

CITY OF DANVILLE
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2014

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City of Danville, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2014

The management team for the City of Danville presents this narrative to help our readers review the accompanying annual financial statements for the year ended June 30, 2014. We have prepared this overview and analysis of the City's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

Financial Highlights

- As of June 30, 2014, the City's assets (page 9) exceeded liabilities by \$48,084,898. This amount includes \$39,526,789 of resources that are restricted to specific projects by laws, regulations, or contractual agreements, or that are invested in capital assets, net of related debt. \$8,558,109 of these resources are unrestricted and are available to fund the City's outstanding obligations and future programs.
- Unrestricted cash and investment balances (page 9) as of June 30, were \$9,016,227 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt) were \$2,613,310.
- Net position increased by \$2,208,860 (page 10). Of this increase, \$1,072,674 is attributed to the net position increase from business-type activities and \$1,136,187 is attributed to the net position increase from governmental activities. The primary reasons for the increase in net position of business-type activities is due to various government grants received during the fiscal year to fund various construction projects in the utilities fund. The primary reasons for the increase in net position of governmental activities is due to increased revenues of the general fund being stronger than anticipated and operating expenses coming in very favorable compared to the budget in the general fund.
- Fund balances (a measure of current financial resources) in the governmental funds increased \$570,483 to a total of \$7,625,365 (page 12). The primary reasons for the increase in fund balances in the governmental funds are the same as those noted above related to the increase in net assets. Of the total fund balances in the governmental funds, \$6,202,555 (page 11) is unassigned and available for future programs.
- The General Fund unassigned fund balance (page 11), as of June 30, 2014, was \$5,750,356, or about 53% of total general fund expenditures.
- The City's long term debt liabilities \$13,216,401 during the year. The City did issue new debt during the fiscal year ended June 30, 2014. \$13,600,000 anticipation note for Water Utility Construction for the USDA portion of the Water Plant Project. Kentucky Infrastructure Authority construction loans began for the Water Treatment Plant Project in which the City borrowed \$428,961 of the \$12,467,849 awarded of which \$42,896 was forgiven.

Overview of Financial Statements

This discussion and analysis is intended to introduce the City's basic financial statements. Basic financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide additional information that our readers can use to analyze our finances.

Government-wide Financial Statements - The government-wide financial statements are designed to provide our readers with an overview of the City's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities.

The Statement of Net Position presents information on all the City's assets and liabilities, including long-term debt and capital assets in the governmental funds. The difference between assets and liabilities is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City 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 position are reported as soon as transactions occur, regardless of when the related cash flows are reported. Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

Government-wide statements are separated into two major categories: 1) *governmental activities* that are principally supported by taxes and intergovernmental revenues, and 2) *business-type activities* that are supported with user fees and charges. Governmental activities include administrative functions, streets, police, fire, recreation and community

programs. Business-type activities include the water and sewer utilities, the garbage, the cemetery, the museum, the storm water, and the parking funds.

The government-wide statements are found on pages 9 and 10 of this report.

Fund financial statements - Funds are used in governmental accounting to separate resources that are designated for specific programs or activities. The City of Danville, like other state and local governments uses fund accounting to demonstrate compliance with the laws, regulations, and contractual agreements that establish the authority for the City's programs and services. Governments use three types of funds: governmental, proprietary, and fiduciary funds.

Governmental funds – Funds are used to account for the City's basic services, the same services that are included in the governmental activities on the government-wide statements. However, the information in the fund statements is measured differently. Governmental funds focus on current financial resources rather than economic resources. Therefore, the statements include the short-term resources, such as cash, investments, receivables that will be collected in the next few months, and liabilities that will be retired with these monies. This information is important for assessing the City's current financial resources.

The reconciliation in the fund statements explains the difference between the governmental funds in the fund statements and the governmental activities found in the government-wide financial statements. These reconciliations are presented on pages 11 and 12 in the fund statements. These reconciliations will explain the adjustments necessary to add the long-term resources and liabilities for the government-wide statements to the current picture presented in the fund statements.

The City maintains eleven individual governmental funds. Major governmental funds include the General Fund and the Municipal Road Aid Fund.

The larger funds are presented on pages 11 and 12 as major funds, while the other funds are presented in the combining statements for non-major funds on pages 51 and 52. The governmental fund statements include a balance sheet and statement of revenues, expenditures, and changes in fund balances.

The City adopts budgets for all funds in accordance with Kentucky Revised Statutes Section 91A.030. The budgetary comparison for the General Fund is presented as required supplemental information beginning on page 45.

Proprietary funds - The City's proprietary funds include six enterprise funds. The enterprise funds include operations for the water and sewer utilities, garbage disposal, storm water, museum, cemetery operations, and the parking fund. The utilities, parking, and storm water fund are presented as major funds on pages 13 through 15. The other funds are presented in combining statements for the non-major funds on pages 53 and 54.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements - Notes provide additional information that is essential to a full understanding of the information included in the financial schedules. Notes provide additional details about the balances and transactions in the City's financial statements and are presented on pages 18 through 43.

Other Information - The last section of this report includes two types of supplementary information. *Required supplementary Information* (pages 44 through 50) must be included to conform with generally accepted accounting principles, while *Other Supplementary Information* (pages 51 through 54) is presented to expand the City's financial presentations. Management's Discussion and Analysis is classified as *required supplementary information*. In addition, the Schedule of Net Pension Liability and Related Ratios, the Schedule of Contributions, and Notes are presented as *Required Supplementary Information*. The schedules outline key financial information about the city's police & fire pension fund.

Government-Wide Financial Analysis

The first statement in the government-wide statements is the Statement of Net Position. Let's review some of the more important issues in this statement. The following table summarizes the Statement of Net Position (page 9).

Net Assets of Governmental and Business-type Activities (in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|-----------|--------------------------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Current and other assets | \$ 8,872 | \$ 7,634 | \$ 18,393 | \$ 4,652 | \$ 27,265 | \$ 12,286 |
| Capital assets | 19,381 | 19,132 | 39,252 | 37,931 | 58,633 | 57,063 |
| Total assets | 28,253 | 26,766 | 57,645 | 42,583 | 85,898 | 69,349 |
| Continued, next page | | | | | | |
| Continued | | | | | | |
| Long-term debt outstanding | 9,442 | 9,773 | 25,238 | 12,052 | 34,680 | 21,825 |
| Other liabilities | 1,470 | 789 | 1,663 | 859 | 3,133 | 1,648 |
| Total liabilities | 10,912 | 10,562 | 26,901 | 12,911 | 37,813 | 23,473 |
| Net position: | | | | | | |
| Invested in capital assets, net of related debt | 9,939 | 9,360 | 27,614 | 25,877 | 37,553 | 35,237 |
| Restricted | 1,010 | 1,010 | 964 | 1,615 | 1,974 | 2,625 |
| Unrestricted (deficit) | 6,392 | 5,835 | 2,166 | 2,179 | 8,558 | 8,014 |
| Total Net Assets | \$ 17,341 | \$ 16,205 | \$ 30,744 | \$ 29,671 | \$ 48,085 | \$ 46,876 |

Half of the City's net position (50%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding this percentage is about twenty percent less than prior years due to the construction process of the water treatment plant. Interim financing has occurred but construction is not finished, this is reflected by the significant increase in the restricted net position. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 capital assets themselves cannot be used to liquidate these liabilities. \$2 million of the City's net position (page 9) are restricted to comply with provisions of various laws, regulations, and contractual agreements. Restricted funds in the business-type activities reflect the reserves required by the water and sewer bond indentures including the \$13.6 interim financing for the water treatment plant.

The second statement in the government-wide statements is the Statement of Activities. The following table outlines the major components of this statement.

Change in Net Position of Governmental and Business-type Activities (in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|--------|--------------------------|----------|----------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ - | \$ - | \$ 9,498 | \$ 9,441 | \$ 9,498 | \$ 9,441 |
| Operating grants and contributions | 331 | 913 | | | 331 | 913 |
| Capital grants and contributions | | | 584 | 518 | 584 | 518 |
| General revenues: | | | | | | |
| Property taxes | 1,611 | 1,680 | | | 1,611 | 1,680 |
| License fees and permits | 9,203 | 8,142 | | | 9,203 | 8,142 |
| Penalties and forfeits | 17 | 19 | | | 17 | 19 |
| Management fees | 840 | 815 | | | 840 | 815 |
| Other | 566 | 446 | 68 | 390 | 634 | 836 |
| Total Revenues | 12,568 | 12,015 | 10,150 | 10,349 | 22,718 | 22,364 |

Change in Net Position of Governmental and Business-type Activities (in thousands), cont'd

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|--------|--------------------------|----------|----------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Program Expenses: | | | | | | |
| General Government | 1,853 | 1,743 | | | 1,853 | 1,743 |
| Public Safety | 6,286 | 6,353 | | | 6,286 | 6,353 |
| Public Services | 1,741 | 1,520 | | | 1,741 | 1,520 |
| Community Services | 817 | 1,222 | | | 817 | 1,222 |
| Debt Service | 326 | 361 | 493 | 567 | 819 | 928 |
| Utilities | | | 7,099 | 6,632 | 7,099 | 6,632 |
| Garbage operations | | | 985 | 972 | 985 | 972 |
| Cemetery operations | | | 185 | 202 | 185 | 202 |
| Museum operations | | | 39 | 32 | 39 | 32 |
| Parking operations | | | 326 | 331 | 326 | 331 |
| Storm water | | | 352 | 328 | 352 | 328 |
| Total Expenses | 11,023 | 11,199 | 9,479 | 9,064 | 20,502 | 20,263 |
| Excess (deficiency) before transfers and special items | 1,545 | 816 | 671 | 1,285 | 2,216 | 2,101 |
| Gain (Loss) sale | (7) | | | | (7) | |
| Transfers | (402) | (380) | 402 | 380 | | |
| Increase (decrease) in net assets | \$ 1,136 | \$ 436 | \$ 1,073 | \$ 1,665 | \$ 2,209 | \$ 2,101 |

\$10.81 million of the governmental services are financed with property taxes and license fees.

Governmental activities increased the City's net position by \$1,136,187. The primary reason for the increase has already been addressed in this report.

Business-type activities increased the City's net position by \$1,072,673. This increase is net of depreciation expense of \$1,384,876 (a non cash item). The water & sewer fund remains steady as operating costs are continuing to rise.

Financial Analysis of the Government's Funds

The fund statements present the City's financial information in a more detailed format, but there are other differences as well. Fund statements provide important information about the City's compliance with laws and regulations that define the local government environment in Kentucky. The measurement principles in the governmental fund statements are also different than the government-wide statements. Fund statements focus on current resources, while the government-wide statements present the long-term view.

Governmental funds - Financial information for the City's governmental funds is summarized on pages 11 and 12. Governmental fund balances increased \$570,483. The reasons for this increase were addressed earlier in this report.

Non-major funds include Police Safety, Drug Forfeiture, Hazard Mitigation, Renaissance, and Streetscape, Toys for Tots, Cemetery Trusts, and Park Trust funds. These funds are combined for this report because their revenues and expenses are smaller than other funds of the City. You can find details about these funds in the combining statements for the non-major governmental funds on pages 51 and 52.

Proprietary funds - The fund statements for the proprietary funds look much like the business-type activities in the government-wide statements. Proprietary fund financial information is measured with the same principles used by commercial enterprises, so this information does not change from the fund statements to the government-wide statements.

Governmental Funds Budgetary Highlights

Budgetary comparison schedules include information about both the original budget and the amended budget. Generally, budgets are amended to add projects that were not anticipated when the budget was first adopted. Revenue budgets are usually estimated lower to allow budgetary flexibility for additional projects.

During the fiscal year ended June 30, 2014, there was one budget amendment. Budgeted expenditures in the municipal aid fund was increased to allow for additional expenditures in the amount of \$425,000.

Capital Asset and Debt Administration

The City invests substantial resources in capital assets that support the services provided to the public. All of the City's outstanding bonds and capital leases have been used to acquire or construct capital assets.

Capital Assets

The City's capital assets, net of accumulated depreciation are summarized below:

| | <u>City of Danville, Kentucky Capital Assets (net of depreciation)</u> | | |
|-----------------------------------|---|---------------------------------|----------------------|
| | Governmental Activities | Business- Type Activities | Total |
| Land | \$ 2,578,059 | \$ 1,309,568 | \$ 3,887,627 |
| Buildings | 9,604,034 | 6,716,633 | 16,320,667 |
| Improvements other than buildings | 836,907 | 230,112 | 1,067,019 |
| Vehicles | 763,203 | 29,510 | 792,713 |
| Equipment | 404,816 | 480,058 | 884,874 |
| Infrastructure | 4,565,033 | 26,582,846 | 31,147,879 |
| Construction in progress | 628,533 | 3,903,516 | 4,532,049 |
| Total | <u>\$ 19,380,585</u> | <u>\$ 39,252,243</u> | <u>\$ 58,632,828</u> |

Major capital asset events during the fiscal year included the following:

Clarks Run Sewer project completed in the fiscal year with a cumulative cost of \$668,324.

During the current fiscal year, the City incurred costs for engineering and construction related to its new water treatment facility in the amount of \$1,866,549. This project is in the early stages of construction with total project costs estimating to be \$28.6 million.

Long-Term Debt

The principal outstanding on the City's long-term debt is summarized in the following table.

| | City of Danville's Outstanding Debt | | |
|----------------------------------|--|---------------------------------|----------------------|
| | Governmental Activities | Business- Type Activities | Total |
| KLC Funding Trust | \$ 4,653,465 | \$ | \$ 4,653,465 |
| Series 2012 GO Bonds | 4,300,000 | | 4,300,000 |
| Ky. Bond Corporation-Lease | 405,000 | 640,000 | 1,045,000 |
| Series 2013 -- Anticipation | | 13,600,000 | 13,600,000 |
| Series 2012 – Anticipation | | 200,000 | 200,000 |
| Series 2008 Rural Dev. Bonds | | 1,415,800 | 1,415,800 |
| Series 2006 (A&B) Revenue Bonds | | 4,100,000 | 4,100,000 |
| Series 2000 RUS Revenue Bonds | | 383,900 | 383,900 |
| Series 2010 Build America Bond | | 583,500 | 583,500 |
| Series 1995 RUS Revenue Bonds | | 397,000 | 397,000 |
| KIA Loan – Sewer Treatment Plant | | 3,180,167 | 3,180,167 |
| KIA Loan – Water Treatment Plant | | 386,065 | 386,065 |
| Total | \$ <u>9,358,465</u> | \$ <u>24,886,432</u> | \$ <u>34,244,897</u> |

The City's long term debt increased \$12,426,886 during the fiscal year. The components of this net increase were previously discussed on page 1 of this report, the new construction loans of \$13,986,065 for the water treatment plant project.

Economic Factors and Next Year's Budget

The City is currently in the construction phase of a new water treatment plant. The City has budgeted \$15,000,000 for the fiscal year ended June 30, 2015 related to this project. The latest engineering studies estimate the ultimate cost of this project to be approximately \$28.6 million once completed. At the present time, the primary funding for this project is to be provided by the issuance of bonds and other debt instruments. The City is also in the construction phase of the Spears Creek Sewer Project. The City has budgeted \$2,840,500 for the fiscal year ended June 30, 2015 related to this project. The Latest projected costs for this project is approximately \$3.5 million. At the present time, the primary funding for this project is to be provided by KIA Grant and by the issuance of bonds. The City is in the early planning stages of starting a new Horky Field Sewer project.

The City borrowed \$700,000 to finance the necessary remodeling of the public works building in the prior fiscal year, the City is currently taking bids for this project. The City has budgeted in the June 30, 2015 budget to use funds to pave two trails, to purchase a fire truck, and to start renovations on a downtown city park. The City has also budgeted to finish the new Boyle Co. School Access Road.

Going forward, City management will continue to closely monitor the City's finances/budget which is especially important in this uncertain economy.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's Office, 445 West Main Street, Danville, KY 40422, and telephone number (859) 238-1200.

