

CITY OF DANVILLE
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2016

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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, 2016, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of June 30, 2016, 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.

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 3-8 and 46-57 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 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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 2015 financial statements, and we expressed unmodified 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 December 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016, 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.

RFH

RFH, PLLC
Lexington, Kentucky
December 27, 2016

City of Danville, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2016

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, 2016. 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, 2016, the City's assets (page 9) exceeded liabilities by \$11,465,361 in Governmental activities. The Net Position is more than past fiscal year due to projects that have not been completed but the funding has been procured but not spent and scheduled debt amortization that is presented on Government-Wide Financial Statements. The Net Pension Liability for June 30, 2016 is \$11,407,574 which is higher than last fiscal year due to the change in the State of Kentucky's overall figures and allocations.
- Unrestricted cash and investment balances for Governmental activities (page 9) as of June 30, were \$7,454,745 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt) were \$1,110,552.
- Net position for all funds increased by \$2,348,261 (page 10). Of this increase, \$930,779 is attributed to the net position increase from business-type activities and \$1,417,482 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 bond proceeds received during the fiscal year to fund the water treatment plant construction project 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 and several projects budgeted for the 2016 fiscal year being finished in the 2017 fiscal year.
- Fund balances (a measure of current financial resources) in the governmental funds increased \$607,155 to a total of \$9,170,984 (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, \$8,434,615 (page 11) is unassigned and available for future programs and it used to meet the reserve requirements per city ordinance.
- The General Fund unassigned fund balance (page 11), as of June 30, 2016, was \$8,434,615, or about 66% of total general fund expenditures.
- The City has debt liabilities of \$47,405,628 at June 30, 2016. The City did issue new debt during the fiscal year ended June 30, 2016. Kentucky Infrastructure Authority construction loans for the Water Treatment Plant Project in which the City borrowed \$3,816,510 of the \$12,467,849 awarded. The City closed on the USDA Bond for final financing on the Water Treatment Plant for \$13,600,000 of which paid off the interim financing of this project.

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. Per new GASB regulations the City has shown the Net Pension Liability on the Government-wide Financial Statements.

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 58 and 59. 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 53.

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 60 and 61.

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 45.

Other Information - This section of the report includes two types of supplementary information. *Required Supplementary Information* (pages 46 through 57) must be included to conform with generally accepted accounting principles, while *Other Supplementary Information* (pages 58 through 61) 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.

Other Reports - The last section of this report includes the Independent Auditor's Report on Internal Control (pages 62 through 63), the Schedule of Expenditures of Federal Awards (page 64) and the Independent Auditors Report on Compliance required by OMB circular A-133 with required schedule (pages 65 through 67).

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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 11,914	\$ 10,064	\$ 14,915	\$ 18,020	\$ 26,829	\$ 28,084
Capital assets	20,483	19,673	59,641	52,923	80,124	72,596
Total assets	32,397	29,737	74,556	70,943	106,953	100,680
Long-term debt outstanding	8,732	9,089	38,302	35,286	47,034	44,375
Other liabilities	12,200	10,600	5,139	5,473	17,339	16,073
Total liabilities	20,932	19,689	43,441	40,759	64,373	60,448
Net position:						
Invested in capital assets, net of related debt	11,751	10,585	21,339	17,637	33,090	28,222
Restricted	332	375	9,759	13,662	10,091	14,037
Unrestricted (deficit)	(618)	(912)	17	(1,115)	(601)	(2,027)
Total Net Assets	\$ 11,465	\$ 10,048	\$ 31,115	\$ 30,184	\$ 42,580	\$ 40,232

Half of the City's net position (78%) 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. Financing has occurred but construction is not finished, this is reflected by the significant amount 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. \$10 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	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 9,797	\$ 9,535	\$ 9,797	\$ 9,535
Operating grants and contributions	578	347			578	347
Capital grants and contributions			25	867	25	867
General revenues:						
Property taxes	1,742	1,698			1,742	1,698
License fees and permits	10,467	9,614			10,467	9,614
Penalties and forfeits	16	15			16	15
Management fees	897	853			897	853
Other	562	777	51	29	613	806
Total Revenues	14,262	13,304	9,873	10,431	24,135	23,735

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Expenses:						
General Government	2,203	1,870			2,203	1,870
Public Safety	6,743	5,828			6,743	5,828
Public Services	2,129	2,018			2,129	2,018
Community Services	974	945			974	945
Debt Service	307	316	441	583	748	899
Utilities			7,154	7,035	7,154	7,035
Garbage operations			955	958	955	958
Cemetery operations			204	196	204	196
Museum operations			34	32	34	32
Parking operations			323	317	323	317
Storm water			330	337	330	337
Total Expenses	12,356	10,977	9,441	9,458	21,797	20,435
Excess (deficiency) before transfers and special items	1,906	2,327	432	973	2,338	3,300
Gain (Loss) sale	10	22			10	22
Transfers	(499)	(502)	499	502		
Increase (decrease) in net assets	1,417	\$ 1,847	931	\$ 1,475	\$ 2,348	\$ 3,322

\$12.20 million of the governmental services are financed with property taxes and license fees.

Governmental activities increased the City's net position by \$1,417,482. The primary reason for the increase has already been addressed in this report.

Business-type activities increased the City's net position by \$930,779. This increase is net of depreciation expense of \$1,435,758 (a non cash item).

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 \$607,155. The reasons for this increase were addressed earlier in this report.

Non-major funds include Police Safety, Drug Forfeiture, Hazard Mitigation, Renaissance, 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 58 and 59.

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, 2016, there was one budget amendment for the Renaissance Fund.

Capital Asset and Debt Administration

The City invests substantial resources in capital assets that support the services provided to the public. Most 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	Business-	
	Activities	Type	Total
		Activities	
Land	\$ 2,578,059	\$ 1,309,568	\$ 3,887,627
Buildings	9,040,283	6,320,428	15,360,711
Improvements other than buildings	854,294	268,983	1,123,277
Vehicles	1,528,609	201,340	1,729,949
Equipment	494,272	379,182	873,454
Infrastructure	4,156,492	25,205,791	29,362,283
Construction in progress	1,831,314	25,955,227	27,786,541
Total	<u>\$ 20,483,323</u>	<u>\$ 59,640,519</u>	<u>\$ 80,123,842</u>

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

Safe Routes to School Connectivity completed in the fiscal year with a cumulative cost of \$114,598.

Weisiger Plaza had costs of \$432,304 in the fiscal year with a cumulative cost of \$44,487; this project should be finished in the next fiscal year.

Horky Field Pump Station has a cumulative cost of \$1,289,097 and should be finished in the next fiscal year. Spears Creek Lagoon project has a cumulative cost of \$3,192,826 and should be finished in the next fiscal year.

