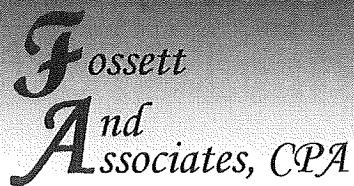


**CITY OF  
DRY RIDGE, KENTUCKY  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2011**

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*Where expertise and efficiency meet affordability.*

## 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, the business-type activities, and each major fund of City of Dry Ridge, Kentucky as of and for the year ended June 30, 2011, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, and each major fund of the City of Dry Ridge, Kentucky, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 10 and 31 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Fossett & Associates, CPA**

October 12, 2011



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# 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, 2011.

## Financial Highlights

- The assets of the City of Dry Ridge exceeded its liabilities at the close of the most recent fiscal year by \$2,961,248 (net assets). Of this amount, \$507,610 (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 \$431,867. Governmental activities decreased by \$302,114, while business-type activities also decreased by \$129,753.
- As of the close of the current fiscal year, the City of Dry Ridge's governmental funds reported combined ending fund balances of \$459,387, a decrease of \$99,133 in comparison with the prior year. \$392,972 of this total amount is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$392,972, or 23 percent of total general fund expenditures.
- The City of Dry Ridge's total debt decreased by \$50,528 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 11-12.

### **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 13-14.

## **Proprietary Funds**

The City of Dry Ridge maintains one type of proprietary fund: 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 an enterprise fund 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 16-18.

## **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 19-30.

## **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 \$2,961,248 at the close of the most recent fiscal year.

By far the largest portion of the City of Dry Ridge's net assets (81 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 (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$507,610) 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	
	2011	2010	2011	2010	2011	2010
Current & Other Assets	\$ 546,643	\$ 628,472	\$ 323,514	\$ 451,269	\$ 870,157	\$ 1,079,741
Capital Assets	837,036	1,083,361	1,914,047	1,985,349	2,751,083	3,068,710
Total Assets	<u>1,383,679</u>	<u>1,711,833</u>	<u>2,237,561</u>	<u>2,436,618</u>	<u>3,621,240</u>	<u>4,148,451</u>
Long-term Liabilities	\$ 63,260	\$ 96,288	\$ 300,600	\$ 318,100	\$ 363,860	\$ 414,388
Other Liabilities	63,656	56,668	232,476	284,280	296,132	340,948
Total Liabilities	<u>126,916</u>	<u>152,956</u>	<u>533,076</u>	<u>602,380</u>	<u>659,992</u>	<u>755,336</u>
Net Assets:						
Invested in Capital,						
Net of Related Debt	\$ 773,776	\$ 987,074	\$ 1,613,447	\$ 1,667,250	\$ 2,387,223	\$ 2,654,324
Restricted	66,415	48,063	-	-	66,415	48,063
Unrestricted	416,572	523,740	91,038	166,989	507,610	690,729
Total Net Assets	<u>\$ 1,256,763</u>	<u>\$ 1,558,877</u>	<u>\$ 1,704,485</u>	<u>\$ 1,834,239</u>	<u>\$ 2,961,248</u>	<u>\$ 3,393,115</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 \$431,867 during the current fiscal year.

