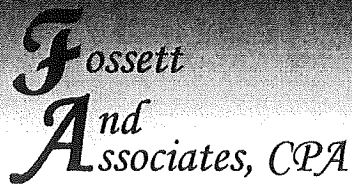


**CITY OF
DRY RIDGE, KENTUCKY
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2010**

CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government Wide Statements	
Statement of Net Assets.....	12
Statement of Activities.....	13
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Statement Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Municipal Road Aid Fund.....	18
Statement of Net Assets - Proprietary Funds.....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds.....	20
Statement of Cash Flows - Proprietary Funds.....	21
Notes to Financial Statements	22
Report On Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	33



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INDEPENDENT AUDITOR'S REPORT

To the Mayor and
Members of the City Council
City of Dry Ridge, Kentucky

We have audited the accompanying financial statements of the governmental 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, 2010, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Dry Ridge, Kentucky, as of June 30, 2010, and the respective changes in financial position, 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 on pages 3 thru 11 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.



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In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2010 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.

J. Dennis Fossett CPA

September 15, 2010

City of Dry Ridge

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Mayor
Clay Crupper

City Clerk / Treasurer
Cindy L. Harris

Management's Discussion and Analysis

As management of the City of Dry Ridge, we offer readers of the City of Dry Ridge's financial statements this narrative overview and analysis of the financial activities of the City of Dry Ridge for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the City of Dry Ridge exceeded its liabilities at the close of the most recent fiscal year by \$3,393,115 (net assets). Of this amount, \$690,729 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$448,817. Governmental activities decreased by \$208,060, while business-type activities also decreased by \$240,757.
- As of the close of the current fiscal year, the City of Dry Ridge's governmental funds reported combined ending fund balances of \$558,519, a decrease of \$10,246 in comparison with the prior year. \$510,457 of this total amount is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$510,457, or 30 percent of total general fund expenditures.
- The City of Dry Ridge's total debt decreased by \$236,453 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Dry Ridge's basic financial statements. The City of Dry Ridge's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Dry Ridge's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Dry Ridge's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Dry Ridge is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Dry Ridge that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Dry Ridge include general government, police protection, fire protection, streets, and recreation. The business-type activities of the City of Dry Ridge include the Water and Sewer System.

The government-wide financial statements can be found on pages 13-14.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Dry Ridge, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Dry Ridge can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Dry Ridge maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the municipal aid fund, both of which are considered to be major funds.

The City of Dry Ridge adopts an annual appropriated budget for both its general and municipal aid funds. A budgetary comparison statement has been provided for both funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-16.

Proprietary Funds

The City of Dry Ridge maintains one type of proprietary funds: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Dry Ridge uses enterprise funds to account for its Water and Sewer System.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer System which is considered to be major fund of the City of Dry Ridge.

The basic proprietary fund financial statements can be found on pages 20-22.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-33.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Dry Ridge, assets exceeded liabilities by \$3,393,115 at the close of the most recent fiscal year.

By far the largest portion of the City of Dry Ridge's net assets (78 percent) reflects its investment in capital assets (e.g., land, buildings, utility systems, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Dry Ridge uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Dry Ridge's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Dry Ridge's net assets (<1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$690,729) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Dry Ridge's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current & Other Assets	\$ 628,472	\$ 634,141	\$ 451,268	\$ 448,219	\$ 1,079,740	\$ 1,082,360
Capital Assets	1,083,361	1,316,377	1,985,349	2,094,035	3,068,710	3,410,412
Total Assets	<u>1,711,833</u>	<u>1,950,518</u>	<u>2,436,617</u>	<u>2,542,254</u>	<u>4,148,450</u>	<u>4,492,772</u>
Long-term Liabilities	\$ 96,288	\$ 127,942	\$ 318,100	\$ 335,501	\$ 414,388	\$ 463,443
Other Liabilities	56,668	55,640	284,280	131,758	340,948	187,398
Total Liabilities	<u>152,956</u>	<u>183,582</u>	<u>602,380</u>	<u>467,259</u>	<u>755,336</u>	<u>650,841</u>
Net Assets:						
Invested in Capital,						
Net of Related Debt	\$ 987,074	\$ 1,188,435	\$ 1,667,249	\$ 1,758,535	\$ 2,654,323	\$ 2,946,970
Restricted	48,063	24,051	-	-	48,063	24,051
Unrestricted	523,740	554,450	166,989	316,460	690,729	870,910
Total Net Assets	<u>\$ 1,558,877</u>	<u>\$ 1,766,937</u>	<u>\$ 1,834,238</u>	<u>\$ 2,074,995</u>	<u>\$ 3,393,114</u>	<u>\$ 3,841,932</u>