INDEPENDENT AUDITORS' REPORT

To the Mayor and the Board of Commissioners
City of Danville
Danville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of net pension liability and related notes, schedule of contributions, and budgetary comparison information on pages 1–6 and 45–51 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Danville, Kentucky's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

We have previously audited the City's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated January 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the effects of the restatement of net position described in Note 11.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015, on our consideration of the City of Danville, Kentucky'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* in considering the City of Danville, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
January 9, 2015

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> | <u>2013 Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|-----------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 5,521,342 | \$ 1,978,459 | \$ 7,499,801 | \$ 6,101,430 |
| Receivables, net | 1,192,495 | 1,236,058 | 2,428,553 | 1,841,528 |
| Investments | 1,141,865 | 374,561 | 1,516,426 | 1,491,541 |
| Inventory, at cost | - | 217,652 | 217,652 | 198,365 |
| Prepaid expenses and other current assets | <u>6,602</u> | <u>-</u> | <u>6,602</u> | <u>6,680</u> |
| Total current assets | <u>7,862,304</u> | <u>3,806,730</u> | <u>11,669,034</u> | <u>9,639,544</u> |
| Non-current assets | | | | |
| Restricted cash | 1,009,755 | 14,344,732 | 15,354,487 | 2,405,554 |
| Restricted investments | - | 241,856 | 241,856 | 241,451 |
| Capital assets, net | <u>19,380,585</u> | <u>39,252,243</u> | <u>58,632,828</u> | <u>57,063,373</u> |
| Total non-current assets | <u>20,390,340</u> | <u>53,838,831</u> | <u>74,229,171</u> | <u>59,710,378</u> |
| Total assets | <u>\$ 28,252,644</u> | <u>\$ 57,645,561</u> | <u>\$ 85,898,205</u> | <u>\$ 69,349,922</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 829,482 | \$ 1,226,578 | \$ 2,056,060 | \$ 767,349 |
| Accrued wages | 207,889 | 94,543 | 302,432 | 265,678 |
| Payroll taxes & benefits payable | 186,356 | - | 186,356 | 183,466 |
| Deposits | 11,207 | 41,550 | 52,757 | 51,537 |
| Current portion of compensated absences | 11,760 | 3,945 | 15,705 | 14,706 |
| Accrued interest payable | - | 221,576 | 221,576 | 85,578 |
| Current portion of bonds and notes payable | <u>350,021</u> | <u>821,170</u> | <u>1,171,191</u> | <u>1,514,741</u> |
| Total current liabilities | <u>1,596,715</u> | <u>2,409,362</u> | <u>4,006,077</u> | <u>2,883,055</u> |
| Non-current liabilities | | | | |
| Bonds and notes payable, net of current portion | 9,091,716 | 24,417,131 | 33,508,847 | 20,311,420 |
| Compensated absences, net of current portion | <u>223,435</u> | <u>74,948</u> | <u>298,383</u> | <u>279,409</u> |
| Total non-current liabilities | <u>9,315,151</u> | <u>24,492,079</u> | <u>33,807,230</u> | <u>20,590,829</u> |
| Total liabilities | <u>10,911,866</u> | <u>26,901,441</u> | <u>37,813,307</u> | <u>23,473,884</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 9,938,848 | 27,613,942 | 37,552,790 | 35,237,212 |
| Restricted | 1,009,755 | 964,244 | 1,973,999 | 2,624,436 |
| Unrestricted | <u>6,392,175</u> | <u>2,165,934</u> | <u>8,558,109</u> | <u>8,014,390</u> |
| Total net position | <u>17,340,778</u> | <u>30,744,120</u> | <u>48,084,898</u> | <u>45,876,038</u> |
| Total liabilities and net position | <u>\$ 28,252,644</u> | <u>\$ 57,645,561</u> | <u>\$ 85,898,205</u> | <u>\$ 69,349,922</u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) | | | 2013 Total |
|---|----------------------|-------------------------|--|--|----------------------------|-----------------------------|----------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total | |
| Governmental activities | | | | | | | | |
| General government | \$ 1,853,488 | \$ - | \$ 51,726 | \$ - | \$ (1,801,762) | \$ - | \$ (1,801,762) | \$ (1,588,232) |
| Public services | 1,741,338 | - | 41,976 | 749,337 | (950,025) | - | (950,025) | (1,096,727) |
| Public safety | 6,285,719 | - | 237,022 | - | (6,048,697) | - | (6,048,697) | (6,018,337) |
| Community services | 816,665 | - | - | - | (816,665) | - | (816,665) | (1,221,458) |
| Debt service | 325,569 | - | - | - | (325,569) | - | (325,569) | (361,190) |
| Total governmental activities | <u>11,022,779</u> | <u>-</u> | <u>330,724</u> | <u>749,337</u> | <u>(9,942,718)</u> | <u>-</u> | <u>(9,942,718)</u> | <u>(10,285,944)</u> |
| Business-type activities | | | | | | | | |
| Utilities | 7,099,073 | 7,688,356 | - | 581,605 | - | 1,170,888 | 1,170,888 | 1,391,329 |
| Parking | 325,597 | 263,639 | - | - | - | (61,958) | (61,958) | (74,155) |
| Garbage | 985,486 | 899,813 | - | - | - | (85,673) | (85,673) | (78,175) |
| Cemetery | 184,945 | 72,921 | - | - | - | (112,024) | (112,024) | (81,747) |
| Museum | 39,313 | - | - | - | - | (39,313) | (39,313) | (32,035) |
| Storm water | 359,876 | 573,671 | - | 2,076 | - | 215,871 | 215,871 | 378,672 |
| Debt service | 484,889 | - | - | - | - | (484,889) | (484,889) | (567,200) |
| Total business-type activities | <u>9,479,179</u> | <u>9,498,400</u> | <u>-</u> | <u>583,681</u> | <u>-</u> | <u>602,902</u> | <u>602,902</u> | <u>936,689</u> |
| Total | <u>\$ 20,501,958</u> | <u>\$ 9,498,400</u> | <u>\$ 330,724</u> | <u>\$ 1,333,018</u> | <u>(9,942,718)</u> | <u>602,902</u> | <u>(9,339,816)</u> | <u>(9,349,255)</u> |
| General revenues | | | | | | | | |
| Taxes | | | | | 1,611,298 | - | 1,611,298 | 1,679,937 |
| Licenses and fees | | | | | 8,453,695 | - | 8,453,695 | 8,141,770 |
| Fines and forfeitures | | | | | 17,290 | - | 17,290 | 18,875 |
| Management fees | | | | | 840,291 | - | 840,291 | 814,867 |
| Other | | | | | 565,979 | 67,671 | 633,650 | 836,375 |
| Total general revenues | | | | | <u>11,488,553</u> | <u>67,671</u> | <u>11,556,224</u> | <u>11,491,824</u> |
| Loss on sale of property | | | | | (7,548) | - | (7,548) | - |
| Transfers | | | | | (402,100) | 402,100 | - | - |
| Total general revenues and transfers | | | | | <u>11,078,905</u> | <u>469,771</u> | <u>11,548,676</u> | <u>11,491,824</u> |
| Change in net position | | | | | | | | |
| | | | | | 1,136,187 | 1,072,673 | 2,208,860 | 2,142,569 |
| Net position, beginning of year, restated | | | | | <u>16,204,591</u> | <u>29,671,447</u> | <u>45,876,038</u> | <u>43,733,469</u> |
| NET POSITION, END OF YEAR | | | | | | | | |
| | | | | | <u>\$ 17,340,778</u> | <u>\$ 30,744,120</u> | <u>\$ 48,084,898</u> | <u>\$ 45,876,038</u> |

The accompanying notes are an integral part
of the financial statements.

**CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

| | <u>General Fund</u> | <u>Municipal Road Aid Fund</u> | <u>Other Nonmajor Governmental Funds</u> | <u>2014 Total Governmental Funds</u> | <u>2013 Total Governmental Funds</u> |
|---|-------------------------|--|--|--|--|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 4,548,559 | \$ 542,686 | \$ 430,097 | \$ 5,521,342 | \$ 4,668,915 |
| Receivables, net | 792,959 | 353,094 | 46,442 | 1,192,495 | 929,898 |
| Investments | 1,136,027 | - | 5,838 | 1,141,865 | 1,117,347 |
| Restricted cash | 1,009,755 | - | - | 1,009,755 | 1,009,844 |
| Prepaid expenses and other assets | <u>6,602</u> | <u>-</u> | <u>-</u> | <u>6,602</u> | <u>6,680</u> |
| Total assets | <u>\$ 7,493,902</u> | <u>\$ 895,780</u> | <u>\$ 482,377</u> | <u>\$ 8,872,059</u> | <u>\$ 7,732,684</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 317,220 | \$ 512,262 | \$ - | \$ 829,482 | \$ 193,638 |
| Accrued wages | 207,294 | - | 595 | 207,889 | 179,709 |
| Accrued payroll taxes & benefits payable | 186,310 | - | 46 | 186,356 | 183,466 |
| Due to other funds | - | - | - | - | 98,753 |
| Deposits | 11,207 | - | - | 11,207 | 11,187 |
| Compensated absences | <u>11,760</u> | <u>-</u> | <u>-</u> | <u>11,760</u> | <u>11,049</u> |
| Total liabilities | <u>733,791</u> | <u>512,262</u> | <u>641</u> | <u>1,246,694</u> | <u>677,802</u> |
| FUND BALANCE | | | | | |
| Fund balance, restricted | 1,009,755 | 383,518 | 29,537 | 1,422,810 | 1,039,312 |
| Fund balance, unassigned | <u>5,750,356</u> | <u>-</u> | <u>452,199</u> | <u>6,202,555</u> | <u>6,015,570</u> |
| Total fund balance | <u>6,760,111</u> | <u>383,518</u> | <u>481,736</u> | <u>7,625,365</u> | <u>7,054,882</u> |
| Total liabilities and fund balance | <u>\$ 7,493,902</u> | <u>\$ 895,780</u> | <u>\$ 482,377</u> | <u>\$ 8,872,059</u> | <u>\$ 7,732,684</u> |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | |
| Fund balances reported above | | | | \$ 7,625,365 | \$ 7,054,882 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | | 19,380,585 | 19,132,715 |
| Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position: | | | | | |
| Loan and lease purchase agreements | | | | (9,441,737) | (9,773,083) |
| Accrued compensated absences | | | | <u>(223,435)</u> | <u>(209,923)</u> |
| Net position of governmental activities | | | | <u>\$ 17,340,778</u> | <u>\$ 16,204,591</u> |

The accompanying notes are an integral part of the financial statements.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2014

| | General Fund | Municipal Road Aid Fund | Other Nonmajor Governmental Funds | 2014 Total Governmental Funds | 2013 Total Governmental Funds |
|--|---------------------|-------------------------------|--|--|--|
| REVENUES | | | | | |
| Taxes | \$ 1,611,298 | \$ - | \$ - | \$ 1,611,298 | \$ 1,679,937 |
| Licenses and fees | 8,453,695 | - | - | 8,453,695 | 8,141,770 |
| Intergovernmental revenue | 276,025 | 749,337 | 54,699 | 1,080,061 | 913,398 |
| Fines and forfeitures | 12,634 | - | 4,656 | 17,290 | 18,875 |
| Other revenues | 1,386,550 | 1,058 | 18,662 | 1,406,270 | 1,261,252 |
| Total revenues | <u>11,740,202</u> | <u>750,395</u> | <u>78,017</u> | <u>12,568,614</u> | <u>12,015,232</u> |
| EXPENDITURES | | | | | |
| Current operating | | | | | |
| General government | 1,629,960 | - | - | 1,629,960 | 1,540,944 |
| Public services | 1,096,513 | 198,537 | 20,278 | 1,315,328 | 1,102,201 |
| Public safety | 6,050,850 | - | - | 6,050,850 | 6,215,633 |
| Community services | 788,465 | - | 28,200 | 816,665 | 1,221,458 |
| Debt services | 666,936 | - | - | 666,936 | 3,074,476 |
| Capital outlay | 549,776 | 517,002 | 52,469 | 1,119,247 | 1,651,579 |
| Total expenditures | <u>10,782,500</u> | <u>715,539</u> | <u>100,947</u> | <u>11,598,986</u> | <u>14,806,291</u> |
| Excess of revenues over expenditures | 957,702 | 34,856 | (22,930) | 969,628 | (2,791,059) |
| Other financing sources (uses): | | | | | |
| Transfers (to) from other funds | (443,569) | (25,000) | 66,469 | (402,100) | (379,760) |
| Sale of property | 2,955 | - | - | 2,955 | - |
| Loan proceeds | - | - | - | - | 4,589,925 |
| Total other financing sources (uses) | <u>(440,614)</u> | <u>(25,000)</u> | <u>66,469</u> | <u>(399,145)</u> | <u>4,210,165</u> |
| Net change in fund balance | 517,088 | 9,856 | 43,539 | 570,483 | 1,419,106 |
| Fund balance, beginning of year | <u>6,243,023</u> | <u>373,662</u> | <u>438,197</u> | <u>7,054,882</u> | <u>5,635,776</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 6,760,111</u> | <u>\$ 383,518</u> | <u>\$ 481,736</u> | <u>\$ 7,625,365</u> | <u>\$ 7,054,882</u> |
| Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because: | | | | | |
| Net change in fund balance - total governmental funds, reported above | | | | \$ 570,483 | \$ 1,419,106 |
| Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the Statement of Activities and depreciated over their estimated economic lives. | | | | | |
| Increase in capital assets | | | | 1,119,247 | 1,651,579 |
| Depreciation expense | | | | (860,874) | (753,293) |
| Amortization expense | | | | (10,021) | 5,399 |
| Disposal of capital assets | | | | (10,503) | - |
| Bond and note payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the Statement of Net Position. | | | | 341,367 | 2,707,887 |
| Loan proceeds | | | | - | (4,589,925) |
| Generally, expenditures recognized in the general fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred: | | | | | |
| Compensated absences | | | | (13,512) | (4,622) |
| Change in net position of governmental activities | | | | <u>\$ 1,136,187</u> | <u>\$ 436,131</u> |