During the current fiscal year, the City incurred costs for engineering and construction related to its new water treatment facility in the amount of \$7,134,260 with cumulative costs of 21,448,521. This project is in the final 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	\$ 4,270,901	\$	\$ 4,270,901
Series 2012 GO Bonds	4,020,000		4,020,000
Ky. Bond Corporation-Lease	365,000	575,000	940,000
Series 2015 Bonds (A&B)		13,600,000	13,600,000
Series 2014 Bonds (A,B,&C)		6,270,000	6,270,000
Series 2008 Rural Dev. Bonds		1,379,400	1,379,400
Series 2006 (A) Revenue Bonds		2,850,000	2,850,000
Series 2000 RUS Revenue Bonds		367,900	367,900
Series 2010 Build America Bond		566,000	566,000
Series 1995 RUS Revenue Bonds		372,000	372,000
KIA Loan – Water Treatment Plant		11,726,165	11,726,165
Total	\$ 8,655,901	\$ 37,706,465	\$ 46,362,366

The City’s long term debt increased by \$2,695,167 during the fiscal year. This is contributed to the new construction loans for the water treatment plant.

Economic Factors and Next Year’s Budget

The City is currently in the final construction phase of a new water treatment plant. The City has budgeted to finish this \$28.6 million dollar project in the June 30, 2017 fiscal year. The City is also in the final construction phase of the Spears Creek and the Horky’s Field Sewer Projects. The City has budgeted \$220,000 for the fiscal year ending June 30, 2017 related to these projects.

The City borrowed money to finance the necessary remodeling of the public works building in a prior fiscal year, the City is currently working on this project. The City has budgeted in the June 30, 2017 budget to use funds for the renovations on Weisiger Plaza. The City has also budgeted to do required renovations to the parking garage.

The City has budgeted for an Energy Efficiency project that is currently under evaluation and will be voted on by the commission as to what aspects of this project to bond and go ahead to the construction phases. It is budgeted to bond these projects and to pay the debt with future energy savings.

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.

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>2015 Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 7,454,745	\$ 3,166,735	\$ 10,621,480	\$ 9,425,603
Investments	1,188,723	122,792	1,311,515	1,278,512
Receivables, net	1,301,459	1,098,530	2,399,989	2,371,836
Inventory, at cost	-	193,756	193,756	151,269
Prepaid expenses and other current assets	<u>3,962</u>	<u>-</u>	<u>3,962</u>	<u>4,237</u>
Total current assets	<u>9,948,889</u>	<u>4,581,813</u>	<u>14,530,702</u>	<u>13,231,457</u>
Non-current assets				
Restricted cash	332,647	9,273,966	9,606,613	13,547,835
Restricted investments	-	484,860	484,860	488,629
Capital assets, net	<u>20,483,323</u>	<u>59,640,519</u>	<u>80,123,842</u>	<u>72,597,246</u>
Total non-current assets	<u>20,815,970</u>	<u>69,399,345</u>	<u>90,215,315</u>	<u>86,633,710</u>
Total assets	<u>30,764,859</u>	<u>73,981,158</u>	<u>104,746,017</u>	<u>99,865,167</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	<u>1,632,622</u>	<u>575,230</u>	<u>2,207,852</u>	<u>814,883</u>
Total assets and deferred outflows of resources	<u>\$ 32,397,481</u>	<u>\$ 74,556,388</u>	<u>\$ 106,953,869</u>	<u>\$ 100,680,050</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 584,040	\$ 2,207,882	\$ 2,791,922	\$ 3,320,418
Accrued wages	187,871	48,862	236,733	303,444
Payroll taxes & benefits payable	308,692	-	308,692	174,849
Deposits	11,236	42,000	53,236	52,724
Current portion of compensated absences	18,713	11,537	30,250	38,247
Accrued interest payable	-	131,571	131,571	238,455
Current portion of bonds and notes payable	<u>367,156</u>	<u>794,900</u>	<u>1,162,056</u>	<u>9,030,997</u>
Total current liabilities	<u>1,477,708</u>	<u>3,236,752</u>	<u>4,714,460</u>	<u>13,159,134</u>
Non-current liabilities				
Bonds and notes payable, net of current portion	8,365,077	37,507,137	45,872,214	35,343,716
Net pension liability - CERS	8,897,377	2,510,137	11,407,514	9,099,853
Net pension liability - police & firefighters' retirement	1,749,181	-	1,749,181	1,808,561
Compensated absences, net of current portion	<u>256,999</u>	<u>84,109</u>	<u>341,108</u>	<u>284,301</u>
Total non-current liabilities	<u>19,268,634</u>	<u>40,101,383</u>	<u>59,370,017</u>	<u>46,536,431</u>
Total liabilities	<u>20,746,342</u>	<u>43,338,135</u>	<u>64,084,477</u>	<u>59,695,565</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	<u>185,778</u>	<u>103,668</u>	<u>289,446</u>	<u>752,800</u>
NET POSITION				
Net investment in capital assets	11,751,090	21,338,482	33,089,572	28,222,533
Restricted	332,647	9,758,826	10,091,473	14,036,464
Unrestricted	<u>(618,376)</u>	<u>17,277</u>	<u>(601,099)</u>	<u>(2,027,312)</u>
Total net position	<u>11,465,361</u>	<u>31,114,585</u>	<u>42,579,946</u>	<u>40,231,685</u>
Total liabilities and net position	<u>\$ 32,397,481</u>	<u>\$ 74,556,388</u>	<u>\$ 106,953,869</u>	<u>\$ 100,680,050</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, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense)			2015 Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General government	\$ 2,203,681	\$ -	\$ 48,211	\$ -	\$ (2,155,470)	\$ -	\$ (2,155,470)	\$ (1,748,159)
Public services	2,128,662	-	312,605	321,802	(1,494,255)	-	(1,494,255)	(1,564,544)
Public safety	6,743,401	-	217,106	-	(6,526,295)	-	(6,526,295)	(5,609,069)
Community services	973,858	-	3,180	-	(970,678)	-	(970,678)	(944,444)
Debt service	306,568	-	-	-	(306,568)	-	(306,568)	(316,061)
Total governmental activities	12,356,170	-	581,102	321,802	(11,453,266)	-	(11,453,266)	(10,182,277)
Business-type activities								
Utilities	7,154,062	7,976,865	-	-	-	822,803	822,803	1,532,055
Parking	323,298	254,582	-	-	-	(68,716)	(68,716)	(53,126)
Garbage	955,219	901,990	-	-	-	(53,229)	(53,229)	(64,832)
Cemetery	204,056	73,419	-	-	-	(130,637)	(130,637)	(88,572)
Museum	33,942	-	-	-	-	(33,942)	(33,942)	(32,990)
Storm water	329,437	590,543	-	25,143	-	286,249	286,249	235,181
Debt service	441,407	-	-	-	-	(441,407)	(441,407)	(583,355)
Total business-type activities	9,441,421	9,797,399	-	25,143	-	381,121	381,121	944,361
Total	\$ 21,797,591	\$ 9,797,399	\$ 581,102	\$ 346,945	(11,453,266)	381,121	(11,072,145)	(9,237,916)
General revenues								
Taxes					1,741,605	-	1,741,605	1,698,032
Licenses and fees					10,145,364	-	10,145,364	9,166,918
Fines and forfeitures					16,104	-	16,104	14,574
Management fees					897,385	-	897,385	852,971
Other					558,757	50,751	609,508	805,934
Total general revenues					13,359,215	50,751	13,409,966	12,538,429
Gain on sale of property					10,440	-	10,440	22,022
Transfers					(498,907)	498,907	-	-
Total general revenues and transfers					12,870,748	549,658	13,420,406	12,560,451
Change in net position								
Net position, beginning of year					10,047,879	30,183,806	40,231,685	36,909,150
NET POSITION, END OF YEAR								
					\$ 11,465,361	\$ 31,114,585	\$ 42,579,946	\$ 40,231,685