At the end of the current fiscal year, the City of Dry Ridge is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets decreased by \$448,817 during the current fiscal year.

City of Dry Ridge's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	344,551	379,559	1,097,323	906,980	1,441,874	1,286,539
Operating Grants & Contributions	46,221	45,862	-	-	46,221	45,862
Capital Grants & Contributions	158,368	46,580	-	-	158,368	46,580
General Revenues:						
Property Taxes	491,924	488,883	-	-	491,924	488,883
Other Taxes	614,108	667,608	-	-	614,108	667,608
Licenses & Permits	20,775	26,567	-	-	20,775	26,567
Fines & Forfeitures	707	1,939	-	-	707	1,939
Interest	3,700	3,225	1,606	3,612	5,306	6,837
Miscellaneous	19,900	26,750	16,875	7,824	36,775	34,574
Total Revenues	1,700,254	1,686,973	1,115,804	918,416	2,816,058	2,605,389
Expenses:						
General Government	237,046	261,640	-	-	237,046	261,640
Police	205,269	220,461	-	-	205,269	220,461
Fire	1,218,842	1,213,957	-	-	1,218,842	1,213,957
Public Works	217,906	228,272	-	-	217,906	228,272
Recreation	26,094	25,466	-	-	26,094	25,466
Water & Sewer	-	-	1,356,561	1,058,754	1,356,561	1,058,754
Interest Expense	3,157	5,109	-	-	3,157	5,109
Total Expenses	1,908,314	1,954,905	1,356,561	1,058,754	3,264,875	3,013,659
Increase (Decrease) in Net Assets	(208,060)	(267,932)	(240,757)	(140,338)	(448,817)	(408,270)
Beginning Net Assets	1,766,937	2,034,869	2,074,995	2,215,333	3,841,932	4,250,202
Ending Net Assets	1,558,877	1,766,937	1,834,238	2,074,995	3,393,115	3,841,932

Governmental Activities

Governmental activities decreased the City of Dry Ridge's net assets by \$208,060, which is actually an improvement over fiscal year 2009 which had a larger decrease of net assets at \$267,932. The key element of this decrease is the City's expenditures still exceed the City's revenues. Revenues in recent years have increased very little while expenditures and the demand to provide services have increased tremendously.

Business-type Activities

Business-type activities decreased the City of Dry Ridge's net assets by \$240,757. Key elements of this increase are as follows.

- Cost for services increased (including Depreciation) more than revenues.
- Sewer processing cost doubled in this period.

Financial Analysis of the Government's Funds

As noted earlier, the City of Dry Ridge uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Dry Ridge's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Dry Ridge's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following schedule presents a summary of general and special revenue fund revenues and expenditures for the fiscal year ended June 30, 2010, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2010 Amount	Percent of Total	FYE 2009 Amount	Increase (Decrease) From FYE 09	Percent Increase (Decrease)
Taxes	\$ 488,377	28.78%	\$ 479,146	\$ 9,231	1.93%
Licenses and Permits	634,883	37.42%	694,175	(59,292)	-8.54%
Intergovernmental	204,589	12.06%	92,443	112,146	121.31%
Charges for Services	344,551	20.31%	379,559	(35,008)	-9.22%
Fines and Forfeitures	707	0.04%	1,939	(1,232)	-63.54%
Interest	3,700	0.22%	3,225	475	14.73%
Miscellaneous	19,900	1.17%	26,750	(6,850)	-25.61%
Total Revenues	\$ 1,696,707	100.00%	\$ 1,677,237	\$ 19,470	

- Charges for services decreased due to a decrease in ambulance and fire run fees received.
- Licenses and Permits decreased because insurance tax revenue decreased significantly.