## City of Dry Ridge's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	346,666	344,551	1,354,856	1,097,323	1,701,522	1,441,874
Operating Grants & Contributions	33,322	46,221	-	-	33,322	46,221
Capital Grants & Contributions	66,042	158,368	-	-	66,042	158,368
General Revenues:						
Property Taxes	506,895	491,924	-	-	506,895	491,924
Other Taxes	608,198	614,108	-	-	608,198	614,108
Licenses & Permits	28,747	20,775	-	-	28,747	20,775
Fines & Forfeitures	1,437	707	-	-	1,437	707
Interest	5,815	3,700	1,911	1,606	7,726	5,306
Miscellaneous	19,888	19,900	9,950	16,875	29,838	36,775
Total Revenues	<u>1,617,010</u>	<u>1,700,254</u>	<u>1,366,717</u>	<u>1,115,804</u>	<u>2,983,727</u>	<u>2,816,058</u>
Expenses:						
General Government	235,471	237,046	-	-	235,471	237,046
Police	227,794	205,269	-	-	227,794	205,269
Fire	1,215,559	1,218,842	-	-	1,215,559	1,218,842
Public Works	209,726	217,906	-	-	209,726	217,906
Recreation	27,692	26,094	-	-	27,692	26,094
Water & Sewer	-	-	1,482,038	1,356,561	1,482,038	1,356,561
Interest Expense	2,882	3,157	14,432	-	17,314	3,157
Total Expenses	<u>1,919,124</u>	<u>1,908,314</u>	<u>1,496,470</u>	<u>1,356,561</u>	<u>3,415,594</u>	<u>3,264,875</u>
Excess (Deficiency) in Net Assets	(302,114)	(208,060)	(129,753)	(240,757)	(431,867)	(448,817)
Beginning Net Assets	<u>1,558,877</u>	<u>1,766,937</u>	<u>1,834,238</u>	<u>2,074,995</u>	<u>3,393,115</u>	<u>3,841,932</u>
Ending Net Assets	<u><u>1,256,763</u></u>	<u><u>1,558,877</u></u>	<u><u>1,704,485</u></u>	<u><u>1,834,238</u></u>	<u><u>2,961,248</u></u>	<u><u>3,393,115</u></u>

## Governmental Activities

Governmental activities decreased the City of Dry Ridge's net assets by \$302,114. The key element of this decrease is that 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 \$129,753, which is an improvement from last year's decrease of \$240,757. Key elements of this decrease are as follows.

- Cost for services increased (including Depreciation) more than revenues.
- Sewer processing costs increased about 44% 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following schedule presents a summary of general and special revenue fund revenues and expenditures for the fiscal year ended June 30, 2011, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2011 Amount	Percent of Total	FYE 2010 Amount	Increase (Decrease) From FYE 10	Percent Increase (Decrease)
Taxes	\$ 496,580	30.91%	\$ 488,377	\$ 8,203	1.68%
Licenses and Permits	636,945	39.64%	634,883	2,062	0.32%
Intergovernmental	99,364	6.18%	204,589	(105,225)	-51.43%
Charges for Services	346,666	21.58%	344,551	2,115	0.61%
Fines and Forfeitures	1,437	0.09%	707	730	103.25%
Interest	5,815	0.36%	3,700	2,115	57.16%
Miscellaneous	19,888	1.24%	19,900	(12)	-0.06%
Total Revenues	\$ 1,606,695	100.00%	\$ 1,696,707	\$ (90,012)	

- Tax revenues increased this fiscal year due to an increase in real estate tax billings of \$17,347 and an increase in Personal Property tax billings of \$2,000.
- Intergovernmental revenues decreased this fiscal year because the 2010 fiscal year included a 100,000 fire grant that did not occur this fiscal year.
- Total Revenues decreased due to the \$100,000 fire grant that was included in the fiscal year 2010 but not received in the current fiscal year.



Expenditures	FYE 2011 Amount	Percent of Total	FYE 2010 Amount	Increase (Decrease) From FYE 10	Percent Increase (Decrease)
General Government	\$ 219,751	12.88%	\$ 220,932	\$ (1,181)	-0.53%
Police	217,745	12.76%	200,046	17,699	8.85%
Fire	1,000,798	58.67%	969,893	30,905	3.19%
Public Works	175,967	10.32%	180,839	(4,872)	-2.69%
Recreation	5,843	0.34%	4,074	1,769	43.42%
Debt Service	35,910	2.11%	34,810	1,100	3.16%
Capital Outlay	49,814	2.92%	96,358	(46,544)	-48.30%
Total Expenditures	\$ 1,705,828	100.00%	\$ 1,706,952	\$ (1,124)	

- Fire department expenditures increased this fiscal year because more part time personnel were included this fiscal year compared to last.
- Public works expenditures decreased this fiscal year due to a decrease in street repairs done this year compared to last.
- Total Expenditures decreased only slightly mainly due to decreases in capital outlay purchases.