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

**CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>2016 Total Governmental Funds</u>	<u>2015 Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 6,940,130	\$ 373,978	\$ 140,637	\$ 7,454,745	\$ 6,857,865
Investments	1,182,807	-	5,916	1,188,723	1,157,733
Receivables, net	1,005,278	-	296,181	1,301,459	1,051,542
Restricted cash	332,647	-	-	332,647	374,611
Prepaid expenses and other assets	<u>3,962</u>	<u>-</u>	<u>-</u>	<u>3,962</u>	<u>4,237</u>
Total assets	<u>\$ 9,464,824</u>	<u>\$ 373,978</u>	<u>\$ 442,734</u>	<u>\$ 10,281,536</u>	<u>\$ 9,445,988</u>
LIABILITIES					
Accounts payable	\$ 381,647	\$ -	\$ 202,393	\$ 584,040	\$ 458,203
Accrued wages	95,982	-	91,889	187,871	209,433
Accrued payroll taxes & benefits payable	308,551	-	141	308,692	174,849
Deposits	11,236	-	-	11,236	11,224
Compensated absences	<u>18,713</u>	<u>-</u>	<u>-</u>	<u>18,713</u>	<u>28,450</u>
Total liabilities	<u>816,129</u>	<u>-</u>	<u>294,423</u>	<u>1,110,552</u>	<u>882,159</u>
FUND BALANCE					
Fund balance, restricted	332,647	373,978	29,744	736,369	796,922
Fund balance, unassigned	<u>8,316,048</u>	<u>-</u>	<u>118,567</u>	<u>8,434,615</u>	<u>7,766,907</u>
Total fund balance	<u>8,648,695</u>	<u>373,978</u>	<u>148,311</u>	<u>9,170,984</u>	<u>8,563,829</u>
Total liabilities and fund balance	<u>\$ 9,464,824</u>	<u>\$ 373,978</u>	<u>\$ 442,734</u>	<u>\$ 10,281,536</u>	<u>\$ 9,445,988</u>
Amounts reported for governmental activities in the statement of net position are different because:					
Fund balances reported above				\$ 9,170,984	\$ 8,563,829
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				20,483,323	19,673,843
Long-term liabilities, including bonds and notes payable, net pension liability, and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.				(19,635,790)	(18,230,521)
Net deferred inflows/outflows related to the long-term pension liability are not reported in the funds.				<u>1,446,844</u>	<u>40,728</u>
Net position of governmental activities				<u>\$ 11,465,361</u>	<u>\$ 10,047,879</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, 2016

	General Fund	Municipal Road Aid Fund	Other Nonmajor Governmental Funds	2016 Total Governmental Funds	2015 Total Governmental Funds
REVENUES					
Taxes	\$ 1,741,605	\$ -	\$ -	\$ 1,741,605	\$ 1,698,032
Licenses and fees	10,145,364	-	-	10,145,364	9,166,918
Intergovernmental revenue	258,684	321,802	322,418	902,904	793,989
Fines and forfeitures	11,599	-	4,505	16,104	14,574
Other revenues	<u>1,431,298</u>	<u>2,340</u>	<u>22,504</u>	<u>1,456,142</u>	<u>1,630,052</u>
Total revenues	<u>13,588,550</u>	<u>324,142</u>	<u>349,427</u>	<u>14,262,119</u>	<u>13,303,565</u>
EXPENDITURES					
Current operating					
General government	1,834,840	-	-	1,834,840	1,682,562
Public services	1,228,306	392,833	5,723	1,626,862	1,535,821
Public safety	6,186,289	-	-	6,186,289	5,777,359
Community services	878,050	-	12,935	890,985	948,877
Debt services	659,111	-	-	659,111	666,082
Capital outlay	<u>1,220,562</u>	<u>-</u>	<u>747,848</u>	<u>1,968,410</u>	<u>1,274,439</u>
Total expenditures	<u>12,007,158</u>	<u>392,833</u>	<u>766,506</u>	<u>13,166,497</u>	<u>11,885,140</u>
Excess of revenues over expenditures	1,581,392	(68,691)	(417,079)	1,095,622	1,418,425
Other financing sources (uses):					
Transfers (to) from other funds	(662,285)	50,000	113,378	(498,907)	(501,983)
Sale of property	<u>10,440</u>	<u>-</u>	<u>-</u>	<u>10,440</u>	<u>22,022</u>
Total other financing sources (uses)	<u>(651,845)</u>	<u>50,000</u>	<u>113,378</u>	<u>(488,467)</u>	<u>(479,961)</u>
Net change in fund balance	929,547	(18,691)	(303,701)	607,155	938,464
Fund balance, beginning of year	<u>7,719,148</u>	<u>392,669</u>	<u>452,012</u>	<u>8,563,829</u>	<u>7,625,365</u>
FUND BALANCE, END OF YEAR	<u>\$ 8,648,695</u>	<u>\$ 373,978</u>	<u>\$ 148,311</u>	<u>\$ 9,170,984</u>	<u>\$ 8,563,829</u>
Reconciliation to government-wide change in net position:					
Net change in fund balances				\$ 607,155	\$ 938,464
add: capital outlay expenditures capitalized				1,968,410	1,274,439
add: debt service expenditures				659,111	666,082
less: depreciation on governmental activities assets				(1,122,722)	(981,181)
less: amortization of deferred bond cost				3,470	3,470
less: interest on long-term debt				(306,568)	(316,061)
less: proceeds from sale of capital assets				(10,440)	-
gain (loss) on disposal of capital assets				(25,768)	-
change in net pension liability - CERS				(364,690)	205,495
change in net pension liability - police & firefighters' retirement				59,380	40,339
change in long-term compensated absences				<u>(49,856)</u>	<u>16,291</u>
Change in net position of governmental activities				<u>\$ 1,417,482</u>	<u>\$ 1,847,338</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