Expenditures	FYE 2010 Amount	Percent of Total	FYE 2009 Amount	Increase (Decrease) From FYE 09	Percent Increase (Decrease)
General Government	\$ 220,932	12.94%	\$ 245,074	\$ (24,142)	-9.85%
Police	200,046	11.72%	215,238	(15,192)	-7.06%
Fire	969,893	56.82%	963,500	6,393	0.66%
Public Works	180,839	10.59%	187,703	(6,864)	-3.66%
Recreation	4,074	0.24%	3,232	842	26.05%
Debt Service	34,810	2.04%	37,031	(2,221)	-6.00%
Capital Outlay	96,358	5.65%	21,152	75,206	355.55%
Total Expenditures	<u>\$ 1,706,952</u>	<u>100.00%</u>	<u>\$ 1,672,930</u>	<u>\$ 34,022</u>	

- All departments were very conservative this fiscal year.
- General Government and Police Departments decreased their expenditures by a total of \$39,334, (\$24,142 General Government and \$15,192 Police Department) from last fiscal year due to conservative spending by each department.
- Capital Outlay expenditures of \$96,358 were limited to a saltbox in Public Works in the amount of \$3650.00 and expenditures funded by a grant of 95% requiring a match of 5% from the City of Dry Ridge with the total of the expenditures being \$111,581 (\$92,708 capitalized) for both capital outlay expenditures of an exhaust ventilation system and two heart monitors located on the ambulances and also non capitalized expenditures which funded an EMT class for the community.
- Public Works expenditures decreased from the previous fiscal year even with street repairs primarily on Blackburn Lane and Meadowview Circle in the amount of \$19,130.14 an increase of \$14,825.45 from the previous fiscal year in repairs.
- Fire Department had total expenditures of \$1,062,601; however, \$92,708 capital outlay and \$18,873 regular expenditures were 95% funded by a grant stated within Fire Department Grant on the revenue of the General Fund. The actual expenditures and capital outlay within the Fire department decreased by \$28,053 from the previous fiscal year.

General Fund Budgetary Highlights

Total expenditures, actually without the monies expended from the grant within the Fire Department, decreased, but revenues without that grant also decreased. Payroll and property tax revenues increased. FEMA monies in the amount of \$11,553 were recovered. Insurance premium taxes decreased significantly. Ambulance and fire run fees received also decreased from the previous fiscal year.

Proprietary Funds

The City of Dry Ridge's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer System at the end of the year amounted to \$166,989. The total reduction in net assets was \$240,757. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Dry Ridge's business-type activities.

Capital Asset and Debt Administration

Capital Assets

The City of Dry Ridge's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$3,068,710 (net of accumulated depreciation). This investment in capital assets includes land, buildings, utility system, improvements, equipment, park facilities, and roads. The total increase in the City of Dry Ridge's investment in capital assets for the current fiscal year was 3 percent.

City of Dry Ridge's Capital Assets

	Governmental Activities		Business-type Activities	
	2010	2009	2010	2009
Land	\$ 80,000	80,000	\$ 2,000	\$ 2,000
Buildings	567,815	567,815	74,561	74,561
Utility System	-	-	3,962,225	3,962,225
Infrastructure	238,778	238,778	-	-
Improvements	217,335	217,335	-	-
Vehicles	1,074,895	1,074,895	-	-
Equipment	954,839	858,482	221,817	221,817
Furniture & Fixtures	26,044	26,044	-	-
Totals	<u>\$ 3,159,706</u>	<u>3,063,349</u>	<u>\$ 4,260,603</u>	<u>\$ 4,260,603</u>
This year's major additions included:				
	Vehicles		\$	-
	Equipment			96,358
	Total		\$	<u>96,358</u>

Additional information on the City of Dry Ridge's capital assets can be found in note D on pages 28-29.

Long-term Debt

At the end of the current fiscal year, the City of Dry Ridge had total debt outstanding of \$414,388. The City's total debt decreased by \$49,054 or 10 percent during the current fiscal year.

