

**CITY OF
 DRY RIDGE, KENTUCKY
 ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2012**

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Fossett And Associates, CPA

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Independent Accountant's Report

To the City Council
City of Dry Ridge, KY

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund of the City of Dry Ridge, KY as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dry Ridge, KY'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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund information of the City of Dry Ridge, KY as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012, on our consideration of the City of Dry Ridge, KY's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Erlanger, KY 41018

October 5, 2012

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, 2012.

Financial Highlights

- The assets of the City of Dry Ridge exceeded its liabilities at the close of the most recent fiscal year by \$3,070,515 (net assets). Of this amount, \$800,786 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$109,267. Governmental activities decreased by \$106,536, while business-type activities increased by \$215,803.
- As of the close of the current fiscal year, the City of Dry Ridge's governmental funds reported combined ending fund balances of \$510,189, an increase of \$50,802 in comparison with the prior year. \$405,212 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 \$405,212, or 25 percent of total general fund expenditures.
- The City of Dry Ridge's total debt decreased by \$52,159 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 required 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

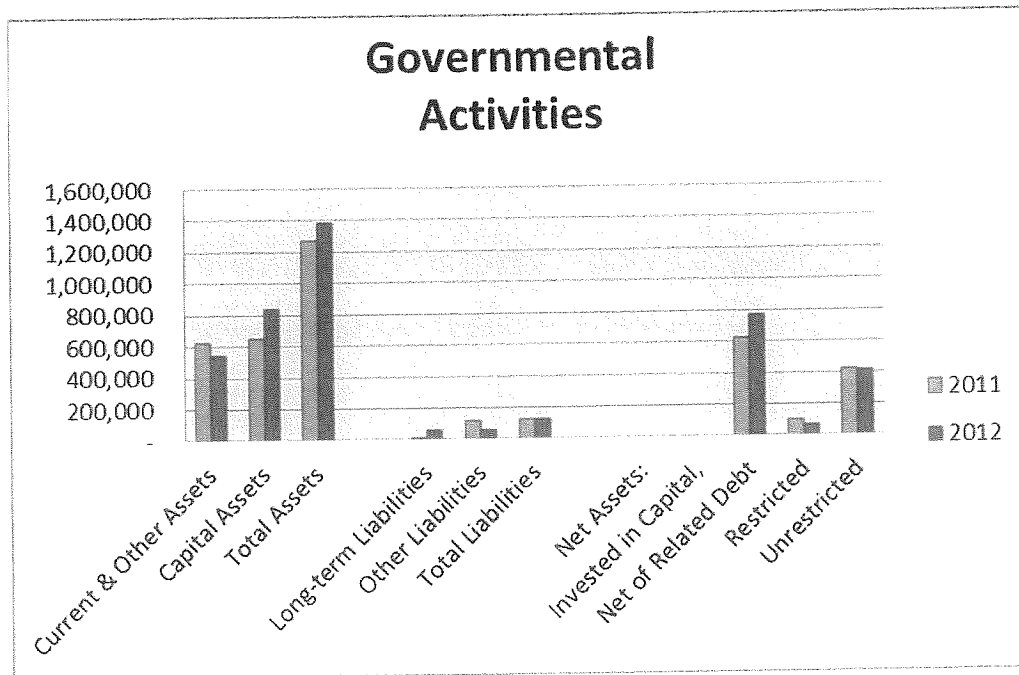
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Dry Ridge, assets exceeded liabilities by \$3,070,515 at the close of the most recent fiscal year.

By far the largest portion of the City of Dry Ridge's net assets (71 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 (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$800,786) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Dry Ridge's Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current & Other Assets	\$ 623,065	\$ 546,643	\$ 561,201	\$ 323,514	\$ 1,184,266	\$ 870,157
Capital Assets	651,804	837,036	1,824,649	1,914,047	2,476,453	2,751,083
Total Assets	1,274,869	1,383,679	2,385,850	2,237,561	3,660,719	3,621,240
Long-term Liabilities	\$ 5,282	\$ 63,260	\$ 265,100	\$ 300,600	\$ 270,382	\$ 363,860
Other Liabilities	119,360	63,656	200,462	232,476	319,822	296,132
Total Liabilities	124,642	126,916	465,562	533,076	590,204	659,992
Net Assets:						
Invested in Capital,						
Net of Related Debt	\$ 623,003	\$ 773,776	\$ 1,541,749	\$ 1,613,447	\$ 2,164,752	\$ 2,387,223
Restricted	104,977	66,415	-	-	104,977	66,415
Unrestricted	422,247	416,572	378,539	91,038	800,786	507,610
Total Net Assets	\$ 1,150,227	\$ 1,256,763	\$ 1,920,288	\$ 1,704,485	\$ 3,070,515	\$ 2,961,247



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 increased by \$109,267 during the current fiscal year.