ASSETS	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2016 Total	2015 Total
Current assets						
Cash and cash equivalents	\$ 1,794,711	\$ 226,173	\$ 942,051	\$ 203,800	\$ 3,166,735	\$ 2,567,738
Investments	-	-	-	122,792	122,792	120,779
Accounts receivable, net	878,688	53,585	54,344	111,913	1,098,530	1,320,294
Inventory, at cost	<u>193,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,756</u>	<u>151,269</u>
Total current assets	<u>2,867,155</u>	<u>279,758</u>	<u>996,395</u>	<u>438,505</u>	<u>4,581,813</u>	<u>4,160,080</u>
Non-current assets						
Restricted cash and cash equivalents	9,250,184	-	23,782	-	9,273,966	13,173,224
Restricted investments	484,860	-	-	-	484,860	488,629
Capital assets, net	<u>50,532,876</u>	<u>6,960,836</u>	<u>1,673,444</u>	<u>473,363</u>	<u>59,640,519</u>	<u>52,923,403</u>
Total non-current assets	<u>60,267,920</u>	<u>6,960,836</u>	<u>1,697,226</u>	<u>473,363</u>	<u>69,399,345</u>	<u>66,585,256</u>
Total assets	<u>63,135,075</u>	<u>7,240,594</u>	<u>2,693,621</u>	<u>911,868</u>	<u>73,981,158</u>	<u>70,745,336</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	<u>496,826</u>	<u>11,122</u>	<u>35,642</u>	<u>31,640</u>	<u>575,230</u>	<u>197,664</u>
Total assets and deferred outflows of resources	<u>\$ 63,631,901</u>	<u>\$ 7,251,716</u>	<u>\$ 2,729,263</u>	<u>\$ 943,508</u>	<u>\$ 74,556,388</u>	<u>\$ 70,943,000</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 2,116,463	\$ 3,445	\$ 2,619	\$ 85,355	\$ 2,207,882	\$ 2,862,216
Accrued expenses	44,484	751	2,172	1,455	48,862	94,011
Deposits	42,000	-	-	-	42,000	41,500
Current portion of compensated absences	10,905	81	231	320	11,537	9,797
Accrued interest payable	109,073	11,754	10,744	-	131,571	238,455
Current portion of bonds and notes payable	<u>629,900</u>	<u>130,000</u>	<u>35,000</u>	<u>-</u>	<u>794,900</u>	<u>8,678,455</u>
Total current liabilities	<u>2,952,825</u>	<u>146,031</u>	<u>50,766</u>	<u>87,130</u>	<u>3,236,752</u>	<u>11,924,434</u>
Non-current liabilities						
Bonds and notes payable	33,144,100	3,823,037	540,000	-	37,507,137	26,608,012
Net pension liability - CERS	2,208,860	42,264	149,481	109,532	2,510,137	1,973,282
Compensated absences, net of current portion	<u>72,106</u>	<u>1,543</u>	<u>4,388</u>	<u>6,072</u>	<u>84,109</u>	<u>77,157</u>
Total non-current liabilities	<u>35,425,066</u>	<u>3,866,844</u>	<u>693,869</u>	<u>115,604</u>	<u>40,101,383</u>	<u>28,658,451</u>
Total liabilities	<u>38,377,891</u>	<u>4,012,875</u>	<u>744,635</u>	<u>202,734</u>	<u>43,338,135</u>	<u>40,582,885</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pension	<u>94,714</u>	<u>1,209</u>	<u>5,657</u>	<u>2,088</u>	<u>103,668</u>	<u>176,309</u>
Net position, beginning of year, restated						
Net investment in capital assets	16,758,876	3,007,799	1,098,444	473,363	21,338,482	17,636,936
Restricted	9,735,044	-	23,782	-	9,758,826	13,661,853
Unrestricted	<u>(1,334,624)</u>	<u>229,833</u>	<u>856,745</u>	<u>265,323</u>	<u>17,277</u>	<u>(1,114,983)</u>
Total net position	<u>25,159,296</u>	<u>3,237,632</u>	<u>1,978,971</u>	<u>738,686</u>	<u>31,114,585</u>	<u>30,183,806</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 63,631,901</u>	<u>\$ 7,251,716</u>	<u>\$ 2,729,263</u>	<u>\$ 943,508</u>	<u>\$ 74,556,388</u>	<u>\$ 70,943,000</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, 2016

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2016 Total	2015 Total
Revenues						
Water sales	\$ 4,556,560	\$ -	\$ -	\$ -	\$ 4,556,560	\$ 4,223,312
Water surcharge	139,753	-	-	-	139,753	239,500
Sewer charges	2,915,455	-	-	-	2,915,455	2,911,843
Connection fees	62,497	-	-	-	62,497	59,771
Parking rental fees	-	254,582	-	-	254,582	263,376
Other fees for services	-	-	590,543	975,409	1,565,952	1,571,844
Other revenues	<u>302,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>302,600</u>	<u>265,327</u>
Total revenues	<u>7,976,865</u>	<u>254,582</u>	<u>590,543</u>	<u>975,409</u>	<u>9,797,399</u>	<u>9,534,973</u>
Operating expenses						
Water	4,156,595	-	-	-	4,156,595	2,845,958
Sewer	673,370	-	-	-	673,370	1,756,141
Perryville	153,012	-	-	-	153,012	150,117
Personnel	-	49,643	159,616	106,490	315,749	316,480
Contractual	-	76,227	21,153	1,056,209	1,153,589	1,201,797
Management fees	839,231	-	58,154	-	897,385	798,056
Depreciation	1,160,372	190,585	62,331	22,470	1,435,758	1,425,395
Other operating expenses	<u>171,482</u>	<u>6,843</u>	<u>28,183</u>	<u>8,048</u>	<u>214,556</u>	<u>379,900</u>
Total operating expenses	<u>7,154,062</u>	<u>323,298</u>	<u>329,437</u>	<u>1,193,217</u>	<u>9,000,014</u>	<u>8,873,844</u>
Operating income (loss)	<u>822,803</u>	<u>(68,716)</u>	<u>261,106</u>	<u>(217,808)</u>	<u>797,385</u>	<u>661,129</u>
Non-operating revenues (expenses)						
Grants	-	-	25,143	-	25,143	509,483
Principal forgiveness	-	-	-	-	-	357,104
Interest expense	(260,231)	(158,800)	(22,376)	-	(441,407)	(583,355)
Other non-operating revenues	<u>40,449</u>	<u>901</u>	<u>4,429</u>	<u>4,972</u>	<u>50,751</u>	<u>28,853</u>
Non-operating revenues (expenses)	<u>(219,782)</u>	<u>(157,899)</u>	<u>7,196</u>	<u>4,972</u>	<u>(365,513)</u>	<u>312,085</u>
Income (loss) before other revenues expenses, gains, losses and transfers	603,021	(226,615)	268,302	(212,836)	431,872	973,214
Transfers from other funds	<u>-</u>	<u>204,276</u>	<u>-</u>	<u>294,631</u>	<u>498,907</u>	<u>501,983</u>
Change in net position	603,021	(22,339)	268,302	81,795	930,779	1,475,197
Net position, beginning of year	<u>24,556,275</u>	<u>3,259,971</u>	<u>1,710,669</u>	<u>656,891</u>	<u>30,183,806</u>	<u>28,708,609</u>
NET POSITION, END OF YEAR	<u>\$ 25,159,296</u>	<u>\$ 3,237,632</u>	<u>\$ 1,978,971</u>	<u>\$ 738,686</u>	<u>\$ 31,114,585</u>	<u>\$ 30,183,806</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, 2016