### 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 \$91,038. The total reduction in net assets was \$129,753. 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, 2011, amounts to \$2,751,083 (net of accumulated depreciation). This investment in capital assets includes land, buildings, utility system, improvements, equipment, park facilities, and roads. The total decrease in the City of Dry Ridge's investment in capital assets for the current fiscal year was 10 percent.

## City of Dry Ridge's Capital Assets

	Governmental Activities		Business-type Activities	
	2011	2010	2011	2010
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	1,099,026	1,074,895	-	-
Equipment	980,521	954,839	264,370	221,817
Furniture & Fixtures	26,044	26,044	-	-
Totals	<u>\$ 3,209,519</u>	<u>3,159,706</u>	<u>\$ 4,303,156</u>	<u>\$ 4,260,603</u>
This year's major additions included:				
	Vehicles		\$ 24,131	
	Equipment		68,235	
	Total		<u>\$ 92,366</u>	

Additional information on the City of Dry Ridge's capital assets can be found in note D on pages 25-26.

## Long-term Debt

At the end of the current fiscal year, the City of Dry Ridge had total debt outstanding of \$363,860. The City's total debt decreased by \$50,528 or 12 percent during the current fiscal year.

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Bonds Payable	\$ -	\$ -	\$ 300,600	\$ 318,100	\$ 300,600	\$ 318,100
Notes Payable	<u>63,260</u>	<u>96,288</u>	<u>-</u>	<u>-</u>	<u>63,260</u>	<u>96,288</u>
Totals	<u>\$ 63,260</u>	<u>\$ 96,288</u>	<u>\$ 300,600</u>	<u>\$ 318,100</u>	<u>\$ 363,860</u>	<u>\$ 414,388</u>

Additional information on the City of Dry Ridge's long-term debt can be found in note E on pages 27-28.

## 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, 2011**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 353,495	\$ 161,995	\$ 515,490
Receivables	190,762	163,796	354,558
Prepaid Insurance	-	109	109
Internal balances	2,386	(2,386)	-
<b>Capital Assets:</b>			
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	1,099,026	-	1,099,026
Equipment	980,521	264,370	1,244,891
Furniture & Fixtures	26,044	-	26,044
Less Accumulated Depreciation	(2,372,483)	(2,389,109)	(4,761,592)
<b>Total Assets</b>	<u>1,383,679</u>	<u>2,237,561</u>	<u>3,621,240</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts Payable	32,220	169,605	201,825
Accrued Liabilities	31,436	11,371	42,807
Customer Deposits	-	51,500	51,500
<b>Noncurrent Liabilities:</b>			
Due Within One Year	34,459	17,700	52,159
Due in More Than One Year	28,801	282,900	311,701
<b>Total Liabilities</b>	<u>126,916</u>	<u>533,076</u>	<u>659,992</u>
<b>Net Assets</b>			
Invested in Capital Assets,			
Net of Related Debt	773,776	1,613,447	2,387,223
Restricted For:			
Municipal Aid	66,415	-	66,415
Unrestricted	416,572	91,038	507,610
<b>Total Net Assets</b>	<u>\$ 1,256,763</u>	<u>\$ 1,704,485</u>	<u>\$ 2,961,248</u>

<p align="center"><b>CITY OF DRY RIDGE, KENTUCKY</b></p> <p align="center"><b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS</b></p> <p align="center"><b>PROPRIETARY FUND</b></p> <p align="center"><b>For the Year Ended June 30, 2011</b></p>
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<b>Operating Revenues:</b>	
Sewer Service	\$ 817,390
Water Service	486,659
Water Station	2,468
Waste Collection	39,865
Water Penalties	8,474
Miscellaneous	9,950
<b>Total Operating Revenues</b>	<u>1,364,806</u>
<b>Operating Expenses:</b>	
Cost of Sales and Services	1,368,183
Depreciation	113,855
<b>Total Operating Expenses</b>	<u>1,482,038</u>
<b>Operating Income (Loss)</b>	(117,232)
<b>Nonoperating Revenues (Expenses):</b>	
Interest Income	1,911
Interest Expense	(14,432)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(12,521)</u>
<b>Income (Loss) Before Contributions</b>	(129,753)
<b>Capital Contributions</b>	-
<b>Change in Net Assets</b>	<u>(129,753)</u>
<b>Total Net Assets - Beginning</b>	1,834,238
<b>Total Net Assets - Ending</b>	\$ <u><u>1,704,485</u></u>