City of Dry Ridge's Changes in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	335,081	346,666	1,652,803	1,354,856	1,987,884	1,701,522
Operating Grants & Contributions	31,896	33,322	-	-	31,896	33,322
Capital Grants & Contributions	78,371	66,042	-	-	78,371	66,042
General Revenues:						
Property Taxes	531,862	506,895	-	-	531,862	506,895
Other Taxes	618,194	608,198	-	-	618,194	608,198
Licenses & Permits	28,108	28,747	-	-	28,108	28,747
Fines & Forfeitures	-	1,437	-	-	-	1,437
Interest	5,951	5,815	2,328	1,911	8,279	7,726
Miscellaneous	20,483	19,888	9,917	9,950	30,400	29,838
Total Revenues	1,649,946	1,617,010	1,665,048	1,366,717	3,314,994	2,983,727
Expenses:						
General Government	240,049	235,471	-	-	240,049	235,471
Police	226,499	227,794	-	-	226,499	227,794
Fire	1,083,425	1,215,559	-	-	1,083,425	1,215,559
Public Works	178,252	209,726	-	-	178,252	209,726
Recreation	26,038	27,692	-	-	26,038	27,692
Water & Sewer	-	-	1,435,523	1,482,038	1,435,523	1,482,038
Interest Expense	2,219	2,882	13,722	14,432	15,941	17,314
Total Expenses	1,756,482	1,919,124	1,449,245	1,496,470	3,205,727	3,415,594
Excess (Deficiency) in						
Net Assets	(106,536)	(302,114)	215,803	(129,753)	109,267	(431,867)
Beginning Net Assets	1,256,763	1,558,877	1,704,485	1,834,238	2,961,248	3,393,115
Ending Net Assets	1,150,227	1,256,763	1,920,288	1,704,485	3,070,515	2,961,248

Governmental Activities

Governmental activities decreased the City of Dry Ridge's net assets by \$106,536. 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 increased the City of Dry Ridge's net position by \$215,803, which is an improvement from last year's decrease of \$129,753. Key elements of this increase are as follows.

- Increase in rates effective in March 2011.
- Cost remained relatively consistent.

Financial Analysis of the Government's Funds

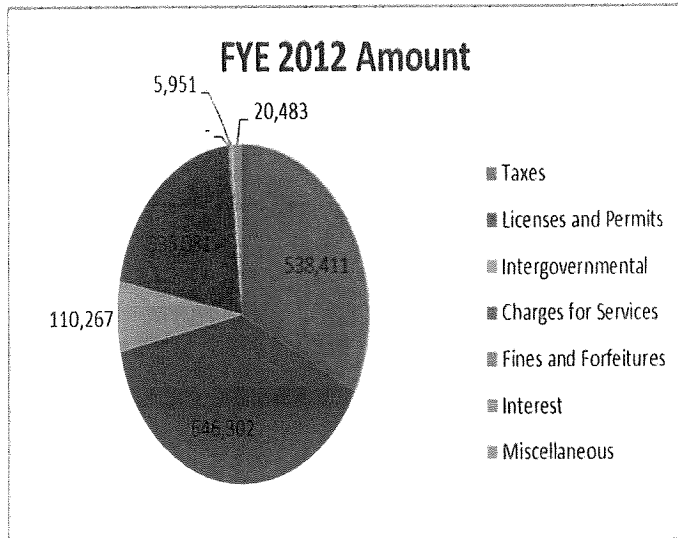
As noted earlier, the City of Dry Ridge uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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.