The accompanying notes are an integral part of the financial statements.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

| ASSETS | Utilities Fund | Parking Fund | Storm Water | Other Nonmajor Proprietary Funds | 2014 Total | 2013 Total |
|--|---------------------------|-------------------------|------------------------|---|-----------------------|-----------------------|
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 957,788 | \$ 149,649 | \$ 752,626 | \$ 118,396 | \$ 1,978,459 | \$ 1,432,515 |
| Accounts receivable, net | 1,060,402 | 27,063 | 92,274 | 56,319 | 1,236,058 | 911,630 |
| Investments | 252,057 | - | - | 122,504 | 374,561 | 374,194 |
| Due from (to) other funds | - | - | - | - | - | 72,071 |
| Inventory, at cost | <u>217,652</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>217,652</u> | <u>198,365</u> |
| Total current assets | <u>2,487,899</u> | <u>176,712</u> | <u>844,900</u> | <u>297,219</u> | <u>3,806,730</u> | <u>2,988,775</u> |
| Non-current assets | | | | | | |
| Restricted cash and cash equivalents | 14,322,388 | - | 22,344 | - | 14,344,732 | 1,395,710 |
| Restricted investments | 241,856 | - | - | - | 241,856 | 241,451 |
| Capital assets, net | <u>30,002,268</u> | <u>7,342,005</u> | <u>1,504,162</u> | <u>403,808</u> | <u>39,252,243</u> | <u>37,930,658</u> |
| Total non-current assets | <u>44,566,512</u> | <u>7,342,005</u> | <u>1,526,506</u> | <u>403,808</u> | <u>53,838,831</u> | <u>39,567,819</u> |
| Total assets | <u>\$ 47,054,411</u> | <u>\$ 7,518,717</u> | <u>\$ 2,371,406</u> | <u>\$ 701,027</u> | <u>\$ 57,645,561</u> | <u>\$ 42,556,594</u> |
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | \$ 1,046,146 | \$ 2,706 | \$ 94,858 | \$ 82,868 | \$ 1,226,578 | \$ 573,711 |
| Accrued expenses | 83,076 | 1,806 | 6,686 | 2,975 | 94,543 | 85,969 |
| Deposits | 41,550 | - | - | - | 41,550 | 40,350 |
| Current portion of compensated absences | 3,448 | 39 | 154 | 304 | 3,945 | 3,657 |
| Accrued interest payable | 194,786 | 15,271 | 11,519 | - | 221,576 | 85,578 |
| Current portion of bonds and notes payable | <u>686,170</u> | <u>105,000</u> | <u>30,000</u> | <u>-</u> | <u>821,170</u> | <u>1,173,375</u> |
| Total current liabilities | <u>2,055,176</u> | <u>124,822</u> | <u>143,217</u> | <u>86,147</u> | <u>2,409,362</u> | <u>1,962,640</u> |
| Non-current liabilities | | | | | | |
| Bonds and notes payable | 19,874,518 | 3,932,613 | 610,000 | - | 24,417,131 | 10,879,703 |
| Compensated absences, net of current portion | <u>65,503</u> | <u>737</u> | <u>2,933</u> | <u>5,775</u> | <u>74,948</u> | <u>69,486</u> |
| Total non-current liabilities | <u>19,940,021</u> | <u>3,933,350</u> | <u>612,933</u> | <u>5,775</u> | <u>24,492,079</u> | <u>10,949,189</u> |
| Total liabilities | <u>21,995,197</u> | <u>4,058,172</u> | <u>756,150</u> | <u>91,922</u> | <u>26,901,441</u> | <u>12,911,829</u> |
| Net position, beginning of year, restated | | | | | | |
| Net investment in capital assets | 23,041,580 | 3,304,392 | 864,162 | 403,808 | 27,613,942 | 25,877,580 |
| Restricted | 964,244 | - | - | - | 964,244 | 1,614,592 |
| Unrestricted | <u>1,053,390</u> | <u>156,153</u> | <u>751,094</u> | <u>205,297</u> | <u>2,165,934</u> | <u>2,179,275</u> |
| Total net position | <u>25,059,214</u> | <u>3,460,545</u> | <u>1,615,256</u> | <u>609,105</u> | <u>30,744,120</u> | <u>29,671,447</u> |
| Total liabilities and net position | <u>\$ 47,054,411</u> | <u>\$ 7,518,717</u> | <u>\$ 2,371,406</u> | <u>\$ 701,027</u> | <u>\$ 57,645,561</u> | <u>\$ 42,583,276</u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2014

| | Utilities Fund | Parking Fund | Storm Water | Other Nonmajor Proprietary Funds | 2014 Total | 2013 Total |
|--|----------------------|---------------------|---------------------|---|----------------------|----------------------|
| Revenues | | | | | | |
| Water sales | \$ 4,091,605 | \$ - | \$ - | \$ - | \$ 4,091,605 | \$ 4,043,057 |
| Water surcharge | 264,336 | - | - | - | 264,336 | 251,567 |
| Sewer charges | 2,933,918 | - | - | - | 2,933,918 | 2,943,633 |
| Connection fees | 56,602 | - | - | - | 56,602 | 57,541 |
| Parking rental fees | - | 263,639 | - | - | 263,639 | 253,425 |
| Other fees for services | - | - | 573,671 | 972,734 | 1,546,405 | 1,604,136 |
| Other revenues | 341,895 | - | - | - | 341,895 | 288,028 |
| Total revenues | <u>7,688,356</u> | <u>263,639</u> | <u>573,671</u> | <u>972,734</u> | <u>9,498,400</u> | <u>9,441,387</u> |
| Operating expenses | | | | | | |
| Water | 3,005,171 | - | - | - | 3,005,171 | 2,873,974 |
| Sewer | 1,671,625 | - | - | - | 1,671,625 | 1,584,702 |
| Perryville | 145,247 | - | - | - | 145,247 | 142,312 |
| Personnel | - | 49,630 | 197,199 | 96,664 | 343,493 | 341,566 |
| Contractual | - | 77,645 | 95,132 | 1,086,537 | 1,259,314 | 1,247,289 |
| Management fees | 786,479 | - | - | - | 786,479 | 762,186 |
| Depreciation | 1,145,251 | 190,585 | 31,663 | 17,377 | 1,384,876 | 1,379,316 |
| Other operating expenses | 345,300 | 7,737 | 35,882 | 9,166 | 398,085 | 124,113 |
| Total operating expenses | <u>7,099,073</u> | <u>325,597</u> | <u>359,876</u> | <u>1,209,744</u> | <u>8,994,290</u> | <u>8,455,458</u> |
| Operating income (loss) | <u>589,283</u> | <u>(61,958)</u> | <u>213,795</u> | <u>(237,010)</u> | <u>504,110</u> | <u>985,929</u> |
| Non-operating revenues (expenses) | | | | | | |
| Grants | 538,709 | - | 2,076 | - | 540,785 | 517,960 |
| Principal forgiveness | 42,896 | - | - | - | 42,896 | - |
| Interest expense | (272,995) | (188,068) | (23,826) | - | (484,889) | (567,200) |
| Other non-operating revenues | 53,849 | 959 | 1,664 | 11,199 | 67,671 | 389,989 |
| Non-operating revenues (expenses) | <u>362,459</u> | <u>(187,109)</u> | <u>(20,086)</u> | <u>11,199</u> | <u>166,463</u> | <u>340,749</u> |
| Income (loss) before other revenues expenses, gains, losses and transfers | 951,742 | (249,067) | 193,709 | (225,811) | 670,573 | 1,326,678 |
| Transfers from other funds | - | 182,624 | - | 219,476 | 402,100 | 379,760 |
| Change in net position | 951,742 | (66,443) | 193,709 | (6,335) | 1,072,673 | 1,706,438 |
| Net position, beginning of year, restated | <u>24,107,472</u> | <u>3,526,988</u> | <u>1,421,547</u> | <u>615,440</u> | <u>29,671,447</u> | <u>27,965,009</u> |
| NET POSITION, END OF YEAR | <u>\$ 25,059,214</u> | <u>\$ 3,460,545</u> | <u>\$ 1,615,256</u> | <u>\$ 609,105</u> | <u>\$ 30,744,120</u> | <u>\$ 29,671,447</u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2014

| | Utilities Fund | Parking Fund | Storm Water | Other Nonmajor Proprietary Funds | 2014 Total | 2013 Total |
|--|----------------------|-------------------|-------------------|---|----------------------|---------------------|
| Cash flows from operating activities | | | | | | |
| Receipts from customers | \$ 7,372,514 | \$ 260,666 | \$ 569,423 | \$ 971,369 | \$ 9,173,972 | \$ 9,318,068 |
| Payments to suppliers | (2,457,129) | (85,756) | (116,910) | (1,096,760) | (3,756,555) | (3,802,622) |
| Payments to employees | (2,077,013) | (49,323) | (194,261) | (97,878) | (2,418,475) | (2,366,824) |
| Payments to general fund for management services | (786,478) | - | - | - | (786,478) | (762,186) |
| Net cash provided by (used in) operating activities | <u>2,051,894</u> | <u>125,587</u> | <u>258,252</u> | <u>(223,269)</u> | <u>2,212,464</u> | <u>2,386,436</u> |
| Cash flows from noncapital financing activities | | | | | | |
| Transfers (to) from other funds | - | 182,624 | - | 219,476 | 402,100 | 379,760 |
| Deposits, net | 1,200 | - | - | - | 1,200 | (8,200) |
| Due (to) from other funds | - | - | - | 98,754 | 98,754 | (125,698) |
| Other revenues | 81,554 | 627 | - | - | 82,181 | 379,754 |
| Net cash provided by noncapital financing activities | <u>82,754</u> | <u>183,251</u> | <u>-</u> | <u>318,230</u> | <u>584,235</u> | <u>625,616</u> |
| Cash flows from capital and related financing activities | | | | | | |
| Purchases of capital assets | (2,603,135) | - | (103,328) | - | (2,706,463) | (1,681,658) |
| Principal paid on notes and bonds | (1,087,811) | (100,000) | (30,000) | - | (1,217,811) | (1,080,655) |
| Interest (paid) accrued on notes and bonds | (136,300) | (185,717) | (24,162) | - | (346,179) | (574,964) |
| Borrowings of notes and bonds | 13,986,065 | - | - | - | 13,986,065 | 200,000 |
| Bond premium | 414,256 | - | - | - | 414,256 | 7,169 |
| Refunding of debt | - | - | - | - | - | 37,264 |
| Capital improvement grant proceeds | 538,709 | - | 2,076 | - | 540,785 | 517,960 |
| Net cash provided by (used in) capital and related financing activities | <u>11,111,784</u> | <u>(285,717)</u> | <u>(155,414)</u> | <u>-</u> | <u>10,670,653</u> | <u>(2,574,884)</u> |
| Cash flows from investing activities | | | | | | |
| Net investment proceeds (purchases) | 6,214 | - | - | (6,986) | (772) | 7,857 |
| Interest and dividends | 15,191 | 333 | 1,663 | 11,199 | 28,386 | 10,235 |
| Net cash provided by investing activities | <u>21,405</u> | <u>333</u> | <u>1,663</u> | <u>4,213</u> | <u>27,614</u> | <u>18,092</u> |
| Net increase in cash and cash equivalents and restricted cash | | | | | | |
| | 13,267,837 | 23,454 | 104,501 | 99,174 | 13,494,966 | 455,260 |
| Cash and cash equivalents and restricted cash, beginning of year | <u>2,012,339</u> | <u>126,195</u> | <u>670,469</u> | <u>19,222</u> | <u>2,828,225</u> | <u>2,372,965</u> |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR | <u>\$ 15,280,176</u> | <u>\$ 149,649</u> | <u>\$ 774,970</u> | <u>\$ 118,396</u> | <u>\$ 16,323,191</u> | <u>\$ 2,828,225</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | | | | |
| Operating income (loss) | \$ 589,283 | \$ (61,958) | \$ 213,795 | \$ (237,010) | \$ 504,110 | \$ 985,929 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | | |
| Depreciation | 1,145,251 | 190,585 | 31,663 | 17,377 | 1,384,876 | 1,337,592 |
| Provision for bad debt | - | - | - | - | - | 81,720 |
| Change in assets and liabilities: | | | | | | |
| Accounts receivable | (315,840) | (2,973) | (4,248) | (1,365) | (324,426) | (205,037) |
| Inventory | (19,287) | - | - | - | (19,287) | 43,550 |
| Accounts payable | 640,194 | (374) | 14,104 | (1,057) | 652,867 | 134,477 |
| Accrued expenses | 8,020 | 271 | 1,858 | (1,575) | 8,574 | 8,579 |
| Compensated absences | 4,273 | 36 | 1,080 | 361 | 5,750 | (374) |
| Net cash provided by (used in) operating activities | <u>\$ 2,051,894</u> | <u>\$ 125,587</u> | <u>\$ 258,252</u> | <u>\$ (223,269)</u> | <u>\$ 2,212,464</u> | <u>\$ 2,386,436</u> |

The accompanying notes are an integral part of the financial statements.

**CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2014**

| | Police and Firemen's Pension Fund | 2013 Total |
|---|--|-----------------------------|
| ASSETS | <u> </u> | <u> </u> |
| Cash and cash equivalents | \$ 17,461 | \$ 54,362 |
| Investments | <u>787,074</u> | <u>742,531</u> |
| Total assets | <u>\$ 804,535</u> | <u>\$ 796,893</u> |
| NET POSITION | | |
| Net position held in trust for pension benefits | <u>\$ 804,535</u> | <u>\$ 796,893</u> |
| TOTAL NET POSITION | <u>\$ 804,535</u> | <u>\$ 796,893</u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
for the year ended June 30, 2014

| | Police and Firemen's Pension Fund | 2013 Total |
|---------------------------------------|--|------------------------------|
| | <u> </u> | <u> </u> |
| Additions | | |
| Employers contributions | \$ 126,000 | \$ 190,000 |
| Interest and dividends | 26,177 | 26,803 |
| Realized gains (loss) on investments | 56,010 | 28,267 |
| Unrealized gain (loss) on investments | <u>45,531</u> | <u>57,565</u> |
| Total additions | <u>253,718</u> | <u>302,635</u> |
| Deductions | | |
| Benefit payements | 246,077 | 230,609 |
| Trustee fee | <u>-</u> | <u>5,631</u> |
| Total deductions | <u>246,077</u> | <u>236,240</u> |
| Change in net position | <u>7,641</u> | <u>66,395</u> |
| Net position, beginning of year | <u>796,894</u> | <u>730,498</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 804,535</u></u> | <u><u>\$ 796,893</u></u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Danville, Kentucky (the City) conform to accounting principles generally accepted in the United States of America (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 more significant of the government's accounting policies are described below.

A. Reporting Entity

The City of Danville, Kentucky, is a municipal corporation operating as a "City Manager Plan Government" as provided by Kentucky Revised Statutes 83A.150. The City which is governed by an elected five member Board of Commissioners possesses all powers enumerated under KRS 83A.150 as well as KRS 82.082 - the home rule statute. The City has evaluated various organizations with which it is related and determined that there are no component units as defined by GASB. Therefore, there are no component units included in the City's reporting entity.

B. Related Organizations

The City's officials are responsible for appointing the members of the Boards of other organizations, but the City's accountability for these organizations do not extend beyond making the appointments. The City's Mayor, with the consent of the City Board of Commissioners, appoints the board members of the Housing Authority of Danville, the Parking Authority of Danville, and the Danville Urban Renewal and Community Development Agency.

C. Jointly Governed Organizations

The City, in conjunction with Boyle County, the City of Junction City, and the City of Perryville, created the Danville-Boyle County Planning and Zoning Commission (DBCPZC). The DBCPZC's board is comprised of four members from the City of Danville, four members from Boyle County, one member from Junction City, and one member from Perryville. The City appropriated \$70,000 for an operating grant to the DBCPZC for the year ended June 30, 2014.

The City, in conjunction with Boyle County, has created the Danville-Boyle County Airport Board (DBCAB). The DBCAB's board is comprised of three members from the City of Danville and three members from Boyle County. The City appropriated \$28,000 for an operating grant to the DBCAB for the year ended June 30, 2014.

The City, in conjunction with Boyle County, has created the Danville-Boyle County Parks and Recreation Board (DBCPRB). The board is comprised of three members from the City of Danville, three members from Boyle County, and one member appointed jointly by the City of Danville and Boyle County. The City appropriated \$210,000 for an operating grant to the DBCPRB for the year ended June 30, 2014.

The City, in conjunction with Boyle County, has created the Danville-Boyle County Tourism Commission (DBCTC). The DBCTC's board is comprised of seven members appointed jointly by the City of Danville and Boyle County. The City did not appropriate funds for the DBCTC for the year ended June 30, 2014.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are 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 the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

E. Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary 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 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 liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are an exception, as they are considered available when eligible expenditures have occurred even though they may be collected for up to one year after the current fiscal year end. 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 when the liability has matured, with the exception of interest and principal which are recognized as expenditures when funds are transferred to the debt service fund to make payments due shortly after the fiscal year end.

Property taxes, franchise taxes, licenses, interest revenue, intergovernmental revenue, and charges for services are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines, permits, net profit tax revenues and special assessments are considered to be measurable and available only when cash is received by the City.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Presentation, continued

Funds are classified into these categories; governmental, proprietary and fiduciary.

Major Governmental Funds:

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

The Municipal Road Aid Fund accounts for the use of state road aid funding. The primary service is to provide major road repairs and repaving.

Major Proprietary Funds:

The Utilities Fund accounts for the activities of the water and sewer services provided to the residents of the City and the surrounding areas.

The Parking Fund accounts for the operation of the City's parking facilities (parking spaces, lots, and parking garage).

The Storm Water Fund accounts for operation and maintenance of the City's infrastructure such as inlets, pipes, culverts, and detention basins.

Additionally, the City reports the following fund types:

The Pension Trust Fund accounts for the activities of the Police and Firefighter's Pension Fund, which accumulates resources for pension benefit payments to qualified public safety employees.

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 government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments from the Utilities Fund to the General Fund to compensate the General Fund for administrative services provided to the Utilities Fund.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. The principal operating revenues of the parking fund are parking space rental fees. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Presentation, continued

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

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

F. Assets, Liabilities, and Net Position or Fund Balance

1. Cash Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments, which consist of highly liquid investments with original maturities of three months or less from the date of acquisition.

Kentucky Revised Statute 66.480 generally limits the City to investing in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

Kentucky Revised Statute 95.610 expands the above list of allowable investments for pension trust funds to include corporate notes and equity securities, real estate mortgages, real estate, and life insurance annuity and endowment contracts.