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Bonds Payable	\$ -	\$ -	\$ 318,100	\$ 335,500	\$ 318,100	\$ 335,500
Notes Payable	96,288	127,942	-	-	96,288	127,942
Totals	<u>\$ 96,288</u>	<u>\$ 127,942</u>	<u>\$ 318,100</u>	<u>\$ 335,500</u>	<u>\$ 414,388</u>	<u>\$ 463,442</u>

Additional information on the City of Dry Ridge's long-term debt can be found in note E on pages 30-31.

Requests for Information

This financial report is designed to provide a general overview of the City of Dry Ridge's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk/Treasurer at 31, Broadway, Dry Ridge, Kentucky.

Clay Crupper

Clay Crupper
Mayor

CITY OF DRY RIDGE, KENTUCKY

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 466,303	\$ 207,633	\$ 673,936
Receivables	171,508	234,295	405,803
Prepaid Insurance	-	-	-
Internal balances	(9,340)	9,340	-
Capital Assets:			
Land	80,000	2,000	82,000
Buildings	567,815	74,561	642,376
Utility System	-	3,962,225	3,962,225
Infrastructure	238,778	-	238,778
Improvements	217,335	-	217,335
Vehicles	1,074,895	-	1,074,895
Equipment	954,839	221,817	1,176,656
Furniture & Fixtures	26,044	-	26,044
Less Accumulated Depreciation	(2,076,345)	(2,275,254)	(4,351,599)
Total Assets	<u>1,711,833</u>	<u>2,436,617</u>	<u>4,148,450</u>
Liabilities			
Current Liabilities:			
Accounts Payable	16,200	225,231	241,431
Accrued Liabilities	40,468	9,424	49,892
Customer Deposits	-	49,625	49,625
Noncurrent Liabilities:			
Due Within One Year	33,028	17,400	50,428
Due in More Than One Year	63,260	300,700	363,960
Total Liabilities	<u>152,956</u>	<u>602,380</u>	<u>755,336</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	987,074	1,667,249	2,654,323
Restricted For:			
Municipal Aid	48,063	-	48,063
Unrestricted	523,740	166,989	690,729
Total Net Assets	<u>\$ 1,558,877</u>	<u>\$ 1,834,238</u>	<u>\$ 3,393,115</u>

CITY OF DRY RIDGE, KENTUCKY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

Functions/Programs: Primary: Government:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities:						
General Government	\$ 237,046	\$ 19,896	\$ 11,553	\$ -	\$ (205,597)	\$ -
Police	205,269	-	2,035	-	(203,233)	-
Fire	1,218,842	324,655	32,633	121,956	(739,599)	-
Streets	217,906	-	-	36,412	(181,493)	-
Recreation	26,094	-	-	-	(26,094)	-
Debt Service Interest	3,157	-	-	-	(3,157)	-
Total Governmental Activities	1,908,314	344,551	46,221	158,368	(1,359,174)	-
Business-type Activities:						
Water & Sewer	1,356,561	1,097,323	-	-	(259,238)	(259,238)
Total Business-type Activities	1,356,561	1,097,323	-	-	(259,238)	(259,238)
Total Primary Government	\$ 3,264,875	\$ 1,441,874	\$ 46,221	\$ 158,368	\$ (1,359,174)	\$ (1,618,412)
General Revenues:						
Property Taxes				491,924	-	491,924
Payroll Tax				317,532	-	317,532
Insurance Tax				296,577	-	296,577
Other Licenses and Permits				20,775	-	20,775
Fines & Forfeitures				707	-	707
Interest				3,700	1,606	5,306
Miscellaneous				19,900	16,875	36,775
Total General Revenues and Transfers				1,151,114	18,481	1,169,595
Change in Net Assets				(208,060)	(240,757)	(448,817)
Net Assets - Beginning				1,766,937	2,074,995	3,841,932
Net Assets - Ending				\$ 1,558,877	\$ 1,834,238	\$ 3,393,115

CITY OF DRY RIDGE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	<u>General Fund</u>	<u>Municipal Aid Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ 418,240	\$ 48,063	\$ 466,303
Taxes Receivable	171,508	-	171,508
Prepaid Insurance	-	-	-
Due From Other Funds	-	-	-
Total Assets	<u>\$ 589,748</u>	<u>\$ 48,063</u>	<u>\$ 637,811</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	\$ 16,200	\$ -	\$ 16,200
Accrued Liabilities	40,468	-	40,468
Due to Other Funds	9,339	-	9,339
Deferred Revenue	13,284	-	13,284
Total Liabilities	<u>79,291</u>	<u>-</u>	<u>79,291</u>
Fund Balances:			
Unreserved, Reported In:			
General Fund	510,457	-	510,457
Reserved, Reported In:			
Municipal Aid Fund	-	48,063	48,063
Total Fund Balances	<u>510,457</u>	<u>48,063</u>	<u>558,519</u>
Total Liabilities and Fund Balances	<u>\$ 589,748</u>	<u>\$ 48,063</u>	

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. 1,083,362

Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds. 13,284

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (96,288)

Net assets of governmental activities. \$ 1,558,877

<p align="center">CITY OF DRY RIDGE, KENTUCKY</p> <p align="center">STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES</p> <p align="center">GOVERNMENTAL FUNDS</p> <p align="center">For the Year Ended June 30, 2010</p>

	<u>General Fund</u>	<u>Municipal Aid Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 488,377	\$ -	\$ 488,377
Licenses and Permits	634,883	-	634,883
Intergovernmental	168,177	36,412	204,589
Charges for Services	344,551	-	344,551
Fines and Forfeitures	707	-	707
Interest	3,431	269	3,700
Miscellaneous	19,900	-	19,900
Total Revenues	<u>1,660,025</u>	<u>36,681</u>	<u>1,696,706</u>
Expenditures			
Current:			
General Government	220,932	-	220,932
Police	200,046	-	200,046
Fire	969,893	-	969,893
Public Works	168,170	12,670	180,839
Recreation	4,074	-	4,074
Debt Service:			
Principal	31,653	-	31,653
Interest	3,157	-	3,157
Capital Outlay	96,358	-	96,358
Total Expenditures	<u>1,694,282</u>	<u>12,670</u>	<u>1,706,952</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(34,257)	24,012	(10,246)
Other Financing Sources (Uses)			
Loan Proceeds	-	-	-
Transfers in	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(34,257)</u>	<u>24,012</u>	<u>(10,246)</u>
Fund Balances - Beginning	544,714	24,051	568,765
Fund Balances - Ending	\$ <u>510,457</u>	\$ <u>48,063</u>	\$ <u>558,519</u>

<p style="text-align: center;">CITY OF DRY RIDGE, KENTUCKY</p> <p style="text-align: center;">RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES</p> <p style="text-align: center;">IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</p> <p style="text-align: center;">For the Year Ended June 30, 2010</p>

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)	\$ (10,246)
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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:

Capital outlay	96,358	
Depreciation	<u>(329,373)</u>	
		(233,015)

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:

Loan Proceeds	-	
Principal payments	<u>31,653</u>	
		31,653

Revenues in the statement of activities that do not provide current financial resources and therefore, are not reported as revenues in the funds, while some revenues reported in the funds have already been recognized in earlier periods for the statement of activities. This is the net effect of those changes:

Deferred revenues not yet recognized	3,547	
Delinquent revenues already recognized	<u>-</u>	
		<u>3,547</u>

Change in net assets of governmental activities	\$ <u>(208,060)</u>
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<p align="center">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, 2010</p>
--

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues				
Taxes:				
Property	\$ 459,300	\$ 459,300	\$ 488,377	\$ 29,077
Licenses and Permits	671,000	671,000	634,883	(36,117)
Intergovernmental	154,634	154,634	168,177	13,543
Charges for Services	295,000	295,000	344,551	49,551
Fines and Forfeitures	1,400	1,400	707	(693)
Interest	3,000	3,000	3,431	431
Miscellaneous	7,000	7,000	19,900	12,900
Total Revenues	<u>1,591,334</u>	<u>1,591,334</u>	<u>1,660,025</u>	<u>68,691</u>
Expenditures				
Current:				
General Government	251,145	251,145	220,932	30,213
Police	238,370	238,370	200,046	38,324
Fire	954,798	954,798	969,893	(15,095)
Public Works	177,900	177,900	168,170	9,730
Recreation	4,900	4,900	4,074	826
Debt Service:				
Principal	26,618	26,618	31,653	(5,035)
Interest	3,630	3,630	3,157	473
Capital Outlay	112,482	112,482	96,358	16,124
Total Expenditures	<u>1,769,844</u>	<u>1,769,843</u>	<u>1,694,282</u>	<u>75,561</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(178,510)	(178,509)	(34,257)	144,252
Other Financing Sources (Uses)				
Loan Proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(178,510)	(178,509)	(34,257)	144,252
Fund Balances - Beginning	<u>328,351</u>	<u>328,351</u>	<u>544,714</u>	<u>216,363</u>
Fund Balances - Ending	<u>\$ 149,841</u>	<u>\$ 149,842</u>	<u>\$ 510,457</u>	<u>\$ 360,615</u>

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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues				
Intergovernmental	\$ 36,000	\$ 36,000	\$ 36,412	\$ 412
Interest	200	200	269	69
Total Revenues	<u>36,200</u>	<u>36,200</u>	<u>36,681</u>	<u>481</u>
Expenditures				
Public Works	60,278	60,278	12,670	47,608
Capital Outlay			-	-
Total Expenditures	<u>60,278</u>	<u>60,278</u>	<u>12,670</u>	<u>47,608</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(24,078)	(24,078)	24,012	48,090
Net Change in Fund Balances	(24,078)	(24,078)	24,012	48,090
Fund Balances - Beginning	<u>9,791</u>	<u>9,791</u>	<u>24,051</u>	<u>14,260</u>
Fund Balances - Ending	<u>\$ (14,287)</u>	<u>\$ (14,287)</u>	<u>\$ 48,063</u>	<u>\$ 62,350</u>

<p align="center">CITY OF DRY RIDGE, KENTUCKY STATEMENT OF NET ASSETS PROPRIETARY FUND June 30, 2010</p>

Assets

Current Assets:

Cash and Cash Equivalents	\$	207,633
Accounts Receivable		133,169
Grant Receivable		101,128
Due From Other Funds		9,339
Prepaid Insurance		-
Total Current Assets		<u>451,268</u>

Noncurrent Assets:

Capital Assets:		
Land		2,000
Buildings		74,561
Utility System		3,962,225
Equipment		221,817
Less Accumulated Depreciation		(2,275,254)
Total Capital Assets (Net of Accumulated Depreciation)		<u>1,985,349</u>
Total Noncurrent Assets		<u>1,985,349</u>

Total Assets		<u><u>2,436,617</u></u>
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Liabilities

Current Liabilities:

Accounts Payable		225,231
Accrued Liabilities		9,424
Due to Other Funds		-
Customer Deposits		49,625
Bonds Payable - Current		17,400
Total Current Liabilities		<u>301,680</u>

Noncurrent Liabilities:

Bonds Payable		<u>300,700</u>
Total Noncurrent Liabilities		<u>300,700</u>

Total Liabilities		<u>602,380</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt		1,667,249
Unrestricted		166,989
Total Net Assets	\$	<u><u>1,834,238</u></u>

<p align="center">CITY OF DRY RIDGE, KENTUCKY</p> <p align="center">STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS</p> <p align="center">PROPRIETARY FUND</p> <p align="center">For the Year Ended June 30, 2010</p>

Operating Revenues:

Sewer Service	\$ 627,610
Water Service	419,681
Water Station	3,294
Waste Collection	39,681
Water Penalties	7,057
Miscellaneous	16,875

Total Operating Revenues	<u>1,114,198</u>
---------------------------------	------------------

Operating Expenses:

Cost of Sales and Services	1,232,778
Depreciation	108,686

Total Operating Expenses	<u>1,341,464</u>
---------------------------------	------------------

Operating Income (Loss)	(227,266)
--------------------------------	-----------

Nonoperating Revenues (Expenses):

Interest Income	1,606
Interest Expense	(15,096)

Total Nonoperating Revenues (Expenses)	<u>(13,491)</u>
---	-----------------

Income (Loss) Before Contributions	(240,757)
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Capital Contributions	-
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Change in Net Assets	<u>(240,757)</u>
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Total Net Assets - Beginning	2,074,995
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Total Net Assets - Ending	<u>\$ 1,834,238</u>
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<p align="center">CITY OF DRY RIDGE, KENTUCKY STATEMENT OF CASH FLOWS PROPRIETARY FUND For the Year Ended June 30, 2010</p>
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Cash Flows from Operating Activities