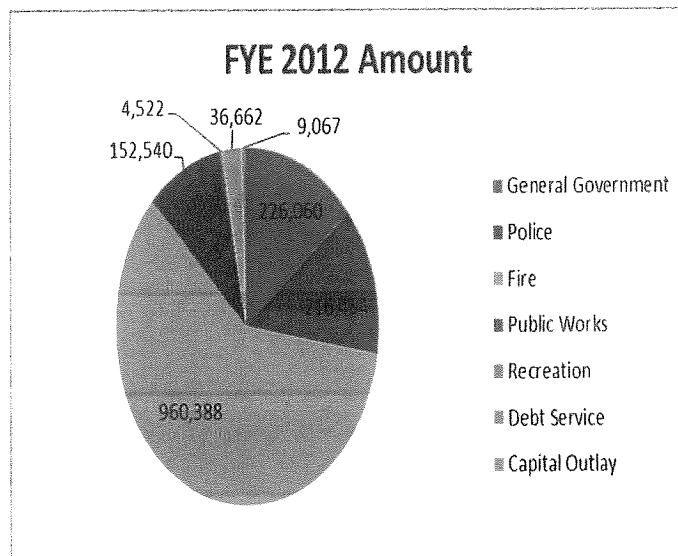
The following schedule presents a summary of general and special revenue fund revenues and expenditures for the fiscal year ended June 30, 2012, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2012 Amount	Percent of Total	FYE 2011 Amount	Increase (Decrease) From FYE 11	Percent Increase (Decrease)
Taxes	\$ 538,411	32.50%	\$ 496,580	\$ 41,831	8.42%
Licenses and Permits	646,302	39.02%	636,945	9,357	1.47%
Intergovernmental	110,267	6.66%	99,364	10,903	10.97%
Charges for Services	335,081	20.23%	346,666	(11,585)	-3.34%
Fines and Forfeitures	-	0.00%	1,437	(1,437)	-100.00%
Interest	5,951	0.36%	5,815	136	2.34%
Miscellaneous	20,483	1.24%	19,888	595	2.99%
Total Revenues	\$ 1,656,495	100.00%	\$ 1,606,695	\$ 49,800	



- Tax revenues increased this fiscal year due to an increase in tax billings. Tax collection also increased.
- Intergovernmental revenues increased this fiscal year because of the sidewalk grant.
- License and permits increased due to an increase in payroll taxes while insurance premiums decreased
- Charges for service decreased due to fewer fire and ambulance calls.

Expenditures	FYE 2012 Amount	Percent of Total	FYE 2011 Amount	Increase (Decrease) From FYE 11	Percent Increase (Decrease)
General Government	\$ 226,060	14.08%	\$ 219,751	\$ 6,309	2.87%
Police	216,454	13.48%	217,745	(1,291)	-0.59%
Fire	960,388	59.81%	1,000,798	(40,410)	-4.04%
Public Works	152,540	9.50%	175,967	(23,427)	-13.31%
Recreation	4,522	0.28%	5,843	(1,321)	-22.61%
Debt Service	36,662	2.28%	35,910	752	2.09%
Capital Outlay	9,067	0.56%	49,814	(40,747)	-81.80%
Total Expenditures	\$ 1,605,693	100.00%	\$ 1,705,828	\$ (100,135)	



- Fire department expenditures decreased this fiscal year because of a reduction in staff including being without a chief for 9 months.
- Public works expenditures decreased this fiscal year due to a decrease in street repairs done this year compared to last. The mild winter resulted in less money being spent on snow and ice removal.
- General government expenses increased because of an increase in professional fees and fees paid to Grant County Planning and Zoning Commission.

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 position of the Water and Sewer System at the end of the year amounted to \$378,539. The total increase in net position was \$215,803. 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, 2012, amounts to \$2,476,543 (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	
	2012	2011	2012	2011
Land	\$ 80,000	80,000	\$ 2,000	\$ 2,000
Buildings	567,815	567,815	74,561	74,561
Utility System	-	-	3,983,377	3,962,225
Infrastructure	238,778	238,778	-	-
Improvements	217,335	217,335	-	-
Vehicles	1,099,026	1,099,026	-	-
Equipment	989,588	980,521	264,370	264,370
Furniture & Fixtures	26,044	26,044	-	-
Totals	<u>\$ 3,218,586</u>	<u>3,209,519</u>	<u>\$ 4,324,308</u>	<u>\$ 4,303,156</u>
This year's major additions included:	Equipment			<u>9,067</u>
	Total		\$	<u>9,067</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 \$311,701. The City's total debt decreased by \$52,159 or 12 percent during the current fiscal year.