All investments are reported at fair value.

Certain cash and investment amounts are classified on the statement of net position as restricted because applicable bond indentures or other legal provisions limit their use. Restricted cash and cash equivalents are included and used for their respective purpose.

For the purpose of the statement of cash flows, the City considers cash equivalents to be highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for un-collectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for un-collectibles. The property tax receivable allowance is based on varying percentages depending on the age of the receivable.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Position or Fund Balance, continued

3. Inventories

All inventories are valued at cost using the first-in first-out (FIFO) method.

4. Restricted Assets

Certain resources set aside for the repayment of the Utilities Fund debt have been classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The restricted assets have been accounted for in accordance with the provisions of the Utilities Fund revenue bond resolutions or with state or federal laws and regulations.

Debt Service Reserve - The City is required to set aside the lower of the maximum annual debt service, 125% of the average annual debt service, or 10% of the original net proceeds of the revenue bond issues. The City must continue deposits into the debt service reserve until the funds equal the amount required to retire all outstanding bonds and related accrued interest.

Depreciation Reserve - Revenue bond covenants require the City to set aside \$2,085 monthly until the 1967 and 2003 bonds are retired. The Depreciation Reserve may be used to provide funding for future improvements, extensions, additions or enlargements to the system. Any amount over \$500,000 in the depreciation fund may be used to redeem and retire bonds outstanding before maturity. Also, Kentucky Infrastructure Authority covenants require the City to transfer annually \$48,910 to a replacement reserve until \$489,100 is accumulated in the account.

In addition, the 2010 Rural Development Build America bond issuance required the City to make additional monthly deposits to a separate depreciation fund of \$240 per month until the account reached \$28,800, and \$362 per month to be used specifically as needed to replace or add short-lived assets in the City's water system.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (i.e., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Position or Fund Balance, continued

5. Capital Assets, continued

Infrastructure, buildings, improvements, plant, equipment, and other capital assets of the government are depreciated using the straight line method over the following estimated useful lives.

| | |
|-----------------------------------|-------------|
| Infrastructure | 10-50 Years |
| Buildings | 20-50 Years |
| Improvements | 10-20 Years |
| Water & Sewer Distribution System | 2-50 Years |
| Studies, Surveys, & Maps | 2-10 Years |
| Machinery & Equipment | 2-10 Years |
| Vehicles | 3-10 Years |

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

6. Compensated Absences

All non-public safety employees earn vacation leave at a rate of 5/6 of a day per month (80 hours per year) up to ten years of service, 1 1/4 days per month (120 hours per year) for greater than ten years of service, and 1 2/3 days per month (160 hours per year) for greater than twenty years of service. Public safety employees earn vacation leave at a rate of 1 1/4 days per month (120 hours per year) for police and 1 3/4 days per month (168 hours per year) for firefighters assigned to 24-hour shifts). The City personnel policy states that employees may accrue unlimited vacation leave. However, after the original probation period, any employee who terminates employment with the City shall be compensated for no more than 240 hours of accrued vacation leave (except the Fire Department employees assigned to 24-hour shifts may be compensated for no more than 336 hours). Any vacation hours above 240 shall be converted to sick leave upon retirement from the City of Danville.

All employees occupying established full-time positions with the City are granted 1 day (8 hours) sick leave per each full month of service, except that Fire Department employees assigned to 24-hour shifts shall accrue twelve hours credit for each month of service. Sick leave credit may be utilized by employees in 1/4 day increments when they are unable to perform their duties because of sickness or injury. Employees may accrue an unlimited amount of sick leave. Employees who terminate employment with the City are not compensated for accrued but unused sick leave, except that employees who retire and participate in the CERS retirement program immediately upon termination of employment, shall have the accrued but unused sick leave utilized to purchase additional retirement benefits on their behalf, based on a schedule as outlined in the City's personnel policies and procedures manual.

GASB requires employers to accrue a liability of future vacation, sick and other leave benefits that meet the following conditions:

- a.) The compensated absence relates to past employment service.
- b.) Payment of the compensation is probable.

The liability for these compensated absences is recorded as current and non-current debt in the government-wide statements and in the business-type fund statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as incurred.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Position or Fund Balance, continued

7. Long-term Obligations

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 position. Bond issuance costs and bond discounts are deferred and amortized over the term of the related issues. Bonds payable are reported net of the applicable discounts and issuance costs.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balance

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable. The City has adopted GASB 54 which further breaks down both non-spendable and spendable components into the following components:

Non-spendable - amounts that must be maintained intact legally or contractually.

Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed – amounts constrained for a specific purpose by the City using its highest level of decision making authority.

Assigned – for all governmental funds, other than the general fund, any remaining positive amounts not classified as non-spendable, restricted or committed. For the general fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts.

Unassigned – for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered to be committed, the City issues an ordinance that can be changed with another corresponding ordinance.

For resources considered to be assigned, the City has designated the Mayor to carry the intent of the City commission.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities, and Net Position or Fund Balance, continued

9. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. Capital assets and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense. Capital lease revenues are added, while principal payments on long-term debt are eliminated from the operating costs.

G. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 9, 2015, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2014, have not been evaluated by the City.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The City follows the following procedures in establishing the budgetary data reflected in the financial statements.

Kentucky Revised Statutes 91A.030 requires the preparation and adoption of an annual budget in the form of an appropriations ordinance before the City may expend any monies from any governmental or proprietary fund and prohibits expenditures or expenses in excess of appropriations. KRS further provides that the full amount of debt service be appropriated. All appropriations lapse at year-end.

To meet the legal requirements for appropriations, all budgets are presented on a modified accrual basis. For proprietary funds this means that certain capitalized receipts and disbursements are budgeted along with related revenue and expense, that depreciation, non-cash expenditure, is not budgeted, and that the full amount of debt service is budgeted.

Under Kentucky Revised Statutes, all local government units are required to have a June 30 fiscal year-end. The City of Danville has a June 30 fiscal year-end.

Prior to May 1, the city manager obtains estimates of proposed expenditures from various division and department heads. The finance department staff prepares revenue estimates.

Prior to June 1, the city manager submits to the city commission a proposed budget for the fiscal year commencing July 1.

Public hearings are conducted to obtain citizen comments and in order to comply with various federal and state mandates.

Prior to June 30, the budget is legally enacted through passage of an ordinance by the city commission.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgetary Information, continued

The city manager is authorized to transfer budgeted amounts within each fund; however, any revisions that alter the total expenditures of any fund must be approved by the city commission.

Formal budgetary integration is utilized as a management control device for all governmental fund types and the Utilities Fund.

An encumbrance system under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded is maintained. Encumbrances maintained at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are re-appropriated in the next budget year.

Property Taxes

The City bills and collects its property taxes through the Boyle County Sheriff's Office. The City elects to use annual property assessments prepared by the Boyle County Property Valuation Administrator. According to the Kentucky Revised Statutes, the assessment date for the City must conform to the January 1 assessment date of Boyle County.

For the year ended June 30, 2014, taxes were levied November 1, 2013 and were payable by December 31, 2013. A 10% penalty was imposed on all taxes delinquent as of January 1, 2014. In addition, an interest charge of 1/2% per month is levied on all delinquent taxes. As of May 1, 2014 delinquent property tax bills in excess of \$20 each shall have an enforceable lien filed against the property by the City.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.00 per \$100 assessed valuation for general governmental services other than school purposes. Legislation passed by the Kentucky General Assembly imposed severe limits on the ability of a city to significantly increase property tax revenues. A city may not increase its revenues from taxes on real property, exclusive of increases due to assessment growth without giving notice of such an increase and holding a public hearing on the matter. If that increase is less than 4%, that is all that is necessary, but if the increase is more than 4%, residents of the City may petition for an election to be held on the question. If the majority of those voting in a valid election vote against the proposed rate increase, the rate must be rolled back to one which will not produce more than a 4% increase. City tax rates of 14.00 cents per \$100 on real property and 15.31 cents per \$100 on personal property for the fiscal year ended June 30, 2014, are within permissible limits under the above legislation. The City does not collect personal property taxes on motor vehicles or watercraft.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

3. CASH DEPOSITS AND INVESTMENTS

As of June 30, 2014, the City had the following investments and maturities:

PRIMARY GOVERNMENT (EXCEPT FIDUCIARY FUNDS)

| Investment type | Fair Value | Investment Maturities in years | | | | Credit rating |
|---------------------------|---------------------|--------------------------------|-------------------|-------------------|-------------|---------------|
| | | Less than 1 | 1-5 | 6-10 | Over 10 | |
| U.S. Agencies | \$ 258,450 | \$ 25,495 | \$ 51,648 | \$ 181,308 | - | AAA |
| State and Municipal Bonds | 81,010 | - | - | 81,010 | - | |
| Corporate Bonds | 370,925 | 25,443 | 189,401 | 156,081 | - | BBB to AAA |
| Money Market Mutual Funds | 14,668 | 14,668 | - | - | - | AAA |
| Certificate of Deposits | 416,811 | 416,811 | - | - | - | N/A |
| Totals | \$ 1,141,865 | \$ 482,417 | \$ 241,049 | \$ 418,399 | \$ - | |

Interest Rate Risk. The City does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Over 90% percent of the City's investments are in bank certificates of deposits (fully insured or collateralized), U.S. Corporate bonds (rated BBB to AAA rated) and U.S. Agencies.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. The City has 23% in U.S. Agencies, 32% in Corporate Bonds and 37% of its investments in bank certificates of deposit (at one bank).

Custodial Credit Risk. Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments that are in the possession of the financial institution. The City's investment policy dictates that all cash maintained in any financial institution named as a depository be insured or collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. Collateral must be held by an independent third-party custodian. The City is fully collateralized and all pledged investments were held in the City's name as of June 30, 2014.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

3. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2014, the Police/Fire Pension Fund had the following restricted investments:

| Investment type | Fair Value | Investment Maturities in years | | | | Credit rating |
|-------------------|-------------------|--------------------------------|------------------|-------------|-------------|---------------|
| | | Less than 1 | 1-5 | 6-10 | Over 10 | |
| Municipal Bonds | \$ 29,846 | \$ - | \$ 29,846 | \$ - | \$ - | AAA |
| Corporate Bonds | 146,922 | - | 26,085 | 120,838 | - | BBB+ |
| Money Market | | | | | | |
| Mutual Funds | 216,620 | 216,620 | - | - | - | AAA |
| Foreign Equities | 20,834 | 20,834 | - | - | - | |
| Domestic Equities | <u>372,851</u> | <u>372,851</u> | <u>-</u> | <u>-</u> | <u>-</u> | N/A |
| Totals | <u>\$ 787,074</u> | <u>\$ 610,305</u> | <u>\$ 55,931</u> | <u>\$ -</u> | <u>\$ -</u> | |

Interest Rate Risk. The investment policies for the pension funds do not place limits on investment maturities. Ninety-two percent of the pension fund investments mature in less than one year and eight percent matures in one to five years.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The pension funds investments are in AAA rated U.S. Agencies, A to BAA rated Corporate Bonds, six different Mutual Funds and thirty different Domestic Equities.

Concentration of credit risk. The pension fund places no limit on the amount the fund may invest in any one issuer. The pension fund has 47% of its investments invested in common stock of 20 companies. The remaining investments are concentrated as follows – 4% municipal bonds, 19% corporate bonds, 28% money market mutual funds, and 3% foreign equities.

4. RECEIVABLES

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

| | General Fund | Municipal Road Aid | Nonmajor Funds | Total | |
|-----------------------------------|---------------------|--------------------|------------------|---------------------|---------------------|
| Governmental Funds: | | | | | |
| Taxes | \$ 50,279 | \$ - | \$ - | \$ 50,279 | |
| Licenses and fees | 680,901 | - | - | 680,901 | |
| Intergovernmental | 24,216 | 353,094 | 46,442 | 423,752 | |
| Fines and forfeitures | 880 | - | - | 880 | |
| Other revenues | <u>70,404</u> | <u>-</u> | <u>-</u> | <u>70,404</u> | |
| Gross receivables | 826,679 | 353,094 | 46,442 | 1,226,215 | |
| Less: allowance for uncollectible | <u>(33,720)</u> | <u>-</u> | <u>-</u> | <u>(33,720)</u> | |
| Net receivables | <u>\$ 792,959</u> | <u>\$ 353,094</u> | <u>\$ 46,442</u> | <u>\$ 1,192,495</u> | |
| | | | | | |
| | Utilities Fund | Parking Fund | Storm Water Fund | Nonmajor Funds | Total |
| Proprietary Funds: | | | | | |
| Taxes | \$ 1,050,083 | \$ 31,388 | \$ 96,080 | \$ 138,052 | \$ 1,315,603 |
| Other revenues | <u>547,723</u> | <u>-</u> | <u>54,876</u> | <u>-</u> | <u>602,599</u> |
| Gross receivables | 1,597,806 | 31,388 | 150,956 | 138,052 | 1,918,202 |
| Less: allowance for uncollectible | <u>(537,404)</u> | <u>(4,325)</u> | <u>58,682)</u> | <u>(81,733)</u> | <u>(682,144)</u> |
| Net receivables | <u>\$ 1,060,402</u> | <u>\$ 27,063</u> | <u>\$ 92,274</u> | <u>\$ 56,319</u> | <u>\$ 1,236,058</u> |

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

| | Balance July 1, 2013 | Additions | Deductions | Balance June 30, 2014 |
|---------------------------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,567,556 | \$ 10,503 | \$ - | \$ 2,578,059 |
| Construction in progress | <u>42,245</u> | <u>596,791</u> | <u>(10,503)</u> | <u>628,533</u> |
| Total | <u>2,609,801</u> | <u>607,294</u> | <u>(10,503)</u> | <u>3,206,592</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,370,334 | - | - | 1,370,334 |
| Buildings | 11,888,159 | - | - | 11,888,159 |
| Vehicles | 3,473,113 | 254,085 | (143,441) | 3,583,757 |
| Equipment | <u>1,537,147</u> | <u>257,869</u> | <u>-</u> | <u>1,795,016</u> |
| Total | <u>18,268,753</u> | <u>511,954</u> | <u>(143,441)</u> | <u>18,637,265</u> |
| Total non-infrastructure assets | <u>20,878,554</u> | <u>1,119,248</u> | <u>(153,944)</u> | <u>21,843,857</u> |
| Infrastructure assets | <u>84,356,042</u> | <u>-</u> | <u>-</u> | <u>84,356,042</u> |
| Total capital assets | <u>\$105,234,596</u> | <u>\$1,119,248</u> | <u>\$ (153,944)</u> | <u>\$106,199,899</u> |
| Accumulated depreciation: | | | | |
| Land improvements | 497,818 | 35,609 | - | 533,427 |
| Buildings | 2,000,535 | 283,590 | - | 2,284,125 |
| Vehicles | 2,742,134 | 221,861 | (143,441) | 2,820,554 |
| Equipment | 1,322,836 | 67,364 | - | 1,390,200 |
| Infrastructure | <u>79,538,558</u> | <u>252,450</u> | <u>-</u> | <u>79,791,008</u> |
| Total | <u>86,101,881</u> | <u>860,874</u> | <u>(143,441)</u> | <u>86,819,314</u> |
| Total capital assets, net | <u>\$ 19,132,715</u> | <u>\$ 258,374</u> | <u>\$ (10,503)</u> | <u>\$ 19,380,585</u> |
| <u>Business-Type Activities</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,309,568 | \$ - | \$ - | \$ 1,309,568 |
| Construction in progress | <u>2,001,584</u> | <u>2,594,368</u> | <u>(692,436)</u> | <u>3,903,516</u> |
| Total | <u>3,311,152</u> | <u>2,594,368</u> | <u>(692,436)</u> | <u>5,213,084</u> |
| Capital assets being depreciation: | | | | |
| Buildings | 8,436,255 | - | - | 8,436,255 |
| Improvements | 366,268 | - | - | 366,268 |
| Vehicles | 817,719 | 20,120 | (20,742) | 817,097 |
| Equipment | 1,490,593 | 10,360 | - | 1,500,899 |
| Infrastructure | <u>48,483,040</u> | <u>774,105</u> | <u>-</u> | <u>49,257,145</u> |
| Total | <u>59,593,875</u> | <u>804,531</u> | <u>-</u> | <u>60,377,664</u> |
| Total capital assets | <u>62,905,027</u> | <u>3,398,899</u> | <u>(713,178)</u> | <u>65,590,748</u> |
| Accumulated depreciation: | | | | |
| Buildings | 1,512,519 | 198,102 | - | 1,719,621 |
| Improvements | 121,804 | 14,352 | - | 136,156 |
| Vehicles | 781,256 | 27,073 | (20,742) | 787,587 |
| Equipment | 941,415 | 79,426 | - | 1,020,841 |
| Infrastructure | <u>21,608,375</u> | <u>1,065,923</u> | <u>-</u> | <u>22,674,298</u> |
| Total | <u>24,974,369</u> | <u>1,384,876</u> | <u>(20,742)</u> | <u>26,338,503</u> |
| Total capital assets, net | <u>\$ 37,930,658</u> | <u>\$ 2,014,021</u> | <u>\$ (692,436)</u> | <u>\$ 39,252,243</u> |

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

| | |
|----------------------------|-------------------|
| General Government | \$ 199,995 |
| Public Services | 426,010 |
| Public Safety | <u>234,869</u> |
| Total Depreciation Expense | <u>\$ 860,874</u> |

Depreciation expense was charged to proprietary functions as follows:

| | |
|----------------------------|---------------------|
| Utilities | \$ 1,145,251 |
| Cemetery | 3,843 |
| Museum | 13,534 |
| Parking | 190,585 |
| Storm water | <u>31,633</u> |
| Total Depreciation Expense | <u>\$ 1,384,876</u> |

6. DEFINED BENEFIT PENSION PLANS

The government maintains a single-employer, defined benefit pension plan, the Police and Firefighters' Retirement Fund (PFRF), which covers public safety employees who work in non-hazardous positions, which they have held since July 31, 1988. The City also participates in the Commonwealth of Kentucky County Employees' Retirement System (CERS), which covers all hazardous position public safety employees and all other governmental employees not already covered by PFRF. No medical insurance benefits are provided to retirees covered by the PFRF. Certain medical insurance benefits are provided to retirees covered by the CERS.