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2016 Total	2015 Total
Cash flows from operating activities						
Receipts from customers	\$ 8,144,240	\$ 253,544	\$ 630,690	\$ 990,689	\$ 10,019,163	\$ 9,450,737
Payments to suppliers	(3,346,308)	(82,959)	(50,701)	(1,160,656)	(4,640,624)	(2,527,507)
Payments to employees	(2,397,014)	(47,137)	(155,111)	(102,592)	(2,701,854)	(2,592,067)
Payments to general fund for management services	(839,231)	-	-	-	(839,231)	(798,055)
Net cash provided by (used in) operating activities	<u>1,561,687</u>	<u>123,448</u>	<u>424,878</u>	<u>(272,559)</u>	<u>1,837,454</u>	<u>3,533,108</u>
Cash flows from noncapital financing activities						
Transfers (to) from other funds	-	204,276	-	294,631	498,907	501,983
Deposits, net	500	-	-	-	500	(50)
Other revenues	14,901	-	-	-	14,901	22,811
Net cash provided by noncapital financing activities	<u>15,401</u>	<u>204,276</u>	<u>-</u>	<u>294,631</u>	<u>514,308</u>	<u>524,744</u>
Cash flows from capital and related financing activities						
Purchases of capital assets	(7,940,905)	-	(115,735)	(96,234)	(8,152,874)	(15,087,969)
Principal paid on notes and bonds	(14,208,800)	(125,000)	(35,000)	-	(14,368,800)	(5,206,267)
Interest (paid) accrued on notes and bonds	(335,863)	(158,800)	(21,939)	-	(516,602)	(532,554)
Borrowings of notes and bonds	17,416,510	-	-	-	17,416,510	15,335,694
Bond premium	(34,852)	-	-	-	(34,852)	307,983
Capital improvement grant proceeds	-	-	25,143	-	25,143	509,483
Net cash (used in) capital and related financing activities	<u>(5,103,910)</u>	<u>(283,800)</u>	<u>(147,531)</u>	<u>(96,234)</u>	<u>(5,631,475)</u>	<u>(4,673,630)</u>
Cash flows from investing activities						
Net investment proceeds (purchases)	3,769	-	-	(2,013)	1,756	7,009
Interest and dividends	25,548	901	4,429	4,972	35,850	26,540
Net cash provided by investing activities	<u>29,317</u>	<u>901</u>	<u>4,429</u>	<u>2,959</u>	<u>37,606</u>	<u>33,549</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	(3,497,505)	44,825	281,776	(71,203)	(3,242,107)	(582,229)
Cash and cash equivalents and restricted cash, beginning of year	<u>14,542,400</u>	<u>181,348</u>	<u>742,211</u>	<u>275,003</u>	<u>15,740,962</u>	<u>16,323,191</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	<u>\$ 11,044,895</u>	<u>\$ 226,173</u>	<u>\$ 1,023,987</u>	<u>\$ 203,800</u>	<u>\$ 12,498,855</u>	<u>\$ 15,740,962</u>
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ 822,803	\$ (68,716)	\$ 261,106	\$ (217,808)	\$ 797,385	\$ 661,129
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,160,372	190,585	62,331	22,470	1,435,758	1,425,395
Provision for bad debt	-	-	-	-	-	-
Change in assets and liabilities:						
Accounts receivable	167,377	(1,038)	40,147	15,280	221,766	(84,234)
Inventory	(42,487)	-	-	-	(42,487)	66,383
Accounts payable	(556,681)	111	(1,365)	(96,399)	(654,334)	1,635,638
Accrued expenses	(40,590)	(699)	(2,039)	(1,821)	(45,149)	(532)
Compensated absences	6,462	155	1,887	188	8,692	8,837
Net pension liability	44,431	3,050	4,657	5,531	57,669	(179,508)
Net cash provided by (used in) operating activities	<u>\$ 1,561,687</u>	<u>\$ 123,448</u>	<u>\$ 366,724</u>	<u>\$ (272,559)</u>	<u>\$ 1,779,300</u>	<u>\$ 3,533,108</u>

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

**CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2016**

	<u>Police and Firemen's Pension Fund</u>
ASSETS	
Cash and cash equivalents	\$ 5,661
Investments	<u>736,872</u>
Total assets	<u>\$ 742,533</u>
NET POSITION	
Net position held in trust for pension benefits	<u>\$ 742,533</u>
TOTAL NET POSITION	<u>\$ 742,533</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, 2016

	<u>Police and Firemen's Pension Fund</u>
Additions	
Employers contributions	\$ 165,000
Interest and dividends	28,504
Realized gains (loss) on investments	29,970
Unrealized gains (loss) on investments	<u>(9,149)</u>
Total additions	<u>214,325</u>
Deductions	
Benefit payments	245,159
Investment expense	<u>3,135</u>
Total deductions	<u>248,294</u>
Change in net position	<u>(33,969)</u>
Net position, beginning of year	<u>776,502</u>
NET POSITION, END OF YEAR	<u>\$ 742,533</u>

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

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 \$75,000 for an operating grant to the DBCPZC for the year ended June 30, 2016.

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 \$15,000 for an operating grant to the DBCAB for the year ended June 30, 2016.

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 \$220,000 for an operating grant to the DBCPRB for the year ended June 30, 2016.

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, 2016.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016

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, 2016

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. 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.

G. 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.

H. Inventories

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

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

J. 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.

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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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.

L. 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

N. 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.

O. 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Reconciliation of Government-Wide and Fund Financial Statements

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.

P. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 27, 2016, 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, 2016, 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.

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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

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, 2016, taxes were levied November 1, 2015 and were payable by December 31, 2015. A 10% penalty was imposed on all taxes delinquent as of January 1, 2016. In addition, an interest charge of 1/2% per month is levied on all delinquent taxes. As of May 1, 2016 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 14.60 cents per \$100 on real property and 14.60 cents per \$100 on personal property for the fiscal year ended June 30, 2016, are within permissible limits under the above legislation. The City does not collect personal property taxes on motor vehicles or watercraft.

3. CASH DEPOSITS AND INVESTMENTS

As of June 30, 2016, the City had the following investments and maturities:

PRIMARY GOVERNMENT (EXCEPT FIDUCIARY FUNDS)

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities in years</u>				<u>Credit rating</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Agencies	\$ 738,998	\$ 25,179	\$ 406,599	\$ 232,015	\$75,205	AAA
State and Municipal Bonds	83,372	-	55,950	27,422	-	
Money Market Mutual Funds	266,695	266,695	-	-	-	AAA
Certificate of Deposits	<u>707,310</u>	<u>175,376</u>	<u>531,934</u>	<u>-</u>	<u>-</u>	N/A
Totals	<u>\$ 1,796,375</u>	<u>\$ 467,250</u>	<u>\$ 994,483</u>	<u>\$ 259,437</u>	<u>\$75,205</u>	

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 42% in U.S. Agencies, 5% in municipal bonds and 39% of its investments in bank certificates of deposit (at one bank).

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

3. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2016.