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Bonds Payable	\$ -	\$ -	\$ 282,900	\$ 300,600	\$ 282,900	\$ 300,600
Notes Payable	<u>28,801</u>	<u>63,260</u>	<u>-</u>	<u>-</u>	<u>28,801</u>	<u>63,260</u>
Totals	<u>\$ 28,801</u>	<u>\$ 63,260</u>	<u>\$ 282,900</u>	<u>\$ 300,600</u>	<u>\$ 311,701</u>	<u>\$ 363,860</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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 410,324	\$ 305,977	\$ 716,301
Receivables	209,515	258,284	467,799
Prepaid Insurance	166	-	166
Internal balances	3,060	(3,060)	-
Capital Assets:			
Land	80,000	2,000	82,000
Buildings	567,815	74,561	642,376
Utility System	-	3,983,377	3,983,377
Infrastructure	238,778	-	238,778
Improvements	217,335	-	217,335
Vehicles	1,099,026	-	1,099,026
Equipment	989,588	264,370	1,253,958
Furniture & Fixtures	26,044	-	26,044
Less Accumulated Depreciation	(2,566,782)	(2,499,659)	(5,066,441)
Total Assets	1,274,869	2,385,850	3,660,719
Liabilities			
Current Liabilities:			
Accounts Payable	70,183	118,496	188,679
Accrued Liabilities	25,658	11,316	36,974
Customer Deposits	-	52,850	52,850
Noncurrent Liabilities:			
Due Within One Year	23,519	17,800	41,319
Due in More Than One Year	5,282	265,100	270,382
Total Liabilities	124,642	465,562	590,204
Net Assets			
Invested in Capital Assets, Net of Related Debt	623,003	1,541,749	2,164,752
Restricted For:			
Municipal Aid	104,977	-	104,977
Unrestricted	422,247	378,539	800,786
Total Net Assets	\$ 1,150,227	\$ 1,920,288	\$ 3,070,515

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government	
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	\$ 240,049	\$ 111	\$ -	\$ 13,416	\$ (226,522)	\$ -
Police	226,499	-	1,950	-	(224,549)	-
Fire	1,083,425	334,970	29,946	18,533	(699,976)	-
Streets	178,252	-	-	46,422	(131,830)	-
Recreation	26,038	-	-	-	(26,038)	-
Debt Service Interest	2,219	-	-	-	(2,219)	-
Total Governmental Activities	1,756,482	335,081	31,896	78,371	(1,311,134)	-
Business-type Activities:						
Water & Sewer	1,449,245	1,652,803	-	-	-	203,558
Total Business-type Activities	1,449,245	1,652,803	-	-	-	203,558
Total Primary Government	\$ 3,205,727	\$ 1,987,884	\$ 31,896	\$ 78,371	\$ (1,311,134)	\$ (1,107,576)
General Revenues:						
Property Taxes					531,862	-
Payroll Tax					346,695	-
Insurance Tax					271,499	-
Other Licenses and Permits					28,108	-
Fines & Forfeitures					-	-
Interest					5,951	2,328
Miscellaneous					20,483	9,917
Total General Revenues and Transfers					1,204,598	12,245
Change in Net Assets					(106,536)	215,803
Net Assets - Beginning					1,256,763	1,704,485
Net Assets - Ending					\$ 1,150,227	\$ 1,920,288

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Municipal Aid Fund	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 305,347	\$ 104,977	\$ 410,324
Taxes Receivable	209,515	-	209,515
Prepaid Insurance	166	-	166
Due From Other Funds	3,060	-	3,060
Total Assets	\$ 518,088	\$ 104,977	\$ 623,065
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	\$ 70,183	\$ -	\$ 70,183
Accrued Liabilities	25,658	-	25,658
Due to Other Funds	-	-	-
Deferred Revenue	17,035	-	17,035
Total Liabilities	112,876	-	112,876
Fund Balances:			
Unassigned, Reported In:			
General Fund	405,212	-	405,212
Restricted, Reported In:			
Municipal Aid Fund	-	104,977	104,977
Total Fund Balances	405,212	104,977	510,189
Total Liabilities and Fund Balances	\$ 518,088	\$ 104,977	

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. 651,804

Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds. 17,035

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (28,801)