Police and Firefighters' Retirement Fund (PFRF)

1 - Plan Description and Provisions

All of the government's full-time police and fire employees who work in non-hazardous positions which they have held since July 31, 1988, participate in the PFRF, a single-employer, defined benefit pension plan. This plan was established by Ordinance No. 824, effective February 14, 1958, pursuant to Kentucky Revised Statutes Chapter 95. Prior to August 1, 1988, all full-time police and fire employees, both those working in hazardous and non-hazardous positions, were eligible to participate in the PFRF.

In accordance with the provisions of House Bill 398 passed by the 1988 Kentucky General Assembly, the City closed the PFRF to new members August 1, 1988, by passage of Ordinance No. 1400. After August 1, 1988, all new employees who would have been eligible to participate in the City's pension system must be enrolled as members of Kentucky's County Employees' Retirement System. Employees hired on or before August 1, 1988, who were participating in the City plan, were given an option of transferring from the existing City pension plan to CERS.

| | |
|---------------|-------------------------|
| Plan Members | |
| <u>Group</u> | <u>Active Employees</u> |
| Retirees | 8 |
| Beneficiaries | 5 |
| Fully vested | 0 |
| Non-vested | 0 |

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police and Firefighters' Retirement Fund (PFRF) (continued)

1 - Plan Description and Provisions (continued)

In cities of the third class, any member of the police or fire department having served twenty (20) years or longer in the police or fire department may petition the board of trustees for retirement; and if his petition is granted, the board may order paid to him monthly fifty percent (50%) of his monthly salary at the time of retirement. If this petition for retirement is denied, any policeman or firefighter has the right of appeal in accordance with the Rules of Civil Procedure.

The pension payable for periods of service between twenty (20) and twenty-five (25) years shall be fifty percent (50%) of salary plus two percent (2%) of salary for each year in excess of twenty (20). The pension payable for twenty-five (25) years of service shall be sixty percent (60%) of salary. The pension payable for periods of service between twenty-five (25) and thirty (30) years shall be sixty percent (60%) of salary plus three percent (3%) of salary for each year in excess of twenty-five (25). The pension payable for thirty (30) years of service shall be seventy-five percent (75%) of salary.

The pension or benefits paid for disability or death from the Policemen's and Firefighter's Retirement Fund in cities of the third class is as follows:

- a) If any member of the police and fire department becomes temporarily totally disabled, physically or mentally, the board of trustees of the pension fund shall order paid to him monthly, during his disability, until he has recovered and returned to active duty, a sum of not more than one-half (1/2) his salary per month, the amount to be determined by the board. This provision shall not apply if a salary is paid during the same period.
- b) If any member of the police or fire department becomes permanently disabled, physically or mentally, so as to render necessary his retirement from service in the department, the board of trustees shall retire him from service and order paid to him monthly fifty percent (50%) of his monthly salary at the time of his retirement.
- c) If any member of the police or fire department is killed or dies as the result of an injury received in the performance of duty, or dies of any disease contracted by reason of his occupation, or dies while in the service from any cause as a result of his service in the department, or dies in service or while on the retired list from any cause after one (1) year of service in the department and leaves a widow or a child under eighteen (18) years of age, the board of trustees shall order a pension paid to the widow, while unmarried, of one-half (1/2) of salary per month and for each child until it reaches the age of eighteen (18) years twenty-four dollars (\$24) per month. The board may provide a minimum benefit of no more than four hundred dollars (\$400) per month, initially, to the surviving spouse if the benefit can be supported on an actuarially sound basis by the fund. The board may increase the minimum benefit pursuant to the terms of subsection (4) of this section. If the deceased member was unmarried and childless, a pension shall be paid to his dependent father and mother of one-fourth (1/4) of salary per month. If one (1) parent is dead, the other shall receive the entire one-fourth (1/4) salary.

If an employee terminates his or her employment with the police or fire departments and is not eligible for any other benefits under the PFRF, the employee is entitled to a refund of his or her accumulated contributions to the fund without interest.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police and Firefighters' Retirement Fund (PFRF) (continued)

2 – Measurement Focus and Basis of Accounting

The Employees' Retirement Fund and the Policemen and Firefighter's Retirement Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans) in 2014. The fiduciary fund statements are presented in accordance with Statement No. 67. The Primary Government (PG), as the Plan's single-employer, currently follows GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers. The PG will implement GASB Statement No. 68, Accounting and Financial Reporting for Pensions in fiscal year 2015. Disclosures are presented for both the Plan in accordance with GASB No. 67 and the PG in accordance with GASB No. 27.

3 – Investments

Investments are stated at fair value. Securities traded on a national exchange are valued at the last reported sales price. Gains or losses on the sale of fixed income securities are recognized using the completed transaction method. There are no significant investments (other than U.S. Government Agencies) in any one organization that represent more than 5% of net assets available for benefits. There are no investments or other assets legally reserved for purposes other than the payment of member benefits.

4 - Net Pension Liability

The components of the net pension liability at June 30, 2014, were as follows:

| | |
|--|---------------------|
| Total pension liability | \$ 2,653,431 |
| Less: Plan fiduciary net position | <u>804,534</u> |
| Net position liability | <u>\$ 1,848,897</u> |
| Plan fiduciary net position as a percentage of total pension liability | 30.32% |

Actuarial Assumptions – The total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions:

| | |
|---------------------------|------|
| Cost of Living | 3.0% |
| Salary Adjustments | N/A |
| Investment Rate of Return | 6.5% |

Mortality rates for health individuals were based on RP 2000 Combined Static Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale AA. Mortality rates for disable individuals were based on RP 2000 Disabled Retiree Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale AA.

A single discount rate of 6.5% was used to measure the Total Pension Liability. This single discount rate was based on the expected rate of return on pension plan investments of 6.5%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was available to make all projected future benefit payments of current plan members. Therefore long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police and Firefighters' Retirement Fund (PFRF) (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate noted above, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower and higher than the current rate.

| | <u>Discount Rate</u> | <u>Net Pension Liability (Asset)</u> |
|-----------------------|----------------------|--------------------------------------|
| 1% decrease | 5.50% | \$ 2,091,749 |
| Current discount rate | 6.50% | \$ 1,848,897 |
| 1% increase | 7.50% | \$ 1,645,794 |

The following represents additional information presented in compliance with GASB Statement No. 27. Calculations and presentation requirements under GASB Statement No. 27 differs significantly from the new standards, which will be in effect in fiscal year 2015.

5 - Employer Contributions

The contribution requirements of plan members and the City are established and may be amended by the Board of Trustees. Covered employees were required by statute to contribute four percent of their annual covered salary.

The City contributes on an actuarially funded basis amounts required to fund current service costs and interest on unfunded past service costs in compliance with Kentucky Revised Statutes. For 2013-2014 the City made a contribution of \$126,000.

Annual Pension Cost and Net Pension Obligation

| | |
|---|---------------------|
| Annual contribution required | \$ 130,496 |
| Interest on net pension obligation | (12,094) |
| Adjustment to annual required contributions | <u>(13,813)</u> |
| Annual pension cost | 132,215 |
| Contribution made | <u>(126,000)</u> |
| Decrease in net pension obligation | 6,215 |
| Net pension obligation at beginning of year | <u>(186,060)</u> |
| Net pension obligation at June 30, 2014 | <u>\$ (179,845)</u> |

| <u>Three Year Trend Information</u> | <u>June 30, 2012</u> | <u>June 30, 2013</u> | <u>June 30, 2014</u> |
|-------------------------------------|----------------------|----------------------|----------------------|
| Annual pension cost (APC) | \$ 136,891 | \$ 106,730 | \$ 132,215 |
| Percentage of APC contributed | 139% | 178% | 95% |
| Net pension obligation (liability) | (102,790) | (186,060) | (179,845) |

6 - Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|-------------------------------------|---------------------|--------------|-----------------|---|
| June 30, | (a) | (b) | (b-a) | (a/b) | (c) | [(b-a)/c] |
| 2012 | \$ 730,498 | \$ 2,089,227 | \$ 1,358,729 | 35% | N/A | N/A |
| 2013 | 796,894 | 2,554,636 | 1,757,742 | 31% | N/A | N/A |
| 2014 | 804,534 | 2,653,431 | 1,848,897 | 30% | N/A | N/A |

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Commonwealth of Kentucky County Employees' Retirement System

The City of Danville is a participating employer of the County Employees' Retirement System (CERS). Under the provisions 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 covers substantially all regular full-time members employed in positions of each participating county, city, 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 state legislature.

Contributions – For the year ended June 30, 2014, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. 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 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89%, of each employee's wages for non-hazardous job classifications and 35.70% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

| Year | Required Contribution | Percentage Contributed |
|------|-----------------------|------------------------|
| 2014 | \$ 1,673,807 | 100% |
| 2013 | \$ 1,720,243 | 100% |
| 2012 | \$ 1,622,397 | 100% |

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statutes require CERS to provide post-retirement healthcare benefits to eligible members and dependents. The CERS Medical Insurance benefit are cost-sharing multiple employer defined benefit plans. Changes made to the medical plan may be made by the CERS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The CERS Medical Insurance Funds offer coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the Medicare Eligible Health Plan.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT

1995 and 2000 Rural Utility Service Revenue Bonds

The City purchased water systems from the Cities of Perryville and Junction City, Kentucky. The City agreed to assume bonds issued by the Cities of Perryville and Junction City to the Rural Utility Service. The water systems bonds for the City of Perryville had a balance of \$449,500 with an interest rate of 4.75% to be paid over thirty-six years. The Junction City water system bonds had a balance of \$489,000 with an interest rate of 4.50% to be paid over thirty years.

Series 2008 USDA Rural Development Bonds

The City of Danville approved the issuance of \$1,480,000 in Rural Development Bonds for the purpose of sewer system improvements. The loan will be paid over forty years at a 4.375% interest rate.

Series 2010 USDA Rural Development Build America Bonds

On July 12, 2010, the Danville City Commission passed Ordinance No. 1774. The ordinance provided for the issuance of \$600,000 in Rural Development Build America Bonds for the purpose of sewer system improvements. The loan requires annual principal payments starting in February 2013 until maturity in February 2050, with an interest rate of 3.00%.

Series 2012 Water and Sewer Revenue Bond Anticipation Note

On October 31, 2012, the Danville City Commission passed Ordinance No. 1810. The ordinance provided for the issuance of \$250,000 in a note payable for the purpose of water and sewer system improvements. The loan requires semi-annual interest only payments starting April 1, 2013 until October 1, 2017, with an interest rate of 1.90%. The full amount of principal and any unpaid interest on this note is due on October 1, 2017.

Series 2013 Water and Sewer Revenue Bond Anticipation Note

On September 23, 2013, the Danville City Commission passed a general bond Ordinance to provide the issuance of \$13,600,000 in a note payable for the purpose of financing part of the new water treatment plant. The loan requires semi-annual interest only payments starting August 1, 2014 until October 1, 2017, with an interest rate of 2.00%. The full amount of principal and any unpaid interest on this note is due on August 1, 2016. The note is to be converted to a note payable with USDA rural development upon completion of the project.

Water and Sewer Revenue Bonds and Notes outstanding at June 30, 2014 are as follows:

| City of Danville Water & Sewer Revenue Bonds | Original Issue Amount | Interest Rate | Maturity Date Fiscal Year | Debt Outstanding June 30, 2014 |
|---|--------------------------------------|--------------------------|--|---|
| Series 1995 | \$ 489,000 | 4.50% | 2034 | \$ 397,000 |
| Series 2000 | 449,500 | 4.75% | 2040 | 383,900 |
| Series 2008 | 1,480,000 | 4.38% | 2049 | 1,415,800 |
| Series 2010 | 600,000 | 3.00% | 2050 | 583,500 |
| | | | | <u>\$ 2,780,200</u> |
| <u>Anticipation Notes</u> | | | | |
| Series 2012 | \$ 250,000 | 1.90% | 2017 | \$ 200,000 |
| Series 2013 | 13,600,000 | 2.00% | 2017 | 13,600,000 |
| | | | | <u>\$ 13,800,000</u> |
| Total Bonds and Notes | | | | <u>\$ 16,580,200</u> |

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

Revenue Bond Debt Service Requirements

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2014, are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|---------------------|---------------------|---------------------|
| 2015 | \$ 46,100 | \$ 115,277 | \$ 161,377 |
| 2016 | 48,800 | 113,310 | 162,110 |
| 2017 | 49,900 | 111,252 | 161,152 |
| 2018 | 52,800 | 109,122 | 161,922 |
| 2019 | 55,600 | 106,869 | 162,469 |
| 2020-24 | 313,600 | 497,041 | 810,641 |
| 2025-29 | 389,500 | 423,819 | 813,319 |
| 2030-34 | 482,800 | 332,560 | 815,360 |
| 2035-39 | 426,400 | 238,025 | 664,425 |
| 2040-44 | 413,400 | 148,451 | 561,851 |
| 2045-49 | 474,800 | 62,689 | 537,489 |
| 2050 | <u>26,500</u> | <u>795</u> | <u>27,295</u> |
| | <u>\$ 2,780,200</u> | <u>\$ 2,259,208</u> | <u>\$ 5,039,408</u> |

| Total Debt Service by Bond Series | Principal | Interest | Total Payment |
|---|---------------------|---------------------|---------------------|
| Series 1995 RUS Revenue Bonds Junction City Water System | \$ 397,000 | \$ 206,663 | \$ 603,663 |
| Series 2000 RUS Revenue Bonds Perryville Water System | 383,900 | 292,514 | 676,414 |
| Series 2008 R.D. Bonds | 1,415,800 | 1,375,356 | 2,791,156 |
| Series 2010 R.D. Bonds | <u>583,500</u> | <u>384,675</u> | <u>968,175</u> |
| | <u>\$ 2,780,200</u> | <u>\$ 2,259,208</u> | <u>\$ 5,039,408</u> |

Bond Covenants and Provisions

Under the bond Ordinance No. 1044 passed February 15, 1967, for the Water and Sewer Refunding and Improvement Revenue Bonds, certain covenants and provisions for the collection, segregation, and distribution of revenues of the water and sewer system were established. These covenants and provisions, which were adopted and confirmed by Ordinance No. 1644 in connection with the 2003 bond issuance and 2009 Ordinance, are as follows:

- 1) All cash revenues of the system are to be first deposited in the Water and Sewer Revenue Fund Account.
- 2) As a first charge on the Revenue Account, pro-rata monthly transfers of an amount sufficient to pay the principal and interest on the 1967 and 2003 bonds are to be made to the Bond and Interest Redemption Fund/Account.
- 3) Monthly transfers equal to 1/12 of 10% of the maximum annual debt service which will come due during any 12-month period ending February 1 are required to be made to the Bond and Interest Redemption Fund/Account as a Debt Service Reserve. These transfers must be made until an amount equivalent to the amount referred to in Note A (restricted assets, page 27) under the 1967 and 2003 bond issues has been accumulated.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

After observing the above priorities -

4) Monthly transfers to the Maintenance and Operation Fund/Account in a sum equal to the anticipated expenses of operating the system for the next month are to be made.