As of June 30, 2016, the Police/Fire Pension Fund had the following restricted investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities in years</u>				<u>Credit rating</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
Municipal Bonds	\$ 30,257	\$ -	\$ 30,257	\$ -	\$ -	AAA
Corporate Bonds	155,789	-	62,291	93,498	-	BBB+
Money Market						
Mutual Funds	189,552	189,552	-	-	-	AAA
Foreign Equities	16,959	16,959				
Domestic Equities	<u>344,315</u>	<u>344,315</u>	<u>-</u>	<u>-</u>	<u>-</u>	N/A
Totals	<u>\$ 736,872</u>	<u>\$ 550,826</u>	<u>\$ 92,548</u>	<u>\$ 93,498</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, 21% corporate bonds, 26% money market mutual funds, and 2% foreign equities.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 139,923	\$ -	\$ -	\$ 139,923
Licenses and fees	883,382	-	-	883,382
Intergovernmental	40,964	-	296,181	337,145
Fines and forfeitures	243	-	-	243
Other revenues	<u>57,917</u>	<u>-</u>	<u>-</u>	<u>57,917</u>
Gross receivables	1,122,429	-	296,181	1,418,610
Less: allowance for uncollectible	<u>(117,151)</u>	<u>-</u>	<u>-</u>	<u>(117,151)</u>
Net receivables	<u>\$ 1,005,278</u>	<u>\$ -</u>	<u>\$ 296,181</u>	<u>\$ 1,301,459</u>

	Utilities Fund	Parking Fund	Storm Water Fund	Nonmajor Funds	Total
Proprietary Funds:					
Taxes	\$ 1,194,369	\$ 57,865	\$ 132,481	\$ 147,000	\$ 1,531,715
Other revenues	<u>252,660</u>	<u>-</u>	<u>-</u>	<u>45,599</u>	<u>298,259</u>
Gross receivables	1,447,029	57,865	132,481	192,599	1,829,974
Less: allowance for uncollectible	<u>(568,341)</u>	<u>(4,280)</u>	<u>(78,137)</u>	<u>(80,686)</u>	<u>(731,444)</u>
Net receivables	<u>\$ 878,688</u>	<u>\$ 53,585</u>	<u>\$ 54,344</u>	<u>\$ 111,913</u>	<u>\$ 1,098,530</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,578,059	\$ -	\$ -	\$ 2,578,059
Construction in progress	<u>705,924</u>	<u>1,239,988</u>	<u>(114,598)</u>	<u>1,831,314</u>
Total	<u>3,283,983</u>	<u>1,239,988</u>	<u>(114,598)</u>	<u>4,409,373</u>
Capital assets being depreciated:				
Land improvements	1,461,404	-	-	1,461,404
Buildings	11,888,159	-	-	11,888,159
Vehicles	4,008,335	608,549	(110,280)	4,506,604
Equipment	<u>2,032,953</u>	<u>119,873</u>	<u>(69,380)</u>	<u>2,083,446</u>
Total	<u>19,390,851</u>	<u>728,422</u>	<u>(179,660)</u>	<u>19,939,613</u>
Total non-infrastructure assets	<u>22,674,834</u>	<u>1,968,410</u>	<u>(294,258)</u>	<u>24,348,986</u>
Infrastructure assets	<u>84,356,042</u>	<u>114,598</u>	<u>-</u>	<u>84,470,640</u>
Total capital assets	<u>\$107,030,876</u>	<u>\$2,083,008</u>	<u>\$ (294,258)</u>	<u>\$108,819,626</u>
Accumulated depreciation:				
Land improvements	569,225	37,885	-	607,110
Buildings	2,566,553	281,323	-	2,847,876
Vehicles	2,688,795	391,095	(101,895)	2,977,995
Equipment	1,482,284	148,449	(41,559)	1,589,174
Infrastructure	<u>80,050,178</u>	<u>263,970</u>	<u>-</u>	<u>80,314,148</u>
Total	<u>87,357,035</u>	<u>1,122,722</u>	<u>(143,454)</u>	<u>88,336,303</u>
Total capital assets, net	<u>\$ 19,673,841</u>	<u>\$ 960,286</u>	<u>\$ (150,804)</u>	<u>\$ 20,483,323</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,309,568	\$ -	\$ -	\$ 1,309,568
Construction in progress	<u>18,036,090</u>	<u>7,987,052</u>	<u>(67,915)</u>	<u>25,955,227</u>
Total	<u>19,345,658</u>	<u>7,987,052</u>	<u>(67,915)</u>	<u>27,264,795</u>
Capital assets being depreciation:				
Buildings	8,436,255	-	-	8,436,255
Improvements	366,268	67,915	-	434,183
Vehicles	982,478	66,753	-	1,049,231
Equipment	1,500,899	67,728	-	1,568,627
Infrastructure	<u>50,039,158</u>	<u>31,341</u>	<u>-</u>	<u>50,070,499</u>
Total	<u>61,325,058</u>	<u>233,737</u>	<u>-</u>	<u>61,558,795</u>
Total capital assets	<u>80,670,716</u>	<u>8,220,789</u>	<u>(67,915)</u>	<u>88,823,590</u>
Accumulated depreciation:				
Buildings	1,917,724	198,103	-	2,115,827
Improvements	150,508	14,692	-	165,200
Vehicles	798,916	48,975	-	847,891
Equipment	1,101,212	88,233	-	1,189,445
Infrastructure	<u>23,778,953</u>	<u>1,085,755</u>	<u>-</u>	<u>24,864,708</u>
Total	<u>27,747,313</u>	<u>1,435,758</u>	<u>-</u>	<u>29,183,071</u>
Total capital assets, net	<u>\$ 52,923,403</u>	<u>\$ 6,785,031</u>	<u>\$ (67,915)</u>	<u>\$ 59,640,519</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 259,766
Public Services	557,894
Public Safety	<u>305,062</u>
Total Depreciation Expense	<u>\$1,122,722</u>

Depreciation expense was charged to proprietary functions as follows:

Utilities	\$ 1,160,372
Cemetery	8,596
Museum	13,874
Parking	190,585
Storm water	<u>62,331</u>
Total Depreciation Expense	<u>\$ 1,435,758</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 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.

<u>Plan Members</u>	<u>Employees</u>
Retirees	13
Active	0

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016

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, implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions in fiscal year 2015.

The following was the Board's adopted target allocation and the long-term expected rate of return on Plan investments. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return.

Asset Class	Target Allocation	Long-term Expected Rate of Return
Domestic fixed income	35%	5.0%
Domestic equity	60%	7.8%
Cash	<u>5%</u>	<u>1.5%</u>
	100%	6.5%

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, 2016, were as follows:

Total pension liability	\$ 2,491,714
Less: Plan fiduciary net position	<u>742,533</u>
Net position liability	<u>\$ 1,749,181</u>
Plan fiduciary net position as a percentage of total pension liability	29.80%

Actuarial Assumptions – The total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2016, 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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.

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.

	Discount Rate		Net Pension Liability (Asset)
1% decrease	5.50%	\$	1,962,540
Current discount rate	6.50%	\$	1,749,181
1% increase	7.50%	\$	1,565,064

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 2015-2016 the City made a contribution of \$165,000.