Net assets of governmental activities. **\$ 1,150,227**

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Municipal Aid Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 538,411	\$ -	\$ 538,411
Licenses and Permits	646,302	-	646,302
Intergovernmental	63,845	46,422	110,267
Charges for Services	335,081	-	335,081
Fines and Forfeitures	-	-	-
Interest	4,878	1,073	5,951
Miscellaneous	20,483	-	20,483
Total Revenues	<u>1,609,000</u>	<u>47,495</u>	<u>1,656,495</u>
Expenditures			
Current:			
General Government	226,060	-	226,060
Police	216,454	-	216,454
Fire	960,388	-	960,388
Public Works	143,607	8,933	152,540
Recreation	4,522	-	4,522
Debt Service:			
Principal	34,443	-	34,443
Interest	2,219	-	2,219
Capital Outlay	9,067	-	9,067
Total Expenditures	<u>1,596,760</u>	<u>8,933</u>	<u>1,605,693</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	12,240	38,562	50,802
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>12,240</u>	<u>38,562</u>	<u>50,802</u>
Fund Balances - Beginning	392,972	66,415	459,387
Fund Balances - Ending	<u>\$ 405,212</u>	<u>\$ 104,977</u>	<u>\$ 510,189</u>

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2012
--

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) \$ 50,802

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	9,067	
Depreciation	(194,299)	
		(185,232)

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	34,443	
		34,443

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	-	
Delinquent revenues already recognized	(6,549)	
		(6,549)

Change in net assets of governmental activities \$ (106,536)

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2012

Assets

Current Assets:

Cash and Cash Equivalents	\$	305,977
Accounts Receivable		258,284
Total Current Assets		564,261

Noncurrent Assets:

Capital Assets:		
Land		2,000
Buildings		74,561
Utility System		3,983,377
Equipment		264,370
Less Accumulated Depreciation		(2,499,659)
Total Capital Assets (Net of Accumulated Depreciation)		1,824,649
Total Noncurrent Assets		1,824,649

Total Assets

2,388,910

Liabilities

Current Liabilities:

Accounts Payable		118,496
Accrued Liabilities		11,316
Due to Other Funds		3,060
Customer Deposits		52,850
Bonds Payable - Current		17,800
Total Current Liabilities		203,522

Noncurrent Liabilities:

Bonds Payable		265,100
Total Noncurrent Liabilities		265,100

Total Liabilities

468,622

Net Position

Invested in Capital Assets, Net of Related Debt		1,541,749
Unrestricted		378,539
Total Net Position	\$	1,920,288

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND For the Year Ended June 30, 2012
--

Operating Revenues:	
Sewer Service	\$ 1,042,843
Water Service	547,612
Water Station	1,978
Waste Collection	52,758
Water Penalties	7,612
Miscellaneous	9,917
Total Operating Revenues	<u>1,662,720</u>
 Operating Expenses:	
Cost of Sales and Services	1,324,973
Depreciation	110,550
Total Operating Expenses	<u>1,435,523</u>
 Operating Income (Loss)	 227,197
 Nonoperating Revenues (Expenses):	
Interest Income	2,328
Interest Expense	(13,722)
Total Nonoperating Revenues (Expenses)	<u>(11,394)</u>
 Income (Loss) Before Contributions	 215,803
 Capital Contributions	 -
 Change in Net Position	 <u>215,803</u>
 Total Net Position - Beginning	 1,704,485
 Total Net Position - Ending	 <u>\$ 1,920,288</u>

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 1,569,620
Payments to Suppliers	(1,175,845)
Payments to Employees	(199,146)
Net Cash Provided (Used) by Operating Activities	<u>194,629</u>
Cash Flows from Capital and Related Financing Activities	
Capital Contributions	-
Purchases of Capital Assets	(21,152)
Principal Paid on Capital Debt	(17,700)
Interest Paid on Capital Debt	(13,708)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(52,560)</u>
Cash Flows from Investing Activities	
Interest Income	2,328
Net Cash Provided (Used) by Investing Activities	<u>2,328</u>
Net Increase in Cash	<u>144,397</u>
Cash - Beginning of Period	161,580
Cash - End of Period	<u>\$ 305,977</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 227,197
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	110,550
(Increase) Decrease in Accounts Receivable	(94,452)
(Increase) Decrease in Prepaid Insurance	109
Increase (Decrease) in Accounts Payable	(51,109)
Increase (Decrease) in Accrued Liabilities	55
Increase (Decrease) in Customer Deposits	1,352
Increase (Decrease) in Due to Other Funds	927
Total Adjustments	<u>(32,568)</u>
Net Cash Provided by Operating Activities	<u>\$ 194,629</u>

The accompanying Notes are an integral part of these financial statements

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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.