<p align="center"><b>CITY OF DRY RIDGE, KENTUCKY</b>  <b>STATEMENT OF CASH FLOWS</b>  <b>PROPRIETARY FUND</b>  <b>For the Year Ended June 30, 2011</b></p>
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**Cash Flows from Operating Activities**

Receipts from Customers and Users	\$ 1,449,314
Payments to Suppliers	(1,215,149)
Payments to Employees	(207,229)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>26,936</u>

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

Capital Contributions	-
Purchases of Capital Assets	(42,553)
Principal Paid on Capital Debt	(17,500)
Interest Paid on Capital Debt	(14,847)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(74,900)</u>

**Cash Flows from Investing Activities**

Interest Income	<u>1,911</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>1,911</u>

<b>Net Increase in Cash</b>	<u>(46,053)</u>
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<b>Cash - Beginning of Period</b>	207,633
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<b>Cash - End of Period</b>	<u><u>\$ 161,580</u></u>
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**Reconciliation of Operating Income to Net Cash  
Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ (117,232)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	113,855
(Increase) Decrease in Accounts Receivable	82,633
(Increase) Decrease in Prepaid Insurance	(109)
Increase (Decrease) in Accounts Payable	(54,525)
Increase (Decrease) in Accrued Liabilities	(1,947)
Increase (Decrease) in Customer Deposits	1,875
Increase (Decrease) in Due to Other Funds	<u>2,386</u>
Total Adjustments	<u>144,168</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 26,936</u></u>

<p style="text-align: center;"><b>CITY OF DRY RIDGE, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2011</b></p>
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**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 expenditures. 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 expenditures.

*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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues

**CITY OF DRY RIDGE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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 of Dry Ridge has one Special Revenue Fund for Municipal Road Aid. The amount of restricted net assets is \$66,415.

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, 2011**

**GASBS No. 54**

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Certain changes in the Statement will require the following:

Fund Balances for each of the City's governmental funds (General Fund, Municipal Road Aid Fund and Proprietary Fund) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid accounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance* - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned fund balance* - amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* - amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

The statement also establishes several new presentation and disclosure requirements, including requirements related to stabilization arrangements (i.e., "rainy day" amounts).

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

The provisions of GASBS No. 54 must be implemented by the City no later than the fiscal year beginning July 1, 2010. Implementation will require the City to restate existing fund balances for the governmental funds.

Since the City of Dry Ridge does not establish a policy for its use of unassigned fund balance amounts, it should consider that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unassigned fund balance classifications could be used.

**CITY OF DRY RIDGE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

*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;"><b>CITY OF DRY RIDGE, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2011</b></p>
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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 expenditures 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 (See Note on GASBS No. 54). Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF DRY RIDGE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

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.

<p align="center"><b>CITY OF DRY RIDGE, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2011</b></p>
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**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, 2011 the City had cash and cash equivalents of \$515,490.

**NOTE D – CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Retirements/ Reclassifications	Balance June 30, 2011
<b>Governmental Activities</b>				
Land	\$ 80,000.00	-	-	\$ 80,000.00
Buildings	567,814.91	-	-	567,814.91
Improvements	217,334.94	-	-	217,334.94
Infrastructure	238,778.02	-	-	238,778.02
Vehicles	1,074,895.46	24,131.04	-	1,099,026.50
Equipment	954,839.46	25,681.78	-	980,521.24
Furniture & Fix.	26,043.07	-	-	26,043.07
Subtotal	3,159,705.86	49,812.82	-	3,209,518.68
<b>Accumulated Depreciation</b>				
Land	-	-	-	-
Buildings	(363,771)	(25,054.32)	-	(388,825.38)
Improvements	(77,844)	(21,733.49)	-	(99,577.87)
Infrastructure	(38,650)	(9,918.39)	-	(48,568.84)
Vehicles	(816,346)	(119,386.17)	-	(935,731.90)
Equipment	(757,481)	(117,494.74)	-	(874,975.33)
Furniture & Fix.	(22,252)	(2,551.14)	-	(24,803.49)
Subtotal	(2,076,344.56)	(296,138.25)	-	(2,372,482.81)
<b>Net Capital Assets</b>	<u>\$ 1,083,361.30</u>			<u>\$ 837,035.87</u>

<p align="center"><b>CITY OF DRY RIDGE, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2011</b></p>
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Depreciation was charged to functions as follows:

General Government	\$ 15,718.97
Police	10,049.20
Fire	214,761.45
Streets & Highways	33,759.28
Parks	21,849.35
Total Governmental Activities Depreciation	<u>\$ 296,138.25</u>

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

	Balance June 30, 2010	Additions	Retirements/ Reclassifications	Balance June 30, 2011
<b>Business-Type Activities</b>				
Land	\$ 2,000	-	-	\$ 2,000
Buildings	74,561	-	-	74,561
Improvements	3,962,225	-	-	3,962,225
Equipment	221,817	42,553	-	264,370
Subtotal	<u>4,260,603</u>	<u>42,553</u>	<u>-</u>	<u>4,303,156</u>
<b>Accumulated Depreciation</b>				
Land	-	-	-	-
Buildings	(6,971)	(1,864)	-	(8,835)
Improvements	(2,093,002)	(88,049)	-	(2,181,051)
Equipment	(175,281)	(23,942)	-	(199,223)
Subtotal	<u>(2,275,254)</u>	<u>(113,855)</u>	<u>-</u>	<u>(2,389,109)</u>
<b>Net Capital Assets</b>	<u>\$ 1,985,349</u>			<u>\$ 1,914,047</u>

# CITY OF DRY RIDGE, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011

### 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.

Date of Issuance	Interest Rate	Maturity Date	Balance 06/30/2011
07/01/1993	5.200%	07/01/2016	\$ 105,000
09/25/2003	3.500%	01/01/2043	195,600
			<u>\$ 300,600</u>

The following is a schedule of future debt service requirements to maturity at June 30, 2011:

Year ended June 30,	KIA BOND		RURAL DEVELOPMENT	
	Principal	Interest	Principal	Interest
2012	15,000	5,460	2,700	6,846
2013	15,000	4,680	2,800	6,752
2014	15,000	3,900	2,900	6,654
2015	15,000	3,120	3,100	6,552
2016	15,000	2,340	3,200	6,444
2017-2021	30,000	3,120	18,600	33,372
2022-2026	-	-	23,600	37,811
2027-2031	-	-	30,000	32,852
2032-2036	-	-	37,900	26,561
2037-2041	-	-	48,200	18,583
2042-2043	-	-	22,600	8,474
Total	<u>105,000</u>	<u>22,620</u>	<u>195,600</u>	<u>190,901</u>

**CITY OF DRY RIDGE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

During the year ended June 30, 2011, the following changes occurred in Utility long-term debt:

	June 30, 2010	Additions	Reductions	June 30, 2011
Bonds Payable	\$ 318,100	\$ -	\$ (17,500)	\$ 300,600
Totals	\$ 318,100	\$ -	\$ (17,500)	\$ 300,600

*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
2012	5,341	477	2012	29,118	1,160
2013	5,283	235	2013	18,236	1,049
2014	5,283	235			
Total	<u>15,906</u>	<u>947</u>	Total	<u>47,354</u>	<u>2,209</u>

During the year ended June 30, 2011, the following changes occurred in general long-term debt:

	June 30, 2010	Additions	Reductions	June 30, 2011
Notes Payable	\$ 96,288	\$ -	\$ (33,028)	\$ 63,260
Totals	\$ 96,288	\$ -	\$ (33,028)	\$ 63,260

**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, 2011**

**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, 2011, 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, 2011, participating employers contributed 16.93% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 16.93% 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, 2011, 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, 2011, participating employers contributed 33.25% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 33.25% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

<p align="center"><b>CITY OF DRY RIDGE, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2011</b></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
2011	\$ 204,009	100%
2010	\$ 192,175	100%
2009	\$ 174,664	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, 2011, 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>
General Fund	Utility Fund	\$ <u>2,386</u>

**NOTE K- SUBSEQUENT EVENTS**

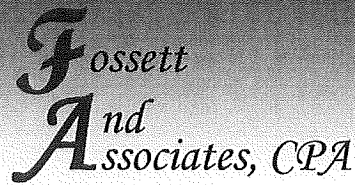
Management has evaluated subsequent events through October 12, 2011, the date on which the financial statements were available to be issued.