5) Monthly transfers equal to the greater of 60% of the balance in the Revenue Account or \$2,085 are to be made to the Depreciation Fund/Account. Withdrawals may be made from the Depreciation Account for extensions, additions, and enlargements of the system.

In addition, the 2010 bond issuance required the City to make additional monthly deposits to a separate depreciation fund of \$240 per month until the account reached \$28,800, and \$362 per month to be used specifically as needed to replace or add short-lived assets in the City's water system.

For the fiscal year ended June 30, 2014, the City is in substantial compliance with all covenants and provisions of the loan agreements.

Water and Sewer Fund Kentucky Infrastructure Authority Loan

On May 1, 1999, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow, for new construction, \$6,925,703 with an interest rate of 3.8% to be repaid over a twenty year period. During the 2006 fiscal year the City added \$689,403 to the KIA Treatment Plant loan increasing the total loan receipts to \$7,615,106.

The annual principal and interest requirements of the above loan are as follows:

| Year Ending June 30, | Principal | Interest | Total Payment |
|---------------------------------|---------------------|-------------------|--------------------------|
| 2015 | \$ 440,070 | \$ 122,847 | \$ 562,917 |
| 2016 | 456,951 | 105,077 | 562,028 |
| 2017 | 474,480 | 86,626 | 561,106 |
| 2018 | 492,682 | 67,466 | 560,148 |
| 2019 | 511,581 | 47,572 | 559,153 |
| 2020-2021 | <u>804,403</u> | <u>32,478</u> | <u>836,881</u> |
| | <u>\$ 3,180,167</u> | <u>\$ 462,067</u> | <u>\$ 3,642,233</u> |

In June 2014, the City began drawing down on a loan with the Kentucky Infrastructure Authority to borrow for new construction of a new water treatment plant. The \$4,000,000 loan bears interest at 1.75% and is to be repaid over a 20 year period. In addition 10% of the loan proceeds are forgiven upon distribution. At June 30, 2014, the City had drawn a total amount of \$428,961, of which \$42,896 has been forgiven and \$386,065 is repayable. Principal payments on this loan are not due to begin until after the project is completed.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

For the fiscal year ended June 30, 2014, the City is in substantial compliance with all covenants and provisions of the KIA loan agreements.

Parking Garage General Obligation Bonds

Bond Series 2006 A and B were issued on December 1, 2006 to borrow money for parking garage construction of \$3,450,000 and \$1,200,000 with interest rates of 4.1455% and 5.7392% to be repaid over a thirty year period.

General Obligation Bond Debt Service Requirements

The annual principal and interest requirements of the parking garage general obligation bonds payable as of June 30, 2014 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|---------------------|---------------------|---------------------|
| 2015 | \$ 105,000 | \$ 180,940 | \$ 285,940 |
| 2016 | 110,000 | 176,228 | 286,228 |
| 2017 | 115,000 | 171,315 | 286,315 |
| 2018 | 115,000 | 166,161 | 286,161 |
| 2019 | 125,000 | 160,766 | 285,766 |
| 2020-24 | 715,000 | 713,905 | 1,428,905 |
| 2025-29 | 1,090,000 | 621,264 | 1,711,264 |
| 2030-34 | 1,170,000 | 263,719 | 1,433,719 |
| 2035-37 | <u>550,000</u> | <u>25,334</u> | <u>575,334</u> |
| | <u>\$ 4,100,000</u> | <u>\$ 2,479,632</u> | <u>\$ 6,579,632</u> |

Storm Water Kentucky Bond Corporation 2010 First Series A Revenue Bond

On August 25, 2010, the City entered into a lease agreement with the Kentucky Bond Corporation (KBC) to finance a project to improve the City's storm water sewer system. The cost of the project was \$775,000 and the lease terms require varying annual principal, interest, and program fee payments beginning in September 2010 and maturing February 1, 2030, with a varying interest rate between 1.00% to 4.00%.

The annual principal and interest requirements for the 2010 First Series A Revenue Bond with the Kentucky Bond Corporation are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|-------------------|-------------------|-------------------|
| 2015 | \$ 30,000 | \$ 23,488 | \$ 53,488 |
| 2016 | 35,000 | 22,813 | 57,813 |
| 2017 | 35,000 | 21,938 | 56,938 |
| 2018 | 35,000 | 20,975 | 55,975 |
| 2019 | 35,000 | 19,925 | 54,925 |
| 2020-24 | 190,000 | 82,163 | 272,163 |
| 2025-29 | 230,000 | 43,163 | 273,163 |
| 2030 | <u>50,000</u> | <u>2,575</u> | <u>52,575</u> |
| | <u>\$ 640,000</u> | <u>\$ 237,038</u> | <u>\$ 877,038</u> |

For the fiscal year ended June 30, 2014, the City is in substantial compliance with all covenants and provisions of the 2010 First Series A Revenue Bond.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

Amount Due to Kentucky League of Cities

The City's hazardous position police and fire department employees were transferred out of the City's Police and Firefighters Retirement Fund (PFRF) into the Commonwealth of Kentucky County Employees' Retirement System for Hazardous Position Employees (CERSH), as of August 1, 1988. As a requirement of this transfer, the City was obligated by state law to purchase past service credit not provided for by either the transfer of assets from the PFRF or by the present value of the excess of future employer contributions over employer normal cost. In other words, the funding for the City employees transferred into the CERSH had to be placed on equal footing with the funding for those already participating in the CERSH.

The original amount of this obligation was \$1,199,065. The City financed this obligation through the Kentucky League of Cities (KLC) note with a 4.10% interest rate. The outstanding loan balance at June 30, 2014 is \$391,000.

The annual principal and interest requirements for the KLC loan are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|----------------------------|-------------------|------------------|-------------------|
| 2015 | \$ 76,000 | \$ 12,214 | \$ 88,214 |
| 2016 | 74,000 | 9,074 | 83,074 |
| 2017 | 83,000 | 5,686 | 88,686 |
| 2018 | <u>86,000</u> | <u>1,935</u> | <u>87,935</u> |
| Total | <u>\$ 319,000</u> | <u>\$ 28,908</u> | <u>\$ 347,908</u> |

Municipal Facility Construction Funded by Kentucky League of Cities

The City borrowed \$7,317,347 for 30 years at 3.00% interest rate, which was approved by Ordinance No. 1743. The ordinance approved a maximum loan of \$7,500,000 and a sinking fund for tax funds and debt service payments. Under Ordinance No. 1812, the City authorized refunding one of the Municipal Facility Construction KLC Bonds in the amount of \$2,553,692.

The annual principal and interest requirements for the Municipal Facility KLC loan are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|---------------------|
| 2015 | \$ 106,661 | \$ 184,211 | \$ 290,882 |
| 2016 | 110,940 | 179,871 | 290,811 |
| 2017 | 116,301 | 174,421 | 290,722 |
| 2018 | 121,024 | 169,619 | 290,643 |
| 2019 | 126,249 | 164,309 | 290,558 |
| 2020-24 | 717,313 | 734,047 | 1,451,360 |
| 2025-29 | 886,113 | 562,449 | 1,448,562 |
| 2030-34 | 1,093,802 | 351,318 | 1,445,120 |
| 2035-38 | <u>1,033,244</u> | <u>95,482</u> | <u>1,129,086</u> |
| | <u>\$ 4,311,647</u> | <u>\$ 2,616,097</u> | <u>\$ 6,927,744</u> |

For the fiscal year ended June 30, 2014, the City is in substantial compliance with all covenants and provisions of the 2009 KLC agreement.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

Park Improvement Funded by Kentucky League of Cities

The City borrowed \$50,000 for 7 years at a 1.80% interest rate.

The annual principal and interest requirements for the Park Improvement KLC loan are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|----------------------------|------------------|-----------------|------------------|
| 2015 | \$ 7,360 | \$ 905 | \$ 8,265 |
| 2016 | 7,604 | 662 | 8,266 |
| 2017 | <u>7,854</u> | <u>367</u> | <u>8,221</u> |
| Total | <u>\$ 22,818</u> | <u>\$ 1,934</u> | <u>\$ 24,752</u> |

For the fiscal year ended June 30, 2014, the City is in substantial compliance with all covenants and provisions of the KLC agreement.

Fire Truck Lease by Kentucky Bond Corporation

On August 25, 2010, the City entered into a lease agreement with the Kentucky Bond Corporation (KBC) to finance the acquisition of a fire truck. The cost of the fire truck was \$495,000 and the lease terms require varying annual principal, interest, and program fee payments beginning in September 2010 and maturing February 1, 2030, with a varying interest rate between 1.00% to 4.00%.

The annual principal and interest requirements for the Fire Truck Lease with the Kentucky Bond Corporation are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|----------------------------|-------------------|-------------------|-------------------|
| 2015 | \$ 20,000 | \$ 14,444 | \$ 34,444 |
| 2016 | 20,000 | 13,973 | 33,973 |
| 2017 | 20,000 | 13,452 | 33,452 |
| 2018 | 20,000 | 12,881 | 32,881 |
| 2019 | 20,000 | 12,881 | 32,881 |
| 2020-24 | 125,000 | 49,501 | 174,501 |
| 2025-29 | 145,000 | 23,746 | 168,746 |
| 2030 | <u>35,000</u> | <u>870</u> | <u>35,870</u> |
| Total | <u>\$ 405,000</u> | <u>\$ 141,148</u> | <u>\$ 546,148</u> |

For the fiscal year ended June 30, 2014, the City is in substantial compliance with all covenants and provisions of the KLC agreement.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

Series 2012 General Obligation Refunding and Improvement Bonds

Under Ordinance No. 1812, the City authorized refunding of part of the Municipal Facility Construction KLC Bonds and financing the purchase of a building to be used as a Public Works Warehouse. The bond was issued for \$4,440,000 at a variable interest rate between 1.00% and 3.25% for 25 years.

| Year Ending June 30 | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|---------------------|
| 2015 | \$ 140,000 | \$ 103,950 | \$ 243,950 |
| 2016 | 140,000 | 102,550 | 242,550 |
| 2017 | 140,000 | 100,450 | 240,450 |
| 2018 | 150,000 | 97,550 | 247,550 |
| 2019 | 150,000 | 94,550 | 244,550 |
| 2020-24 | 790,000 | 426,450 | 1,216,450 |
| 2025-29 | 885,000 | 342,469 | 1,227,469 |
| 2030-34 | 990,000 | 228,199 | 1,218,199 |
| 2035-38 | <u>915,000</u> | <u>60,530</u> | <u>975,530</u> |
| | <u>\$ 4,300,000</u> | <u>\$ 1,556,698</u> | <u>\$ 5,856,698</u> |

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. LONG TERM DEBT (CONTINUED)

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2014, was as follows:

Amounts shown in ending balance of long-term liabilities include both current and long-term portions.

| Governmental activities | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|------------------------------|---------------------|----------------------|---------------------------|--------------------------------|
| Compensated absences | \$ 220,972 | \$ 14,223 | \$ - | \$ 235,195 | \$ 11,760 |
| Loan obligations: | | | | | |
| Amount due KLC | 4,834,832 | - | (181,367) | 4,653,465 | 190,021 |
| Amount due KLC | 4,440,000 | - | (140,000) | 4,300,000 | 140,000 |
| Amount due KBC | 425,000 | - | (20,000) | 405,000 | 20,000 |
| Deferred amounts | <u>73,251</u> | <u>10,021</u> | <u>-</u> | <u>83,272</u> | <u>-</u> |
| Governmental activity long-term liabilities | <u>\$ 9,994,055</u> | <u>\$ 24,244</u> | <u>\$ (341,367)</u> | <u>\$ 9,676,932</u> | <u>\$ 361,781</u> |
| <u>Business-type activities</u> | | | | | |
| Bonds – Utility | \$ 3,459,200 | \$13,600,000 | \$ (479,000) | \$16,580,200 | \$ 246,100 |
| Bonds – Parking | 4,200,000 | - | (100,000) | 4,100,000 | 105,000 |
| Bonds – Storm Water | 670,000 | - | (30,000) | 640,000 | 30,000 |
| Deferred amounts | <u>(65,100)</u> | <u>416,969</u> | <u>-</u> | <u>351,869</u> | <u>-</u> |
| Total bonds | <u>8,263,900</u> | <u>14,016,969</u> | <u>(609,000)</u> | <u>21,672,069</u> | <u>381,100</u> |
| KIA loans - Utility | <u>3,788,978</u> | <u>386,065</u> | <u>(608,811)</u> | <u>3,566,232</u> | <u>440,070</u> |
| Compensated absences | <u>73,143</u> | <u>5,750</u> | <u>-</u> | <u>78,893</u> | <u>3,945</u> |
| Business-type activities | <u>\$ 12,126,221</u> | <u>\$14,408,784</u> | <u>\$(1,217,811)</u> | <u>\$25,317,194</u> | <u>\$ 825,115</u> |

Deferred amounts – Bond discounts and premiums are netted from the loan obligation payable on the statement of net position.

8. CONDUIT DEBT OBLIGATIONS

The City occasionally issues Industrial Revenue Bonds to assist local private sector entities in financing new or expanded industrial, commercial, or residential facilities deemed to be in the public interest. The bonds are collateralized by the facilities financed with the bond proceeds and are payable solely from a pledge of revenues to be derived from those facilities. The bonds and related interest do not represent or constitute an indebtedness of the City or a pledge of faith and credit of the City. Accordingly, the bonds and related assets are not included in the City's financial statements.

9. CONTINGENT LIABILITIES

Amounts received or receivable from grant 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 amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation claims. Significant losses are covered by commercial insurance for all major programs except unemployment compensation and workers' compensation, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage from prior years. Also, there have been no settlements exceeding insurance coverage for each of the past three years. The City participates in two pooled self-insurance programs sponsored by the Kentucky League of Cities. These include unemployment compensation and workers' compensation.

11. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 65

Effective July 1, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the City reported debt issuance costs, including costs related to bond insurance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as a non-current asset on the statement of net position. Under GASB Statement No. 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position, as follows:

| | 2014 | 2013 |
|---|----------------------|----------------------|
| <u>Utility Fund</u> | | |
| Net position, at beginning of year | \$ 24,144,735 | \$ 22,755,042 |
| Bond issuance costs | (37,263) | (37,263) |
| Amortization expense | <u>-</u> | <u>(37,264)</u> |
| Net position, at beginning of year, as restated | <u>\$ 24,107,472</u> | <u>\$ 22,680,515</u> |
| <u>Parking Fund</u> | | |
| Net position, at beginning of year | \$ 3,604,192 | \$ 3,724,218 |
| Bond issuance costs | (77,204) | (77,204) |
| Amortization expense | <u>-</u> | <u>(3,217)</u> |
| Net position, at beginning of year, as restated | <u>\$ 3,526,988</u> | <u>\$ 3,643,797</u> |
| <u>Storm Fund</u> | | |
| Net position, at beginning of year | \$ 1,442,668 | \$ 1,088,077 |
| Bond issuance costs | (21,121) | (21,121) |
| Amortization expense | <u>-</u> | <u>(1,243)</u> |
| Net position, at beginning of year, as restated | <u>1,421,547</u> | <u>\$ 28,955,568</u> |
| Other Nonmajor Proprietary Funds | <u>\$ 615,440</u> | <u>\$ 574,984</u> |
| Proprietary Net Position, at beginning of year, as restated | <u>\$ 29,671,447</u> | <u>\$ 27,965,009</u> |

12. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

13. TRANSFERS OF FUNDS

Transfers between funds consisted of the following for the fiscal year ended June 30, 2014:

| <u>Type</u> | <u>From fund</u> | <u>To fund</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------|------------------|----------------|-------------------|-------------------|
| Operating | Municipal Aid | General | Street repairs | \$ 25,000 |
| Operating | General | Streetscape | Operating expense | 66,469 |
| Operating | General | Museum | Operating expense | 31,828 |
| Operating | General | Cemetery | Operating expense | 118,028 |
| Operating | General | Garbage | Operating expense | 69,620 |
| Operating | General | Parking | Operating expense | 182,624 |
| | | | | <u>\$ 493,569</u> |

14. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The City is currently evaluating the effects of this statement on its financial statements. The City's potential unfunded liability, based on June 30, 2014 plan financial statements, is estimated to be \$13,775,000. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

Insurance Premium Tax

On October 28, 2013, the City adopted Ordinance #1829 which increased the insurance premium tax from 6% to 8%, which went into effect July 1, 2014.