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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 propriety fund. These assets are reported in the governmental activities column of the government-wide statement of net assets. Capital assets used by the proprietary fund are reported in the business type activities column of the government-wide statement of net assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. 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>CITY OF DRY RIDGE, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012</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 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, 2012

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, 2012

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, 2012 the City had cash and cash equivalents of \$716,301.

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance</u> <u>June 30, 2012</u>
Governmental Activities				
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	1,099,026.50	-	-	1,099,026.50
Equipment	980,521.24	9,067.00	-	989,588.24
Furniture & Fix.	26,043.07	-	-	26,043.07
Subtotal	<u>3,209,518.68</u>	<u>9,067.00</u>	<u>-</u>	<u>3,218,585.68</u>
Accumulated Depreciation				
Land	-	-	-	-
Buildings	(388,825)	(25,054.32)	-	(413,879.70)
Improvements	(99,578)	(21,733.49)	-	(121,311.36)
Infrastructure	(48,569)	(9,918.39)	-	(58,487.23)
Vehicles	(935,732)	(95,599.22)	-	(1,031,331.12)
Equipment	(874,975)	(40,754.16)	-	(915,729.49)
Furniture & Fix.	(24,803)	(1,239.58)	-	(26,043.07)
Subtotal	<u>(2,372,482.81)</u>	<u>(194,299.16)</u>	<u>-</u>	<u>(2,566,781.97)</u>
Net Capital Assets	<u>\$ 837,035.87</u>			<u>\$ 651,803.71</u>

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Depreciation was charged to functions as follows:

	General Government	\$ 13,989.81
	Police	10,044.51
	Fire	123,036.95
	Streets & Highways	25,712.30
	Parks	21,515.59
Total Governmental Activities Depreciation		<u>\$ 194,299.16</u>

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

	Balance June 30, 2011	Additions	Retirements/ Reclassifications	Balance June 30, 2012
Business-Type Activities				
Land	\$ 2,000			\$ 2,000
Buildings	74,561			74,561
Improvements	3,962,225	21,152		3,983,377
Equipment	264,370			264,370
Subtotal	<u>4,303,156</u>	<u>21,152</u>	<u>-</u>	<u>4,324,308</u>
Accumulated Depreciation				
Land	-			
Buildings	(8,835)	(1,864)		(10,699)
Improvements	(2,181,051)	(88,519)		(2,269,571)
Equipment	(199,223)	(20,166)		(219,389)
Subtotal	<u>(2,389,109)</u>	<u>(110,550)</u>	<u>-</u>	<u>(2,499,659)</u>
Net Capital Assets	<u>\$ 1,914,047</u>			<u>\$ 1,824,649</u>

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 06/30/2012</u>
07/01/1993	5.200%	07/01/2016	\$ 90,000
09/25/2003	3.500%	01/01/2043	<u>192,900</u>
			<u>\$ 282,900</u>

The following is a schedule of future debt service requirements to maturity at June 30, 2012:

<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>
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>90,000</u>	<u>17,160</u>	<u>192,900</u>	<u>184,055</u>

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

During the year ended June 30, 2012, the following changes occurred in Utility long-term debt:

		<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2012</u>
Bonds Payable	\$	<u>300,600</u>	\$ <u>-</u>	\$ <u>(17,700)</u>	\$ <u>282,900</u>
Totals	\$	<u><u>300,600</u></u>	\$ <u>-</u>	\$ <u>(17,700)</u>	\$ <u><u>282,900</u></u>

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 <u>June 30,</u>	<u>Commission on Fire</u>		Year ended <u>June 30,</u>	<u>KLC Ambulance Loan</u>	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
2013	5,283	235	2013	18,236	1,049
2014	<u>5,283</u>	<u>235</u>			
Total	<u><u>10,565</u></u>	<u><u>470</u></u>	Total	<u><u>18,236</u></u>	<u><u>1,049</u></u>

During the year ended June 30, 2012, the following changes occurred in general long-term debt:

		<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2012</u>
Notes Payable	\$	<u>63,260</u>	\$ <u>-</u>	\$ <u>(34,459)</u>	\$ <u>28,801</u>
Totals	\$	<u><u>63,260</u></u>	\$ <u>-</u>	\$ <u>(34,459)</u>	\$ <u><u>28,801</u></u>

