,686	\$ 4,686
Interest	500	500	199	(301)
TOTAL REVENUES	25,500	25,500	29,885	4,385
EXPENDITURES				
Current:				
Streets	16,050	16,050	12,744	3,306
Capital outlay	22,450	22,450	22,450	-
TOTAL EXPENDITURES	38,500	38,500	35,194	3,306
Excess (deficiency) of revenues over (under) expenditures	(13,000)	(13,000)	(5,309)	7,691
Net change in fund balances	(13,000)	(13,000)	(5,309)	7,691
Fund balances - beginning	29,618	29,618	29,618	-
Fund balances - ending	\$ 16,618	\$ 16,618	\$ 24,309	\$ 7,691

See accompanying notes.

CITY OF DRY RIDGE, KENTUCKY**STATEMENT OF NET ASSETS****PROPRIETARY FUND****June 30, 2004**

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 442,291
Accounts receivable	136,064
Due from general fund	17,967
Total current assets	<u>596,322</u>
Noncurrent assets:	
Capital assets:	
Land	2,000
Utility system	3,660,466
Equipment	114,365
Less accumulated depreciation	<u>(1,638,760)</u>
Total capital assets (net of accumulated depreciation)	<u>2,138,071</u>
Total noncurrent assets	<u>2,138,071</u>
TOTAL ASSETS	<u>2,734,393</u>
LIABILITIES	
Current liabilities:	
Accounts payable	75,036
Accrued liabilities	6,696
Accrued interest payable	6,528
Customer deposits	38,600
Bonds payable - current	11,880
Total current liabilities	<u>138,740</u>
Noncurrent liabilities:	
Bonds payable	415,617
Total noncurrent liabilities	<u>415,617</u>
TOTAL LIABILITIES	<u>554,357</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,710,574
Unrestricted	469,462
TOTAL NET ASSETS	<u><u>\$ 2,180,036</u></u>

See accompanying notes.

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2004

Operating revenues:	
Sewer service	\$ 529,854
Water service	352,380
Water station	11,057
Waste collection	39,821
Miscellaneous	6,584
Total operating revenues	<u>939,696</u>
Operating expenses:	
Cost of sales and services	838,764
Depreciation	88,777
Total operating expenses	<u>927,541</u>
Operating income (loss)	<u>12,155</u>
Nonoperating revenues (expenses):	
Interest income	5,937
Interest expense	(16,646)
Total nonoperating revenues (expenses)	<u>(10,709)</u>
Income (loss) before contributions	1,446
Capital contributions	<u>241,350</u>
Change in net assets	242,796
Total net assets - beginning	<u>1,937,240</u>
Total net assets - ending	<u>\$ 2,180,036</u>

See accompanying notes.

CITY OF DRY RIDGE, KENTUCKY**STATEMENT OF CASH FLOWS****PROPRIETARY FUND****For the Year Ended June 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 934,544
Payments to suppliers	(633,990)
Payments to employees	(206,423)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	94,131
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond proceeds	209,000
Capital contributions	241,350
Purchases of capital assets	(456,901)
Principal paid on capital debt	(10,875)
Interest paid on capital debt	(16,646)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(34,072)

CITY OF DRY RIDGE, KENTUCKY**STATEMENT OF CASH FLOWS****PROPRIETARY FUND****For the Year Ended June 30, 2004**

CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	5,937
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	5,937
Net increase in cash	65,996
Cash - beginning of period	376,295
Cash - end of period	\$ 442,291
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating income (loss)	\$ 12,155
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	88,777
Change to beginning net assets	13,179
(Increase) decrease in accounts receivable	(7,501)
(Increase) decrease in due from other funds	(17,967)
Increase (decrease) in accounts payable	4,391
Increase (decrease) in accrued liabilities	(1,153)
Increase (decrease) in customer deposits	2,350
Increase (decrease) in due to other funds	(100)
Total adjustments	81,976
Net cash provided by operating activities	\$ 94,131

CITY OF DRY RIDGE, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Dry Ridge, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Dry Ridge is a municipal corporation governed by an elected Mayor and six-member City Council. As required by generally accepted accounting principles, these financial statements present all activities for which the City is considered to be financially accountable.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the City are reported as a reduction of the related liability, rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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 the liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports on the following funds:

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

The special revenue is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The City reports on the following proprietary fund:

The proprietary fund accounts for the activities of the City's water and sewer sales and services function.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

Cash and cash equivalents including demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City. The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Banker's acceptances.
4. Commercial paper.
5. Bonds of other states or local governments.
6. Mutual funds

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Property Tax Receivable

Property taxes are levied as of November 1 values assessed on January 1. The billings are considered past due 60 days after the respective tax billing date at which time the applicable property is subject to lien, and penalties and interest are assessed.

Short-Term Inter-fund Receivables/Payables

During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term inter-fund loans are classified as "inter-fund receivables/payables".