Bond Issuance

On October 1, 2014 the City issued 3 Series of General Obligation Bonds. Series 2014A Bonds were issued in the amount of \$3,155,000. Series 2014B Bonds were issued in the amount of \$3,050,000. Series 2014C Bonds were issued in the amount of \$1,250,000.

SUPPLEMENTARY INFORMATION

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS
POLICE AND FIREFIGHTERS' RETIREMENT FUND
LAST 10 FISCAL YEARS**

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability | | | | | | | | | | |
| Service cost | \$ - | \$ - | \$ 20,452 | \$ 20,548 | \$ 20,682 | \$ 20,443 | \$ 18,896 | \$ 17,941 | \$ 15,754 | \$ 17,933 |
| Interest | 158,194 | 128,305 | 139,297 | 149,640 | 155,106 | 154,560 | 167,297 | 164,497 | 163,216 | 103,849 |
| Difference between expected and actual experience | 88,375 | 92,249 | (101,341) | (125,394) | (53,885) | 44,810 | (164,956) | 77,921 | 56,888 | 1,009,357 |
| Changes in assumptions | 93,992 | 475,464 | - | - | - | - | - | - | - | - |
| Benefit payments | <u>(241,766)</u> | <u>(230,609)</u> | <u>(203,960)</u> | <u>(203,800)</u> | <u>(208,054)</u> | <u>(215,009)</u> | <u>(220,925)</u> | <u>(214,587)</u> | <u>(219,890)</u> | <u>(213,528)</u> |
| Net change in total pension liability | 98,795 | 465,409 | (145,552) | (159,006) | (86,151) | 4,804 | (199,688) | 45,772 | 15,968 | 917,611 |
| Total pension liability - beginning | <u>2,554,636</u> | <u>2,089,227</u> | <u>2,234,779</u> | <u>2,393,785</u> | <u>2,479,936</u> | <u>2,475,132</u> | <u>2,674,820</u> | <u>2,629,048</u> | <u>2,613,080</u> | <u>1,695,469</u> |
| Total pension liability - ending | <u>\$ 2,653,431</u> | <u>\$ 2,554,636</u> | <u>\$ 2,089,227</u> | <u>\$ 2,234,779</u> | <u>\$ 2,393,785</u> | <u>\$ 2,479,936</u> | <u>\$ 2,475,132</u> | <u>\$ 2,674,820</u> | <u>\$ 2,629,048</u> | <u>\$ 2,613,080</u> |
| Plan Fiduciary Net Position | | | | | | | | | | |
| Contributions - employee | \$ - | \$ - | \$ 1,515 | \$ 1,718 | \$ 1,749 | \$ 1,692 | \$ 1,550 | \$ 1,596 | \$ 1,454 | \$ 1,435 |
| Contributions - employer | 126,000 | 190,000 | 190,000 | 190,000 | 185,040 | 185,040 | 180,000 | 131,268 | 131,268 | 127,445 |
| Net investment income | 123,406 | 107,005 | 29,029 | 100,193 | 68,422 | (89,678) | (62,081) | 121,454 | 26,247 | 16,400 |
| Benefit payments | <u>(241,766)</u> | <u>(230,609)</u> | <u>(203,960)</u> | <u>(213,800)</u> | <u>(208,054)</u> | <u>(215,009)</u> | <u>(220,925)</u> | <u>(214,587)</u> | <u>(219,890)</u> | <u>(213,528)</u> |
| Net change in plan net position | 7,640 | 66,396 | 16,584 | 78,111 | 47,157 | (117,955) | (101,456) | 39,731 | (60,921) | (68,248) |
| Plan fiduciary net position - beginning | <u>796,894</u> | <u>730,498</u> | <u>713,914</u> | <u>635,803</u> | <u>588,646</u> | <u>706,601</u> | <u>808,057</u> | <u>768,326</u> | <u>829,247</u> | <u>897,495</u> |
| Plan fiduciary net position - ending | <u>804,534</u> | <u>796,894</u> | <u>730,498</u> | <u>713,914</u> | <u>635,803</u> | <u>588,646</u> | <u>706,601</u> | <u>808,057</u> | <u>768,326</u> | <u>829,247</u> |
| Net pension liability - ending | <u>\$ 1,848,897</u> | <u>\$ 1,757,742</u> | <u>\$ 1,358,729</u> | <u>\$ 1,520,865</u> | <u>\$ 1,757,982</u> | <u>\$ 1,891,290</u> | <u>\$ 1,768,531</u> | <u>\$ 1,866,763</u> | <u>\$ 1,860,722</u> | <u>\$ 1,783,833</u> |
| Plan fiduciary net position as a percentage of total pension liability | 30.32% | 31.19% | 34.96% | 31.95% | 26.56% | 23.74% | 28.55% | 30.21% | 29.22% | 31.73% |
| Covered employee payroll | \$ - | \$ - | \$ - | \$ 41,344 | \$ 41,344 | \$ 42,863 | \$ 40,935 | \$ 37,835 | \$ 37,001 | \$ 33,425 |
| Net pension liability as a percentage of covered employee payroll | N/A | N/A | N/A | 3679% | 4252% | 4412% | 4320% | 4934% | 5029% | 5337% |

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
POLICE AND FIREFIGHTERS' RETIREMENT FUND
for the year ended June 30, 2014**

| | 2014 | 2013 |
|---|------------------|--------------------|
| Actuarially determined contribution | \$ 154,658 | \$ 119,550 |
| Contributions in relation to actuarially determined contribution | <u>(126,000)</u> | <u>(190,000)</u> |
| Contribution deficiency (excess) | <u>\$ 28,658</u> | <u>\$ (70,450)</u> |
| Covered-employee payroll | \$ - | \$ - |
| Contributions as a percentage of covered-employee payroll | N/A | N/A |

Notes

Note 1: Valuation Date: Actuarially determined contribution rates are calculated as of July 1st following the fiscal year end in which the contributions are reported.

Note 2: Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, open (closed after 7/1/14) |
| Remaining amortization period | 20 years |
| Asset valuation method | Market value |
| Cost of Living increase | 3.00% |
| Salary increases | N/A |
| Investment rate of return | 6.50% |
| Retirement age | 65 years old |
| Mortality | In the 2014 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Annuitant Mortality Tables. |

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|------------------------------|------------------------------|--------------------------------|---|
| Revenues | | | | |
| Taxes | \$ 1,658,000 | \$ 1,658,000 | \$ 1,611,298 | \$ (46,702) |
| Licenses and fees | 7,816,900 | 7,816,900 | 8,453,695 | 636,795 |
| Intergovernmental revenue | 764,670 | 764,670 | 276,025 | (488,645) |
| Penalties and forfeitures | 15,000 | 15,000 | 12,634 | (2,366) |
| Other revenue | <u>1,373,480</u> | <u>1,373,480</u> | <u>1,386,550</u> | <u>13,070</u> |
| Total revenues | <u>11,628,050</u> | <u>11,628,050</u> | <u>11,740,202</u> | <u>112,152</u> |
| Expenditures | | | | |
| Current operating | | | | |
| General government | 1,820,761 | 1,820,761 | 1,629,960 | 190,801 |
| Public services | 1,195,183 | 1,195,183 | 1,096,513 | 98,670 |
| Public safety | 6,633,578 | 6,633,578 | 6,050,850 | 582,728 |
| Community services | 1,100,285 | 1,100,285 | 788,465 | 311,820 |
| Debt service | 667,170 | 667,170 | 666,936 | 234 |
| Capital outlay | <u>2,472,385</u> | <u>2,472,385</u> | <u>549,776</u> | <u>1,922,609</u> |
| Total expenditures | <u>13,889,362</u> | <u>13,889,362</u> | <u>10,782,500</u> | <u>3,106,862</u> |
| Excess (deficiency) of revenues over expenditures | (2,261,312) | (2,261,312) | 957,702 | 3,219,014 |
| Other financing sources (uses) | | | | |
| Transfers (to) from other funds, net | (299,760) | (299,760) | (443,569) | (143,809) |
| Sale of property | <u>-</u> | <u>-</u> | <u>2,955</u> | <u>2,955</u> |
| Total other financing sources (uses) | (299,760) | (299,760) | (440,614) | (140,854) |
| Excess (deficiency) of revenues over expenditures and transfers | (2,561,072) | (2,561,072) | 517,088 | 3,078,160 |
| Fund balance, beginning of year | <u>2,685,414</u> | <u>2,685,414</u> | <u>6,243,023</u> | <u>3,557,609</u> |
| FUND BALANCE, END OF YEAR | <u><u>\$ 124,342</u></u> | <u><u>\$ 124,342</u></u> | <u><u>\$ 6,760,111</u></u> | <u><u>\$ 6,635,769</u></u> |

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|---------------------------|----------------------|---|
| Taxes | | | | |
| Real and personal property | \$ 1,347,000 | \$ 1,347,000 | \$ 1,329,589 | \$ (17,411) |
| Tangible property | 286,000 | 286,000 | 242,303 | (43,697) |
| PILOT - Housing Authority | 25,000 | 25,000 | 39,406 | 14,406 |
| Total taxes | <u>1,658,000</u> | <u>1,658,000</u> | <u>1,611,298</u> | <u>(46,702)</u> |
| Licenses and fees | | | | |
| Payroll licenses | 9,500 | 9,500 | 12,499 | 2,999 |
| Insurance licenses | 1,220,000 | 1,220,000 | 1,325,884 | 105,884 |
| Occupational licenses | 4,850,000 | 4,850,000 | 4,978,056 | 128,056 |
| Net profits | 419,000 | 419,000 | 770,070 | 351,070 |
| Liquor licenses | 620,000 | 620,000 | 617,105 | (2,895) |
| Franchise fees-Rural Electric Cooperative Corporation | 24,000 | 24,000 | 24,564 | 564 |
| Franchise fees-Kentucky Utilities | 470,000 | 470,000 | 524,770 | 54,770 |
| Franchise fees-Comcast | 104,400 | 104,400 | 107,111 | 2,711 |
| Franchise fees-Bank | 100,000 | 100,000 | 93,636 | (6,364) |
| Total licenses and fees | <u>7,816,900</u> | <u>7,816,900</u> | <u>8,453,695</u> | <u>636,795</u> |
| Intergovernmental revenue | | | | |
| Firefighters' incentive | 106,000 | 106,000 | 103,149 | (2,851) |
| Law enforcement incentive | 121,000 | 121,000 | 121,150 | 150 |
| FEMA grant | 431,420 | 431,420 | - | (431,420) |
| BASE court | 27,000 | 27,000 | 21,378 | (5,622) |
| Other intergovernmental revenue | 79,250 | 79,250 | 30,348 | (48,902) |
| Total intergovernmental revenue | <u>764,670</u> | <u>764,670</u> | <u>276,025</u> | <u>(488,645)</u> |
| Fines and forfeitures | | | | |
| Arrest fees | 15,000 | 15,000 | 11,750 | (3,250) |
| Other penalties | - | - | 884 | 884 |
| Total fines and forfeitures | <u>15,000</u> | <u>15,000</u> | <u>12,634</u> | <u>(2,366)</u> |
| Other revenue | | | | |
| Community tower rental | 96,000 | 96,000 | 128,827 | 32,827 |
| Fire protection | 23,720 | 23,720 | 24,243 | 523 |
| Community contracts | 150,910 | 150,910 | 144,798 | (6,112) |
| Management fees | 907,085 | 907,085 | 840,291 | (66,794) |
| Building rental | - | - | - | - |
| Change in fair value of investments | - | - | 1,565 | 1,565 |
| Interest | 20,000 | 20,000 | 37,408 | 17,408 |
| Tobacco crop | - | - | 1,143 | 1,143 |
| Boyle County cost sharing | 90,000 | 90,000 | 90,000 | - |
| Insurance proceeds | - | - | 15,510 | 15,510 |
| School officer | 45,765 | 45,765 | 50,871 | 5,106 |
| Contributions | - | - | 20,238 | 20,238 |
| Miscellaneous | 40,000 | 40,000 | 31,656 | (8,344) |
| Total other revenue | <u>1,373,480</u> | <u>1,373,480</u> | <u>1,386,550</u> | <u>13,070</u> |
| Total revenue | <u>\$ 11,628,050</u> | <u>\$ 11,628,050</u> | <u>\$ 11,740,202</u> | <u>\$ 112,152</u> |

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|---------------------------|------------------|---|
| General government | | | | |
| Legislative and executive | | | | |
| Personnel | \$ 533,467 | \$ 533,467 | \$ 522,839 | \$ 10,628 |
| Contractual | 241,800 | 241,800 | 194,025 | 47,775 |
| Other | <u>126,100</u> | <u>126,100</u> | <u>74,663</u> | <u>51,437</u> |
| Total legislative and executive | <u>901,367</u> | <u>901,367</u> | <u>791,527</u> | <u>109,840</u> |
| Finance and administration | | | | |
| Personnel | 305,478 | 305,478 | 300,218 | 5,260 |
| Contractual | 407,143 | 407,143 | 356,309 | 50,834 |
| Other | <u>40,000</u> | <u>40,000</u> | <u>16,078</u> | <u>23,922</u> |
| Total finance and administration | <u>752,621</u> | <u>752,621</u> | <u>672,605</u> | <u>80,016</u> |
| Information technology | | | | |
| Personnel | 108,043 | 108,043 | 107,432 | 611 |
| Contractual | 31,880 | 31,880 | 35,970 | (4,090) |
| Other | <u>26,850</u> | <u>26,850</u> | <u>22,426</u> | <u>4,424</u> |
| Total information technology | <u>166,773</u> | <u>166,773</u> | <u>165,828</u> | <u>945</u> |
| Total general government | <u>1,820,761</u> | <u>1,820,761</u> | <u>1,629,960</u> | <u>190,801</u> |
| Public services | | | | |
| Personnel | 342,113 | 342,113 | 287,586 | 54,527 |
| Contractual | 654,370 | 654,370 | 625,617 | 28,753 |
| Other | <u>198,700</u> | <u>198,700</u> | <u>183,310</u> | <u>15,390</u> |
| Total public services | <u>1,195,183</u> | <u>1,195,183</u> | <u>1,096,513</u> | <u>98,670</u> |
| Total public services | <u>1,195,183</u> | <u>1,195,183</u> | <u>1,096,513</u> | <u>98,670</u> |
| Public safety | | | | |
| Police department | | | | |
| Personnel | 2,803,472 | 2,803,472 | 2,560,828 | 242,644 |
| Contractual | 191,300 | 191,300 | 155,903 | 35,397 |
| Other | <u>313,250</u> | <u>313,250</u> | <u>253,959</u> | <u>59,291</u> |
| Total police department | <u>3,308,022</u> | <u>3,308,022</u> | <u>2,970,690</u> | <u>337,332</u> |
| Communications and administration services | | | | |
| Personnel | 614,268 | 614,268 | 523,247 | 91,021 |
| Contractual | 42,530 | 42,530 | 42,802 | (272) |
| Other | <u>22,450</u> | <u>22,450</u> | <u>17,932</u> | <u>4,518</u> |
| Total communications and administration services | <u>679,248</u> | <u>679,248</u> | <u>583,981</u> | <u>95,267</u> |