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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Contributions – For the year ended June 30, 2016, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), 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, 2016, participating employers contributed 17.06% of each employee’s wages for non-hazardous job classifications and 32.95% of each employee’s wages for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member’s salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member’s account. Each member’s account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2016, the City contributed \$364,661, or 100% of the required contribution for non-hazardous job classifications, and \$495,590, for the year ended June 30, 2016, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 Not available

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
\$ <u>11,407,514</u>	\$ <u>4,621,569</u>	\$ <u>6,785,945</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2015 was as follows:

Non-hazardous	Hazardous
.11%	.44%

The proportionate share at June 30, 2015 was equal to the proportionate share as of June 30, 2014 for non-hazardous. The proportionate share at June 30, 2015 decreased .03% for hazardous to the proportionate share as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$1,107,541. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 185,794	\$ -
Changes of assumptions	1,052,450	-
Net difference between projected and actual earnings on Plan investments	84,044	-
Changes in proportion and differences between City contributions and proportionate share of contributions	25,310	289,446
City contributions subsequent to the measurement date	<u>860,254</u>	<u>-</u>
Total	\$ <u>2,207,852</u>	\$ <u>289,446</u>

The \$860,254 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ (287,779)
2018	(287,779)
2019	(184,362)
2020	(298,232)

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Non-hazardous

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.55%, net of Plan investment expense, including inflation

Hazardous

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	<u>2%</u>	- .25%
Total	100%	

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Non-hazardous			Hazardous		
	Discount rate	City's proportionate share of net pension liability		Discount rate	City's proportionate share of net pension liability	
1% decrease	6.50%	\$ 5,899,993		6.50%	\$ 8,686,236	
Current discount rate	7.50%	\$ 4,621,569		7.50%	\$ 6,785,945	
1% increase	8.50%	\$ 3,526,692		8.50%	\$ 5,211,506	

Payable to the Pension Plan – At June 30, 2016, the City reported a payable of \$183,864 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

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%.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. LONG-TERM DEBT (CONTINUED)

Series 2014 A & B General Obligation Bonds

On September 8, 2014, the Danville City Commission passed Ordinance No. 1843. The ordinance provided for the issuance of Series A, B, and C General Obligation Bonds. Series A was issued with an aggregate principal amount of \$3,155,000. The bonds require annual principal payments starting February 2015 until maturity in February 2034, with an interest ranging from 3.00% to 3.75%. Series A was issued to refund an existing loan from the Kentucky Infrastructure Authority. Series B was issued with an aggregate principal amount of \$3,050,000. The bonds require annual principal payments starting December 2014 until maturity in December 2020, with an interest rate of 3.00%. Series C General Obligation Bonds are reflected in the parking fund.

Series 2015 A & B Water and Sewer Revenue Bonds

On June 17, 2016 the City issued Water and Sewer Revenue Bonds Series A and B for \$8,600,000 and \$5,000,000, respectively. The proceeds from the bond issuance repaid a bond anticipation note, that was used as interim financing in the construction of the new water treatment plant. The bonds require annual principal payments starting February 2018 until maturity in February 2055.

Water and Sewer Revenue Bonds and Notes outstanding at June 30, 2016 are as follows:

City of Danville Water & Sewer Bonds	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2016
Series 1995	\$ 489,000	4.50%	2034	\$ 372,000
Series 2000	449,500	4.75%	2040	367,900
Series 2008	1,480,000	4.38%	2049	1,379,400
Series 2010	600,000	3.00%	2050	566,000
Series 2014A	3,155,000	3.00-3.75%	2035	2,955,000
Series 2014B	3,050,000	3.00%	2021	2,155,000
Series 2015A	8,600,000	2.875%	2055	8,600,000
Series 2015B	5,000,000	2.25%	2055	<u>5,000,000</u>
 Total Water and Sewer Bonds				 <u>\$ 21,395,300</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. LONG TERM DEBT (CONTINUED)

The annual principal and interest requirements of the water and sewer bonds payable as of June 30, 2016, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 629,900	\$ 460,161	\$ 1,090,061
2018	844,800	586,922	1,431,722
2019	874,100	561,031	1,435,131
2020	896,400	534,422	1,430,822
2021	670,400	514,620	1,185,020
2022-26	2,294,700	2,375,430	4,670,130
2027-31	2,687,900	2,009,185	4,697,085
2032-36	2,661,700	1,585,935	4,247,635
2037-41	2,267,600	1,253,781	3,521,381
2042-46	2,542,100	910,660	3,452,760
2047-51	2,780,200	524,238	3,304,438
2052-55	<u>2,245,500</u>	<u>151,144</u>	<u>2,396,644</u>
	<u>\$ 21,395,300</u>	<u>\$ 11,467,529</u>	<u>\$ 32,862,829</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.

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.

**CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

7. LONG TERM DEBT (CONTINUED)

Water and Sewer Fund Kentucky Infrastructure Authority Loan

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 \$12,467,849 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, 2016, the City had drawn a total amount of \$12,126,165, of which \$400,000 has been forgiven and \$11,726,165 is repayable. Principal payments on this loan are not due to begin until after the project is completed.

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 4.15% and 5.74% to be repaid over a thirty year period.

On September 8, 2014, the Danville City Commission passed Ordinance No. 1843. The ordinance provided for the issuance of Series A, B, and C General Obligation Bonds. Series C was issued with an aggregate principal amount of \$1,250,000. The bonds require annual principal payments starting December 2014 until maturity in December 2036, with an interest ranging from 2.50% to 3.86%. Series C was issued to defease the 2006 Series B bonds.

The annual principal and interest requirements of the parking garage general obligation bonds payable as of June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 130,000	\$ 142,544	\$ 272,544
2018	135,000	137,944	272,944
2019	140,000	133,119	273,119
2020	140,000	128,094	268,094
2021	150,000	122,994	272,994
2022-26	820,000	552,269	1,372,269
2027-31	1,000,000	411,681	1,411,681
2032-36	1,220,000	190,559	1,410,559
2037	<u>275,000</u>	<u>7,031</u>	<u>282,031</u>
	<u>\$ 4,010,000</u>	<u>\$ 1,826,235</u>	<u>\$ 5,836,235</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%.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. LONG TERM DEBT (CONTINUED)

The annual principal and interest requirements for the 2010 First Series A Revenue Bond with the Kentucky Bond Corporation as of June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 35,000	\$ 21,938	\$ 56,938
2018	35,000	20,975	55,975
2019	35,000	19,925	54,925
2020	35,000	18,875	53,875
2021	35,000	17,738	52,738
2022-26	205,000	68,450	273,450
2027-30	<u>195,000</u>	<u>22,838</u>	<u>217,838</u>
	<u>\$ 575,000</u>	<u>\$ 190,739</u>	<u>\$ 765,739</u>

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, 2016 is \$169,000.

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 83,000	\$ 5,686	\$ 88,686
2018	<u>86,000</u>	<u>1,935</u>	<u>87,935</u>
Total	<u>\$ 169,000</u>	<u>\$ 7,621</u>	<u>\$ 176,621</u>

Park Improvement Funded by Kentucky League of Cities

The City borrowed \$50,000 for 7 years at a 1.80% interest rate. The outstanding loan balance at June 30, 2016 is \$7,855. The principal balance along with \$367 of interest is scheduled to be paid off in fiscal year 2017.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. LONG TERM DEBT (CONTINUED)

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 outstanding loan balance at June 30, 2016 is \$4,094,046.