Fixed Assets

General capital assets are those assets not specifically related to activities reported in the propriety fund. These assets are reported in the governmental activities column of the government-wide statement of net assets. Capital assets used by the proprietary fund are reported in the business type activities column of the government-wide statement of net assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Fixed Asset Account Group. Infrastructure such as street, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each fixed asset class are as follows:

Buildings	40 years
Public Domain Infrastructure	40 years
Improvements	10 years
Vehicles	7 years
Machinery & Equipment	5 years
Furniture & Fixtures	5 years

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vacation pay and sick pay (for qualifying employees) is accrued when incurred and reported as a fund liability.

Long-term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principle and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Fund Equity

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses net related to capital and related financing, non-capital financing or investing activities.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Inter-fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance prior to June 1, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. A public meeting is conducted to obtain taxpayer comment.
- C. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- D. The Mayor is required by Kentucky Revised Statute to present a quarterly report to the City Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE C – DEPOSITS

The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

As of June 30, the City had cash and cash equivalents of \$1,469,389.

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance June 30, 2003	Additions	Retirements/ Deletions	Balance June 30, 2004
Governmental activities:				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Buildings	451,008	-	-	451,008
Infrastructure	-	27,450	-	27,450
Improvements	-	1,332	-	1,332
Vehicles	471,732	119,635	-	591,367
Equipment	138,605	44,280	-	182,885
Furniture & fixtures	9,425	498	-	9,923
Subtotal	<u>1,105,770</u>	<u>193,195</u>	<u>-</u>	<u>1,298,965</u>
Accumulated depreciation:				
Buildings	(241,250)	(11,275)	-	(252,525)
Infrastructure	-	(574)	-	(574)
Improvements	-	(40)	-	(40)
Vehicles	(247,943)	(41,637)	-	(289,580)
Equipment	(67,289)	(30,101)	-	(97,390)
Furniture & fixtures	(4,166)	(1,974)	-	(6,140)
Subtotal	<u>(560,648)</u>	<u>(85,601)</u>	<u>-</u>	<u>(646,249)</u>
Net capital assets	\$ <u>545,122</u>	\$ <u>107,594</u>	\$ <u>-</u>	\$ <u>652,716</u>

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Depreciation was charged to functions as follows:

Governmental activities:

General Government	\$	9,730
Fire		56,575
Public Works		12,523
Parks		6,773
Total Government activities depreciation expense	\$	<u>85,601</u>

The following is a summary of changes in fixed assets in the proprietary fund:

	Balance June 30, 2003	Additions	Retirements/ Deletions	Balance June 30, 2004
Business-type activities:				
Not being depreciated				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Subtotal	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Other capital assets:				
Utility system	3,206,634	453,832	-	3,660,466
Equipment	111,296	3,069	-	114,365
Subtotal	<u>3,319,930</u>	<u>456,901</u>	<u>-</u>	<u>3,776,831</u>
Accumulated depreciation				
Utility system	(1,489,507)	(81,344)	-	(1,570,851)
Equipment	(60,476)	(7,433)	-	(67,909)
Subtotal	<u>(1,549,983)</u>	<u>(88,777)</u>	<u>-</u>	<u>(1,638,760)</u>
Net capital assets	\$ <u>1,769,947</u>	\$ <u>368,124</u>	\$ <u>-</u>	\$ <u>2,138,071</u>

CITY OF DRY RIDGE, KENTUCKY**NOTES TO FINANCIAL STATEMENTS****June 30, 2004****NOTE E – LONG-TERM DEBT**

Bonds payable – enterprise funds

The City has the following bonds payable in connection with water and sewer line improvements. Revenues from the water and sewer system are pledged for the payment of the principal and interest on the notes.

Date of Issuance	Interest Rate	Maturity Date	Balance 06/30/2004
07/01/1993	5.200%	07/01/2016	\$ 242,001
09/25/2003	3.500%	01/01/2043	209,000
			<u>\$ 451,001</u>

The following is a schedule of future debt service requirements to maturity at June 30, 2004:

Year ended June 30,	KIA BOND		RURAL DEVELOPMENT	
	Principal	Interest	Principal	Interest
2005	11,880	12,161	-	3,658
2006	12,654	11,497	2,000	7,315
2007	13,569	10,777	2,100	7,245
2008	14,540	9,997	2,200	7,172
2009	14,412	9,178	2,300	7,095
2010-2014	86,274	31,766	13,300	34,185
2015-2019	88,672	5,661	16,900	31,612
2020-2024	-	-	21,500	28,350
2025-2029	-	-	27,200	24,213
2030-2034	-	-	34,600	18,953
2035-2039	-	-	43,700	12,299
2040-2044	-	-	43,200	3,857
Total	<u>242,001</u>	<u>91,037</u>	<u>209,000</u>	<u>185,954</u>

Capital Leases

The City has entered into lease agreements for financing the acquisition and construction of various fixed assets. The assets recorded under capital leases include \$143,100 in machinery and equipment.

These lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

CITY OF DRY RIDGE, KENTUCKY**NOTES TO FINANCIAL STATEMENTS****June 30, 2004**

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2004.