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|------------------------------------|----------------------------|---------------------------|----------------------|---|
| Public safety, continued | | | | |
| Code enforcement | | | | |
| Personnel | \$ 205,081 | \$ 205,081 | \$ 185,372 | \$ 19,709 |
| Contractual | 8,890 | 8,890 | 8,216 | 674 |
| Other | <u>9,300</u> | <u>9,300</u> | <u>4,940</u> | <u>4,360</u> |
| Total code enforcement | <u>223,271</u> | <u>223,271</u> | <u>198,528</u> | <u>24,743</u> |
| Fire and emergency services | | | | |
| Personnel | 2,125,532 | 2,125,532 | 1,979,387 | 146,145 |
| Contractual | 156,705 | 156,705 | 165,918 | (9,213) |
| Other | <u>140,800</u> | <u>140,800</u> | <u>152,346</u> | <u>(11,546)</u> |
| Total fire and emergency services | <u>2,423,037</u> | <u>2,423,037</u> | <u>2,297,651</u> | <u>125,386</u> |
| Total public safety | <u>6,633,578</u> | <u>6,633,578</u> | <u>6,050,850</u> | <u>582,728</u> |
| Community services | | | | |
| Community agencies | | | | |
| Grants | <u>157,250</u> | <u>157,250</u> | <u>162,250</u> | <u>(5,000)</u> |
| Non-departmental | | | | |
| Grants | 506,000 | 506,000 | 357,108 | 148,892 |
| Police and fire retirement | 126,000 | 126,000 | 126,000 | - |
| Economic development initiative | 125,000 | 125,000 | 125,000 | - |
| Contingency - general fund | 133,235 | 133,235 | 8,736 | 124,499 |
| Insurance/judgement/claims | 19,800 | 19,800 | 37,331 | (17,531) |
| Workers' comp audit | 13,000 | 13,000 | (27,960) | 40,960 |
| Bird eradication | <u>20,000</u> | <u>20,000</u> | <u>-</u> | <u>20,000</u> |
| Total non-departmental | <u>943,035</u> | <u>943,035</u> | <u>626,215</u> | <u>316,820</u> |
| Total community services | <u>1,100,285</u> | <u>1,100,285</u> | <u>788,465</u> | <u>311,820</u> |
| Debt service | | | | |
| CERS | 87,257 | 87,257 | 87,257 | - |
| City Hall | <u>579,913</u> | <u>579,913</u> | <u>579,679</u> | <u>234</u> |
| Total debt service | <u>667,170</u> | <u>667,170</u> | <u>666,936</u> | <u>234</u> |
| Capital outlay | | | | |
| Finance and administration | 520,885 | 520,885 | - | 520,885 |
| Fire department | 89,000 | 89,000 | 51,153 | 37,847 |
| Public services | 1,012,500 | 1,012,500 | 71,016 | 941,484 |
| Police department | 265,000 | 265,000 | 347,094 | (82,094) |
| Communications | 25,000 | 25,000 | 20,538 | 4,462 |
| Other | <u>560,000</u> | <u>560,000</u> | <u>59,975</u> | <u>500,025</u> |
| Total capital outlay | <u>2,472,385</u> | <u>2,472,385</u> | <u>549,776</u> | <u>1,922,609</u> |
| Total expenditures | <u>\$ 13,889,362</u> | <u>\$ 13,889,362</u> | <u>\$ 10,782,500</u> | <u>\$ 3,106,862</u> |

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
MUNICIPAL ROAD AID FUND
for the year ended June 30, 2014**

| | Original Budget | Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------------|---------------------------|-------------------|---|
| Revenues | | | | |
| Intergovernmental revenue | \$ 373,250 | \$ 373,250 | \$ 749,337 | \$ 376,087 |
| Other revenue | 1,400 | 1,400 | 1,058 | (342) |
| Total revenues | 374,650 | 374,650 | 750,395 | 375,745 |
| Expenditures | | | | |
| Current operating | | | | |
| Public services | 225,000 | 225,000 | 198,537 | 26,463 |
| Capital outlay | 200,000 | 625,000 | 517,002 | 107,998 |
| Total expenditures | 425,000 | 850,000 | 715,539 | 134,461 |
| Excess (deficiency) of revenues over expenditures | (50,350) | (475,350) | 34,856 | 510,206 |
| Transfers (to) from other funds, net | - | - | (25,000) | (25,000) |
| Excess (deficiency) of revenues over expenditures and transfers | (50,350) | (475,350) | 9,856 | (25,000) |
| Fund balance, beginning of year | 2,685,414 | 2,685,414 | 373,662 | (2,311,752) |
| FUND BALANCE, END OF YEAR | \$ 2,635,064 | \$ 2,210,064 | \$ 383,518 | \$ (1,826,546) |

**CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014**

| | <u>Police Safety Fund</u> | <u>Drug Forfeiture Fund</u> | <u>Hazard Mitigation Fund</u> | <u>Renaissance Fund</u> | <u>Streetscape Fund</u> | <u>Toys For Tots Fund</u> | <u>Other Expendable Trust Fund</u> | <u>Park Nonexpendable Trust Funds</u> | <u>Cemetery Nonexpendable Trust Fund</u> | <u>2014 Total</u> |
|--|-----------------------------------|-------------------------------------|---------------------------------------|-----------------------------|-----------------------------|-----------------------------------|--|---|--|-----------------------|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ 8,939 | \$ 19,975 | \$ 25,899 | \$ 37,753 | \$ 276,709 | \$ 4,501 | \$ 26,784 | \$ 4,975 | \$ 24,562 | \$ 430,097 |
| Receivables | 1,046 | - | - | - | 45,396 | - | - | - | - | 46,442 |
| Investments | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,838</u> | <u>-</u> | <u>-</u> | <u>5,838</u> |
| Total assets | <u>\$ 9,985</u> | <u>\$ 19,975</u> | <u>\$ 25,899</u> | <u>\$ 37,753</u> | <u>\$ 322,105</u> | <u>\$ 4,501</u> | <u>\$ 32,622</u> | <u>\$ 4,975</u> | <u>\$ 24,562</u> | <u>\$ 482,377</u> |
| LIABILITIES AND FUND BALANCE | | | | | | | | | | |
| Accrued wages | \$ 595 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 595 |
| Accrued payroll taxes & benefits payable | <u>46</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>46</u> |
| Total liabilities | <u>641</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>641</u> |
| Fund balance, restricted | - | - | - | - | - | - | - | 4,975 | 24,562 | 29,537 |
| Fund balance, unassigned | <u>9,344</u> | <u>19,975</u> | <u>25,899</u> | <u>37,753</u> | <u>322,105</u> | <u>4,501</u> | <u>32,622</u> | <u>-</u> | <u>-</u> | <u>452,199</u> |
| Total fund balance | <u>9,344</u> | <u>19,975</u> | <u>25,899</u> | <u>37,753</u> | <u>322,105</u> | <u>4,501</u> | <u>32,622</u> | <u>4,975</u> | <u>24,562</u> | <u>481,736</u> |
| Total liabilities and fund balance | <u>\$ 9,985</u> | <u>\$ 19,975</u> | <u>\$ 25,899</u> | <u>\$ 37,753</u> | <u>\$ 322,105</u> | <u>\$ 4,501</u> | <u>\$ 32,622</u> | <u>\$ 4,975</u> | <u>\$ 24,562</u> | <u>\$ 482,377</u> |

**CITY OF DANVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2014**

| | Police Safety Fund | Drug Forfeiture Fund | Hazard Mitigation Fund | Renaissance Fund | Streetscape Fund | Toys For Tots Fund | Other Expendable Trust Funds | Park Nonexpendable Trust Fund | Cemetery Nonexpendable Trust Fund | 2014 Total |
|---|-----------------------------------|-------------------------------------|---------------------------------------|-----------------------------|-----------------------------|-----------------------------------|---|--|--|-----------------------|
| REVENUES | | | | | | | | | | |
| Intergovernmental | \$ 12,723 | \$ - | \$ - | \$ - | \$ 41,976 | \$ - | \$ - | \$ - | \$ - | \$ 54,699 |
| Penalties and forfeitures | - | 4,656 | - | - | - | - | - | - | - | 4,656 |
| Other revenues | 17 | 52 | 60 | 96 | 631 | 17,665 | 72 | 11 | 58 | 18,662 |
| Total revenues | 12,740 | 4,708 | 60 | 96 | 42,607 | 17,665 | 72 | 11 | 58 | 78,017 |
| EXPENDITURES | | | | | | | | | | |
| Public safety | 10,517 | 9,761 | - | - | - | - | - | - | - | 20,278 |
| Community services | - | - | - | 10,321 | - | 17,879 | - | - | - | 28,200 |
| Capital outlay | - | - | - | - | 52,469 | - | - | - | - | 52,469 |
| Total expenditures | 10,517 | 9,761 | - | 10,321 | 52,469 | 17,879 | - | - | - | 100,947 |
| Excess (deficiency) of revenues over expenditures | 2,223 | (5,053) | 60 | (10,225) | (9,862) | (214) | 72 | 11 | 58 | (22,930) |
| Transfers (to) from other funds | - | - | - | - | 66,469 | - | - | - | - | 66,469 |
| Excess (deficiency) of revenues over expenditures and transfers | 2,223 | (5,053) | 60 | (10,225) | 56,607 | (214) | 72 | 11 | 58 | 43,539 |
| Fund balance, beginning of year | 7,121 | 25,028 | 25,839 | 47,978 | 265,498 | 4,715 | 32,550 | 4,964 | 24,504 | 438,197 |
| Fund balance, end of year | \$ 9,344 | \$ 19,975 | \$ 25,899 | \$ 37,753 | \$ 322,105 | \$ 4,501 | \$ 32,622 | \$ 4,975 | \$ 24,562 | \$ 481,736 |

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
June 30, 2014

| | <u>Garbage Fund</u> | <u>Cemetery Fund</u> | <u>Museum Fund</u> | <u>2014 Total</u> |
|--|-------------------------|--------------------------|------------------------|-----------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 51,096 | \$ 42,042 | \$ 25,258 | \$ 118,396 |
| Accounts receivable, net of allowance for uncollectible accounts of \$117,558 | 55,629 | 690 | - | 56,319 |
| Investments | <u>-</u> | <u>122,504</u> | <u>-</u> | <u>122,504</u> |
| Total current assets | <u>106,725</u> | <u>165,236</u> | <u>25,258</u> | <u>297,219</u> |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents | - | - | - | - |
| Capital assets, net | <u>-</u> | <u>73,201</u> | <u>330,607</u> | <u>403,808</u> |
| Total noncurrent assets | <u>-</u> | <u>73,201</u> | <u>330,607</u> | <u>403,808</u> |
| Total assets | <u>\$ 106,725</u> | <u>\$ 238,437</u> | <u>\$ 355,865</u> | <u>\$ 701,027</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 78,379 | \$ 3,694 | \$ 795 | \$ 82,868 |
| Accrued expenses | - | 2,975 | - | 2,975 |
| Current portion of compensated absences | <u>-</u> | <u>304</u> | <u>-</u> | <u>304</u> |
| Total current liabilities | <u>78,379</u> | <u>6,973</u> | <u>795</u> | <u>86,147</u> |
| Non-current liabilities | | | | |
| Compensated absences, net of current portion | <u>-</u> | <u>5,775</u> | <u>-</u> | <u>5,775</u> |
| Total non-current liabilities | <u>-</u> | <u>5,775</u> | <u>-</u> | <u>5,775</u> |
| Total liabilities | <u>78,379</u> | <u>12,748</u> | <u>795</u> | <u>91,922</u> |
| NET POSITION | | | | |
| Net invested in capital assets | - | 73,201 | 330,607 | 403,808 |
| Net position, unrestricted | <u>28,346</u> | <u>152,487</u> | <u>24,463</u> | <u>205,297</u> |
| Total net position | <u>28,346</u> | <u>225,688</u> | <u>355,070</u> | <u>609,105</u> |
| Total liabilities and net position | <u>\$ 106,725</u> | <u>\$ 238,436</u> | <u>\$ 355,865</u> | <u>\$ 701,027</u> |

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
for the year ended June 30, 2014

| | <u>Garbage Fund</u> | <u>Cemetery Fund</u> | <u>Museum Fund</u> | <u>2014 Total</u> |
|--|-------------------------|--------------------------|------------------------|-----------------------|
| Revenues | | | | |
| Fees for services | \$ 899,813 | \$ 72,921 | \$ - | \$ 972,734 |
| Total revenues | <u>899,813</u> | <u>72,921</u> | <u>-</u> | <u>972,734</u> |
| Operating Expenses | | | | |
| Personnel | - | 96,664 | - | 96,664 |
| Contractual | 985,486 | 75,272 | 25,779 | 1,086,537 |
| Depreciation | - | 3,843 | 13,534 | 17,377 |
| Other expenses | - | 9,166 | - | 9,166 |
| Total operating expenses | 985,486 | 184,945 | 39,313 | 1,209,744 |
| Operating (loss) | <u>(85,673)</u> | <u>(112,024)</u> | <u>(39,313)</u> | <u>(237,010)</u> |
| Nonoperating revenues (expenses) | | | | |
| Investment earnings | <u>150</u> | <u>10,992</u> | <u>57</u> | <u>11,199</u> |
| Total nonoperating (expenses) | <u>150</u> | <u>10,992</u> | <u>57</u> | <u>11,199</u> |
| (Loss) before other revenues, expenses, gains, losses and transfers | (85,523) | (101,032) | (39,256) | (225,811) |
| Transfers from other funds | <u>69,620</u> | <u>118,028</u> | <u>31,828</u> | <u>219,476</u> |
| Change in net position | (15,903) | 16,996 | (7,428) | (6,335) |
| Net position, beginning of year | <u>44,249</u> | <u>208,692</u> | <u>362,499</u> | <u>615,440</u> |
| Net position, end of year | <u>\$ 28,346</u> | <u>\$ 225,688</u> | <u>\$ 355,071</u> | <u>\$ 609,105</u> |

**INDEPENDENT AUDITOR'S 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 Mayor and Board of Commissioners
City of Danville, Kentucky

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Danville, Kentucky's basic financial statements and have issued our report thereon dated January 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Danville, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Danville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Danville, Kentucky's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Danville, Kentucky's financial statements are free from 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*.

**INDEPENDENT AUDITOR'S 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*
(CONTINUED)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 9, 2015

CITY OF DANVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014

| Federal Grantor Program Title | Federal CFDA Number | Pass Through Contract Number | Federal Expenditures |
|--|---------------------------|------------------------------------|----------------------------|
| United States Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds (Note 1) | 66.468 | - | \$ 372,878 |
| United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities | 10.760 | - | 614,241 |
| United States Department of the Interior Historic Preservation Fund (Note 2) | 15.904 | | 2,995 |
| United States Department of Transportation State and Community Highway Safety (Note 3) | 20.600 | | 12,740 |
| Highway Planning and Construction | 20.205 | | <u>61,976</u> |
| Total United States Department of Transportation | | | 74,716 |
| Total Federal Financial Assistance | | | <u><u>\$ 1,064,830</u></u> |

Notes:

- (1) Pass Through Grantor - Kentucky Infrastructure Authority
- (2) Pass Through Grantor - Kentucky Heritage Council
- (3) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet, Office of Highway Safety

(2) Reconciliation to financial statements:

| | |
|---|----------------------------|
| Operating Grants and Contributions, page 10 | \$ 330,724 |
| Capital Grants and Contributions, page 10 | 1,333,018 |
| Proceeds from issuance of note, page 37 | 428,961 |
| Less non-federal funding received | <u>(1,027,843)</u> |
| | <u><u>\$ 1,064,860</u></u> |

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Danville and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Commissioners
City of Danville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Danville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Danville, Kentucky's major federal programs for the year ended June 30, 2014. City of Danville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Danville, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Danville, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Danville, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Danville, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of City of Danville, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Danville, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Danville, Kentucky's internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133
(CONTINUED)**

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
January 9, 2015

CITY OF DANVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes No

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes None Reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds |
| 10.760 | Water and Waste Disposal Systems for Rural Communities |

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE