January 10, 2018

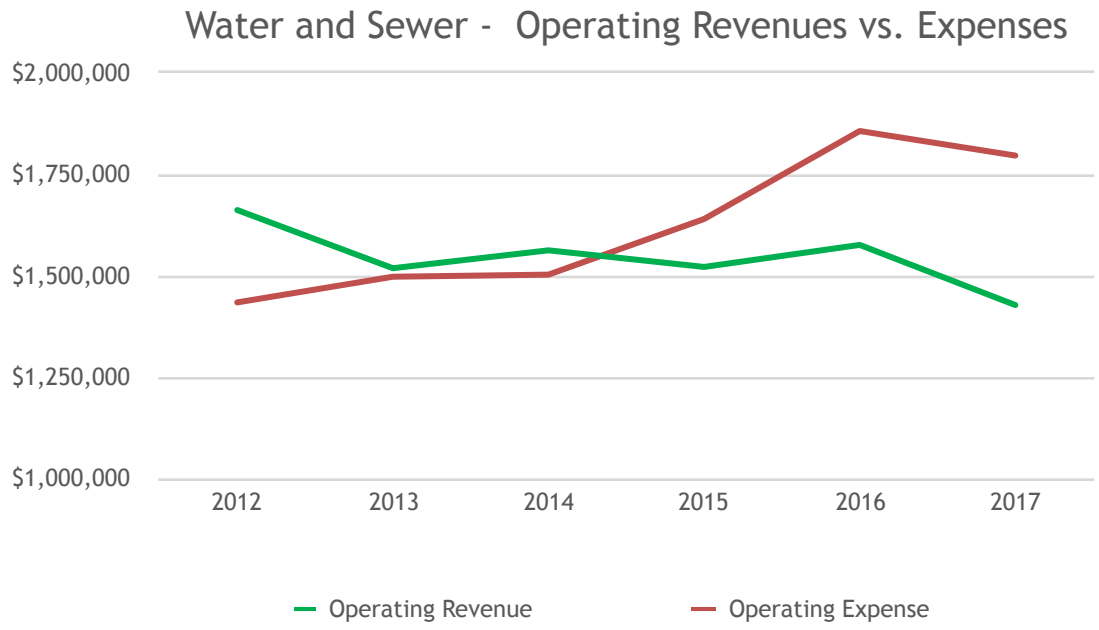
Mayor James Wells
City of Dry Ridge, Kentucky

In planning and performing our audit of the financial statements of the City of Dry Ridge, Kentucky for the year ended June 30, 2017, we considered internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, as a result of observations made during our audit we offer the following:

## Current Year Recommendations

### Utility Fund Net Losses

As part of our standard audit procedures, we noted that the Utility Fund has sustained significant losses in the past three years of ($117,876) in 2015, ($280,121) in 2016, and ($367,722) in 2017. The operating revenue versus operating expense for the last six years is plotted below.




A proprietary fund (the Utility Fund) of a governmental entity should be self-sustaining; charging rates for services provided that are sufficient to cover the expenses of the fund. Through standard financial statement auditing procedures, we cannot accurately determine if expenses are inflated in the fund, causing a significant loss, or if revenues are insufficient. We highly recommend that the City review all expenses of the Utility Fund to ascertain if the expense is being applied in the proper proportion to the Utility Fund vs. the Governmental Funds. Once that is complete, if the Utility Fund is still underfunded, we would highly recommend a water and sewage rate study for the Utility Fund to ensure that the appropriate rates are being charged to users.

***Management Comments:***

This letter is solely for the use of the Mayor and City Management and should not be used for any other purpose.

Thank you for allowing us to be of service to the City of Dry Ridge, Kentucky.

**Van Gorder, Walker & Co., Inc.**
Erlanger, Kentucky