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>Revenues</b>				
Taxes:				
Property	\$ 484,800	\$ 484,800	\$ 496,580	\$ 11,780
Licenses and Permits	670,500	670,500	636,945	(33,555)
Intergovernmental	45,000	45,000	56,226	11,226
Charges for Services	311,000	311,000	346,666	35,666
Fines and Forfeitures	400	400	1,437	1,037
Interest	2,500	2,500	5,160	2,660
Miscellaneous	8,700	8,700	19,888	11,188
<b>Total Revenues</b>	<u>1,522,900</u>	<u>1,522,900</u>	<u>1,562,902</u>	<u>40,002</u>
<b>Expenditures</b>				
Current:				
General Government	251,000	251,000	219,751	31,249
Police	264,000	264,000	217,745	46,255
Fire	1,030,000	1,030,000	1,000,798	29,202
Public Works	185,500	185,500	150,526	34,974
Recreation	6,500	6,500	5,843	657
Debt Service:				
Principal	28,000	28,000	33,028	(5,028)
Interest	3,400	3,400	2,882	518
Capital Outlay	-	-	49,814	(49,814)
<b>Total Expenditures</b>	<u>1,768,400</u>	<u>1,768,400</u>	<u>1,680,387</u>	<u>88,013</u>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over (Under) Expenditures</b>	(245,500)	(245,500)	(117,485)	128,015
<b>Other Financing Sources (Uses)</b>				
Loan Proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(245,500)	(245,500)	(117,485)	128,015
<b>Fund Balances - Beginning</b>	<u>510,457</u>	<u>510,457</u>	<u>510,457</u>	<u>-</u>
<b>Fund Balances - Ending</b>	<u>\$ 264,957</u>	<u>\$ 264,957</u>	<u>\$ 392,972</u>	<u>\$ 128,015</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, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental	\$ 36,000	\$ 36,000	\$ 43,138	\$ 7,138
Interest	-	-	655	655
<b>Total Revenues</b>	<u>36,000</u>	<u>36,000</u>	<u>43,793</u>	<u>7,793</u>
<b>Expenditures</b>				
Public Works	36,000	36,000	25,441	10,559
Capital Outlay	-	-	-	-
<b>Total Expenditures</b>	<u>36,000</u>	<u>36,000</u>	<u>25,441</u>	<u>10,559</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	-	-	18,352	18,352
<b>Net Change in Fund Balances</b>	-	-	18,352	18,352
<b>Fund Balances - Beginning</b>	<u>48,063</u>	<u>48,063</u>	<u>48,063</u>	<u>-</u>
<b>Fund Balances - Ending</b>	<u>\$ 48,063</u>	<u>\$ 48,063</u>	<u>\$ 66,415</u>	<u>\$ 18,352</u>



*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 governmental activities, each major fund and the aggregate remaining fund information of the City of Dry Ridge, Kentucky as of and for the year ended June 30, 2011, which collectively comprise City of Dry Ridge, Kentucky's basic financial statements and have issued a report thereon dated October 12, 2011. 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 of Dry Ridge, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Dry Ridge, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dry Ridge, Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.



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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses (2011-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies (2011-2).

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether City of Dry Ridge, Kentucky's financial statements are free of material misstatements, 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 solely for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**Fossett and Associates C.P.A.**

October 12, 2011

## Schedule of Findings

### Internal Controls

#### **2011-1**

##### *Material Weakness*

Improper segregation of duties due to small staff size.

Response: Due to the size of the city it is not economical for them to maintain separation of duties

#### **2011-2**

##### *Significant Deficiency*

Purchase orders were being used after the fact not prior to purchases

Response: The city will implement proper purchase order procedures going forward.