Receipts from Customers and Users	\$ 977,870
Payments to Suppliers	(811,074)
Payments to Employees	(241,963)
Net Cash Provided (Used) by Operating Activities	<u>(75,167)</u>

**Cash Flows from Capital
and Related Financing Activities**

Capital Contributions	-
Purchases of Capital Assets	-
Principal Paid on Capital Debt	(17,400)
Interest Paid on Capital Debt	(15,096)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(32,496)</u>

Cash Flows from Investing Activities

Interest Income	1,606
Net Cash Provided (Used) by Investing Activities	<u>1,606</u>

Net Increase in Cash	<u>(106,057)</u>
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Cash - Beginning of Period	313,690
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Cash - End of Period	<u>\$ 207,633</u>
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**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ (227,266)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	108,686
(Increase) Decrease in Accounts Receivable	(139,753)
(Increase) Decrease in Prepaid Insurance	46,916
Increase (Decrease) in Accounts Payable	148,390
Increase (Decrease) in Accrued Liabilities	706
Increase (Decrease) in Customer Deposits	3,425
Increase (Decrease) in Due to Other Funds	(16,271)
Total Adjustments	<u>152,099</u>
Net Cash Provided by Operating Activities	<u>\$ (75,167)</u>

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a rule, the effect of inter fund activity has been eliminated from the government-wide financial statements.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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

Property Tax Receivable

Property taxes are levied as of November 1 on 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 proprietary 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. 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.

<p style="text-align: center;">CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2010</p>

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 ranges of lives used for depreciation purposes for each fixed asset class are as follows:

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

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 principal 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 are 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.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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.

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, 2010

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. The City's deposits are entirely insured or collateralized with securities held by an agent of the City in the City's name.

As of June 30, 2010 the City had cash and cash equivalents of \$673,936.

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Retirements/ Reclassifications	Balance June 30, 2010
Governmental Activities:				
Land	\$ 80,000	\$ -	\$ -	\$ 80,000
Buildings	567,814	-	-	567,814
Infrastructure	238,778	-	-	238,778
Construction in Progress	-	-	-	-
Improvements	217,335	-	-	217,335
Vehicles	1,074,895	-	-	1,074,895
Equipment	858,482	96,358	-	954,840
Furniture & Fixtures	26,044	-	-	26,044
Subtotal	<u>3,063,348</u>	<u>96,358</u>	<u>-</u>	<u>3,159,706</u>
Accumulated Depreciation:				
Buildings	(338,716)	(25,054)	-	(363,770)
Infrastructure	(56,110)	(21,733)	-	(77,843)
Improvements	(28,732)	(9,918)	-	(38,650)
Vehicles	(693,877)	(122,468)	-	(816,346)
Equipment	(610,146)	(147,335)	-	(757,481)
Furniture & Fixtures	(19,389)	(2,864)	-	(22,253)
Subtotal	<u>(1,746,971)</u>	<u>(329,373)</u>	<u>-</u>	<u>(2,076,344)</u>
Net Capital Assets	<u>\$ 1,316,377</u>	<u>\$ (233,015)</u>	<u>\$ -</u>	<u>\$ 1,083,362</u>

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Depreciation was charged to functions as follows:

Governmental Activities:

General Government	\$ 16,114
Police	5,223
Fire	248,949
Streets	37,066
Parks	22,020
Total Government activities depreciation expense	<u>\$ 329,373</u>

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

	Balance June 30, 2009	Additions	Retirements/ Deletions	Balance June 30, 2010
Business-type Activities:				
Not Being Depreciated				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Construction in Progress	-	-	-	-
Subtotal	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Other Capital Assets:				
Buildings	74,561	-	-	74,561
Utility System	3,962,225	-	-	3,962,225
Equipment	221,817	-	-	221,817
Subtotal	<u>4,258,603</u>	<u>-</u>	<u>-</u>	<u>4,258,603</u>
Accumulated Depreciation				
Buildings	(5,107)	(1,864)	-	(6,971)
Utility System	(2,004,952)	(88,049)	-	(2,093,001)
Equipment	(156,508)	(18,773)	-	(175,281)
Subtotal	<u>(2,166,567)</u>	<u>(108,686)</u>	<u>-</u>	<u>(2,275,253)</u>
Net Capital Assets	<u>\$ 2,094,036</u>	<u>\$ (108,686)</u>	<u>\$ -</u>	<u>\$ 1,985,351</u>

<p align="center">CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2010</p>
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NOTE E – LONG-TERM LIABILITIES

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.

<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 06/30/2010</u>
07/01/1993	5.200%	07/01/2016	\$ 120,000
09/25/2003	3.500%	01/01/2043	198,100
			<u>\$ 318,100</u>

The following is a schedule of future debt service requirements to maturity at June 30, 2009:

<u>Year ended June 30,</u>	<u>KIA BOND</u>		<u>RURAL DEVELOPMENT</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	15,000	6,132	2,500	8,964
2012	15,000	5,577	2,500	8,854
2013	15,000	4,985	2,700	8,737
2014	15,000	2,973	3,080	8,343
2015-2018	60,000	8,919	12,320	33,372
2019-2023	-	-	19,500	37,811
2024-2028	-	-	24,700	32,852
2029-2033	-	-	31,500	26,561
2034-2038	-	-	39,700	18,583
2039-2043	-	-	59,600	8,474
	-	-	-	-
Total	<u>120,000</u>	<u>28,586</u>	<u>198,100</u>	<u>192,551</u>

<p align="center">CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2010</p>
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During the year ended June 30, 2009, the following changes occurred in Utility long-term debt:

	June 30, 2009	Additions	Reductions	June 30, 2010
Bonds Payable	\$ 335,500	\$ -	\$ (17,400)	\$ 318,100
Totals	\$ 335,500	\$ -	\$ (17,400)	\$ 318,100

General Fund

The City has entered into a note agreement with the Commission on Fire Protection for the purchase of bunker equipment. The loan is to be repaid with a yearly deduction from the City's state-aid allotment. During the year the city obtained a loan from the Kentucky League of Cities to purchase an Ambulance the loan rate is variable from 2.1% to 3.0%. The following is a schedule of the remaining payments:

Year ended June 30,	Commission on Fire		Year ended June 30,	KLC Ambulance Loan	
	Principal	Interest		Principal	Interest
2011	5,186	633	2011	27,842	2,882
2012	5,341	477	2012	29,118	2,101
2013	5,283	235	2013	18,237	1,049
2014	5,283	235			
Total	21,092	1,580	Total	75,196	6,032

During the year ended June 30, 2009, the following changes occurred in general long-term debt:

	June 30, 2009	Additions	Reductions	June 30, 2010
Notes Payable	\$ 127,942	\$ -	\$ (31,654)	\$ 96,288
Totals	\$ 127,942	\$ -	\$ (31,654)	\$ 96,288

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.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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.

Non-hazardous Contributions – For the year ended June 30, 2010, 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, 2010, participating employers contributed 16.16% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2010 was 16.16% 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, 2010, 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 proceeding 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, 2010, participating employers contributed 32.97% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2010 was 32.97% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

<p align="center">CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2010</p>
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The required contribution and the actual percentage contributed for the City the current and previous two years are as follows:

Year	Contribution	Contributed
2010	\$ 192,175	100%
2009	\$ 174,664	100%
2008	\$ 172,695	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.

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, 2009, 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 – INTER-FUND TRANSACTIONS

A summary of the inter-fund account balances is as follows:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
Utility Fund	General Fund	\$ <u>9,339</u>

NOTE K- Subsequent Events

Management has evaluated subsequent events through September 15, 2010, the date on which the financial statements were available to be issued.

Fossett And Associates, CPA

Where expertise and efficiency meet affordability.

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

To the Mayor and
Members of the City Council
City of Dry Ridge, Kentucky

We have audited the financial statements of the City of Dry Ridge, Kentucky as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. 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.

COMPLIANCE

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



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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 opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

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.

Fossett and Associates C.P.A.

September 15, 2010