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, 2012

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, 2012, 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, 2012, participating employers contributed 18.96% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2012 was 18.96% 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, 2012, 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, 2012, participating employers contributed 35.76% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2012 was 35.76% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

CITY OF DRY RIDGE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

<u>Year</u>	<u>Contribution</u>	<u>Contributed</u>
2012	\$ 207,339	100%
2011	\$ 204,009	100%
2010	\$ 192,175	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, 2012, 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>3,060</u>

NOTE K- SUBSEQUENT EVENTS

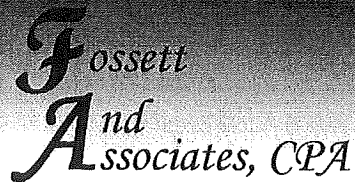
Management has evaluated subsequent events through October 5, 2012, the date on which the financial statements were available to be issued.

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property	\$ 474,000	\$ 474,000	\$ 538,411	\$ 64,411
Licenses and Permits	604,000	604,000	646,302	42,302
Intergovernmental	47,100	47,100	63,845	16,745
Charges for Services	339,000	339,000	335,081	(3,919)
Fines and Forfeitures	-	-	-	-
Interest	4,000	4,000	4,878	878
Miscellaneous	9,200	9,200	20,483	11,283
Total Revenues	<u>1,477,300</u>	<u>1,477,300</u>	<u>1,609,000</u>	<u>131,700</u>
Expenditures				
Current:				
General Government	248,000	248,000	226,060	21,940
Police	233,350	233,350	216,454	16,896
Fire	988,000	988,000	960,388	27,612
Public Works	157,200	157,200	143,607	13,593
Recreation	5,500	5,500	4,522	978
Debt Service:				
Principal	28,000	28,000	34,443	(6,443)
Interest	3,400	3,400	2,219	1,181
Capital Outlay	-	-	9,067	(9,067)
Total Expenditures	<u>1,663,450</u>	<u>1,663,450</u>	<u>1,596,760</u>	<u>66,690</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(186,150)	(186,150)	12,240	198,390
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	(186,150)	(186,150)	12,240	198,390
Fund Balances - Beginning	<u>392,972</u>	<u>392,972</u>	<u>392,972</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 206,822</u>	<u>\$ 206,822</u>	<u>\$ 405,212</u>	<u>\$ 198,390</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 42,000	\$ 42,000	\$ 46,422	\$ 4,422
Interest	-	-	1,073	1,073
Total Revenues	<u>42,000</u>	<u>42,000</u>	<u>47,495</u>	<u>5,495</u>
Expenditures				
Public Works	11,000	11,000	8,933	2,067
Capital Outlay	-	-	-	-
Total Expenditures	<u>11,000</u>	<u>11,000</u>	<u>8,933</u>	<u>2,067</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	31,000	31,000	38,562	7,562
Net Change in Fund Balances	31,000	31,000	38,562	7,562
Fund Balances - Beginning	<u>66,415</u>	<u>66,415</u>	<u>66,415</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 97,415</u>	<u>\$ 97,415</u>	<u>\$ 104,977</u>	<u>\$ 7,562</u>



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

To the City Council
Dry Ridge, KY

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Dry Ridge, KY, as of and for the year ended June 30, 2012, which collectively comprise the City of Dry Ridge, KY's basic financial statements and have issued our report thereon dated October 5, 2012. 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 Of the City of Dry Ridge, KY'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, KY's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Of the City of Dry Ridge, KY's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified an deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting (2012-1). 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 noted the same type of significant deficiency the prior year's audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dry Ridge, KY's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and 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.

Firm's signature

Fossett & Associates, CPA

Erlanger, KY
October 5, 2012

**City of Dry Ridge
Schedule of Findings
&
Responses**

F.Y.E. June 30, 2012

Significant Deficiencies:

2012-1

Condition: Lack of separation of duties

Criteria: Internal Controls should be in place to allow for separation of duties in the collection of receipts and payments of disbursements.

Cause: Lack of enough employees in the clerk's office to accomplish this control

Effect: Because of the lack of separation of duties, it would be possible for improper recording to the financial statements without being corrected.

Recommendation: Hire an employee in the clerk's office to accomplish separation of duties.

Views of responsible officials and plans of corrective actions: The city operates on tight budget and has no plans to hire an additional person in the clerk's office to separate duties.