Year Ended	
June 30	Amount
2005	18,957
2006	9,479
Total minimum lease payments	28,436
Less amount representing interest	(1,281)
Present value of future minimum lease payments	\$ 27,155

NOTE F – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE G – EMPLOYEE RETIREMENT SYSTEM*County Employees Retirement System (CERS)*

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that cover substantial all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

CITY OF DRY RIDGE, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Non-hazardous Contributions – For the year ended June 30, 2004, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2004, participating employers contributed 7.34% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2004 was 7.34% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2004, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2004, participating employers contributed 18.51% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2004 was 18.51% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the City the current and previous two years are as follows:

<u>Year</u>	<u>Contribution</u>	<u>Contributed</u>
2004 \$	58,655	100%
2003 \$	46,286	100%
2002 \$	38,600	100%

NOTE H – CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE I – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City Attorney estimates that the amount of actual potential claims against the City as of June 30, 2004, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE J – FRAUD

Subsequent to the current financial statement date, irregularities were discovered in the financial records of the City Clerk's Office. An investigation by our Certified Public Accountants disclosed that an employee of the City had misappropriated funds amounting to \$83,357 over a three year period. A criminal investigation led to a plea bargaining arrangement that included full restitution of the embezzled funds and an additional payment to reimburse the city for accounting and legal costs. The total payment recovered by the city on December 2, 2004 amounted to \$105,089. The city recorded a receivable as of June 30, 2004 in the General Fund in the amount of \$83,357.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable William Cull, Mayor and
Members of City Council
City of Dry Ridge, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dry Ridge, Kentucky (the City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 10, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

Documentation of Accounting Policies and Procedures

Background

Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation also can serve as a useful training tool for staff.

Recommendation

Every City should document its accounting policies and procedures. Traditionally, such documentation has taken the form of an accounting policies and procedures manual. Accounting policies and procedures should be promulgated by an appropriate level of management to emphasize their importance and authority. The documentation of accounting policies and procedures should be updated periodically according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. A specific employee should be assigned the duty of overseeing this process. Management is responsible for ensuring that this duty is performed consistently. The documentation of accounting policies and procedures should be readily available to all employees who need it. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the documentation of accounting policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than in some idealized form. Also, the documentation of accounting policies and procedures should explain the design and purpose of control-related procedures to increase employee understanding of and support for controls.

Enhancing Management Involvement with Internal Control

Background

While a City's independent auditors and similar outside parties often can provide valuable assistance to management in meeting its internal-control-related responsibilities, their contribution can never be a substitute for management's direct and informed involvement with internal control. Ultimately, it is the responsibility of appropriate elected officials to ensure that the managers who report to them fulfill their responsibility for implementing and maintaining a sound and comprehensive framework of internal control.

Recommendation

We recommend that the City Clerks and appropriate elected officials obtain the information and training needed to meaningfully take responsibility for internal control. In particular, they should obtain a sound understanding of the essential components of a comprehensive framework of internal control. They also should ensure that all employees responsible in any way for internal control receive the information and training they need to fulfill their particular responsibilities. Documented internal control procedures should include some practical means for lower level employees to report instances of management override of controls that could be indicative of fraud.

We further recommend that management periodically evaluate relevant internal control procedures to satisfy themselves that those procedures 1) are adequately designed to achieve their intended purpose, 2) have actually been implemented, and 3) continue to function as designed. Evaluations should also encompass the effectiveness and timeliness of the City's response to indications of potential control weaknesses generated by internal control procedures. In addition, we recommend that upon completion of any evaluation of internal control procedures management determine what specific actions are necessary to remedy any disclosed weaknesses. A corrective action plan with an appropriate timetable should be adopted. There should be follow-up on the corrective action plan to ensure that it has been fully implemented on a timely basis.

Use a Lockbox System

Currently, most tax and customer payments are received by employees in the City Clerk's office, who process and deposit them. To more effectively manage cash, we suggest that a lockbox system be established for as many revenue sources as possible. This process, while perhaps somewhat more costly in terms of bank charges, is more efficient and will insure maximum cash control and the timely deposit of all taxpayer and customer remittances.

Segregation of Duties: Cash Disbursements, Payroll, General Ledger, and Bank Reconciliation

Due to the limited number of people working in the office, many critical duties are combined and given to the available employees. Presently, a single individual prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible.

Cash Management

While clearly there generally exists an excess of cash balances, there are currently no plans in place that could take advantage of this situation. Our review of the year-end cash balances and related activity indicated that management could much more effectively control and manage cash, which would result in an improved utilization of the City's funds and earnings from this practice. The following procedures are suggestions on how to improve this area:

- Cash-flow analysis should be prepared and reviewed periodically by management.
- Immediate and long-term cash needs should be forecasted and updated periodically based upon management's review and changing conditions.
- Excess cash on hand should be used to reduce the City's outstanding debt or be invested in short-term investments.

Consider Using an Outside Payroll Service

Currently, the City's payroll is prepared internally by the accounting department by using the payroll system included in the accounting software. We recommend that an outside payroll service be considered so that the administrative time, which includes preparing the payroll and filing the quarterly and year-end reports, could be better utilized in other areas. Since payroll is one of the largest city expenses it is important that a segregation of duties be maintained.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Mayor, City Council and management. However, this report is a matter of public record and its distribution is not limited.

Mauro & Hunt

May 10, 2005