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 116,301	\$ 174,421	\$ 290,722
2018	121,024	169,619	290,643
2019	126,249	164,309	290,558
2020	131,408	159,064	290,472
2021	137,580	152,789	290,369
2022-26	780,662	669,648	1,450,310
2027-31	963,858	483,416	1,447,274
2032-36	1,189,981	253,545	1,443,526
2037-38	<u>526,983</u>	<u>25,195</u>	<u>552,178</u>
	<u>\$ 4,094,046</u>	<u>\$ 2,252,006</u>	<u>\$ 6,346,052</u>

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
2017	\$ 20,000	\$ 13,452	\$ 33,452
2018	20,000	12,881	32,881
2019	20,000	12,281	32,281
2020	25,000	11,593	36,593
2021	25,000	10,780	35,780
2022-26	130,000	40,355	170,355
2027-30	<u>125,000</u>	<u>11,389</u>	<u>136,389</u>
Total	<u>\$ 365,000</u>	<u>\$ 112,731</u>	<u>\$ 477,731</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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
2017	\$ 140,000	\$ 100,450	\$ 240,450
2018	150,000	97,550	247,550
2019	150,000	94,550	244,550
2020	150,000	91,550	241,550
2021	155,000	88,500	243,500
2022-26	830,000	394,050	1,224,050
2027-31	920,000	303,826	1,223,826
2032-36	1,055,000	164,285	1,219,285
2037-38	<u>470,000</u>	<u>15,437</u>	<u>485,437</u>
	<u>\$ 4,020,000</u>	<u>\$ 1,350,198</u>	<u>\$ 5,370,198</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. LONG TERM DEBT (CONTINUED)

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2016, 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	\$ 235,594	\$ 40,118	\$ -	\$ 275,712	\$ 18,713
Loan obligations:					
Amount due KLC	4,463,444	-	(192,543)	4,270,901	207,156
Amount due KLC	4,160,000	-	(140,000)	4,020,000	140,000
Amount due KBC	385,000	-	(20,000)	365,000	20,000
Deferred amounts	<u>79,802</u>	<u>-</u>	<u>(3,470)</u>	<u>76,332</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 9,676,932</u>	<u>\$ 40,118</u>	<u>\$ (356,013)</u>	<u>\$ 9,007,945</u>	<u>\$ 385,869</u>
<u>Business-type activities</u>					
Bonds – Utility	\$ 22,004,100	\$13,600,000	\$(14,208,800)	\$21,395,300	\$ 629,900
Bonds – Parking	4,135,000	-	(125,000)	4,010,000	130,000
Bonds – Storm Water	610,000	-	(35,000)	575,000	35,000
Deferred amounts	<u>627,712</u>	<u>-</u>	<u>(32,140)</u>	<u>595,572</u>	<u>-</u>
Total bonds	<u>27,376,812</u>	<u>-</u>	<u>(2,058,240)</u>	<u>26,575,872</u>	<u>794,900</u>
KIA loans - Utility	<u>7,909,655</u>	<u>3,816,510</u>	<u>-</u>	<u>11,726,165</u>	<u>-</u>
Compensated absences	<u>86,954</u>	<u>8,692</u>	<u>-</u>	<u>95,646</u>	<u>11,537</u>
Business-type activities	<u>\$ 35,373,421</u>	<u>\$17,425,202</u>	<u>\$(14,400,940)</u>	<u>\$38,397,683</u>	<u>\$ 806,437</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, 2016

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. TRANSFERS OF FUNDS

Transfers between funds consisted of the following for the fiscal year ended June 30, 2016:

<u>Type</u>	<u>From fund</u>	<u>To fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Municipal Road Aid	Street repairs	\$ 50,000
Operating	General	Streetscape	Operating expense	113,378
Operating	General	Museum	Operating expense	33,246
Operating	General	Cemetery	Operating expense	198,826
Operating	General	Garbage	Operating expense	62,559
Operating	General	Parking	Operating expense	<u>204,276</u>
				<u>\$ 662,285</u>

REQUIRED 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**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Pension Liability										
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,548	\$ 20,682	\$ 20,443	\$ 18,896	\$ 17,941
Interest	160,061	164,512	158,934	138,175	149,296	161,520	167,761	167,165	180,828	177,779
Difference between expected and actual experience	(8,253)	12,075	87,635	82,379	(90,888)	(127,274)	(66,541)	32,205	(178,487)	64,639
Changes in assumptions	-	-	93,992	475,464	-	-	-	-	-	-
Benefit payments	(245,159)	(244,955)	(241,766)	(230,609)	(203,960)	(213,800)	(208,053)	(215,009)	(220,925)	(214,587)
Net change in total pension liability	(93,349)	(68,368)	98,795	465,409	(145,552)	(159,006)	(86,151)	4,804	(199,688)	45,772
Total pension liability - beginning	<u>2,585,063</u>	<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>
Total pension liability - ending	<u>\$ 2,491,714</u>	<u>\$ 2,585,063</u>	<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>
Plan Fiduciary Net Position										
Contributions - employee	\$ -	\$ -	\$ -	\$ -	\$ 1,515	\$ 1,718	\$ 1,749	\$ 1,692	\$ 1,550	\$ 1,596
Contributions - employer	165,000	190,000	126,000	190,000	190,000	190,000	185,040	185,040	180,000	131,268
Net investment income	46,192	26,925	123,406	107,005	29,029	100,193	68,422	(89,678)	(62,081)	121,454
Benefit payments	(245,159)	(244,955)	(241,768)	(230,609)	(203,960)	(213,800)	(208,054)	(215,009)	(220,925)	(214,587)
Net change in plan net position	(33,967)	(28,030)	7,638	66,396	16,584	78,111	47,157	(117,955)	(101,456)	39,731
Plan fiduciary net position - beginning	<u>776,502</u>	<u>804,532</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>
Plan fiduciary net position - ending	<u>742,535</u>	<u>776,502</u>	<u>804,532</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>
Net pension liability - ending	<u>\$ 1,749,179</u>	<u>\$ 1,808,561</u>	<u>\$ 1,848,899</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>
Plan fiduciary net position as a percentage of total pension liability	29.80%	30.04%	30.32%	31.19%	34.96%	31.95%	26.56%	23.74%	28.55%	30.21%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,344	\$ 41,344	\$ 42,863	\$ 40,935	\$ 37,835
Net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A	N/A	3679%	4252%	4412%	4320%	4934%

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
POLICE AND FIREFIGHTERS' RETIREMENT FUND
Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 164,914	\$ 166,979	\$ 154,658	\$ 119,550	\$ 137,286	\$ 155,834	\$ 166,417	\$ 156,751	\$ 162,815	\$ 161,531
Contributions in relation to actuarially determined contribution	<u>(165,000)</u>	<u>(190,000)</u>	<u>(126,000)</u>	<u>(190,000)</u>	<u>(190,000)</u>	<u>(190,000)</u>	<u>(185,040)</u>	<u>(185,040)</u>	<u>(180,000)</u>	<u>(131,268)</u>
Contribution deficiency (excess)	<u>\$ (86)</u>	<u>\$ (23,021)</u>	<u>\$ 28,658</u>	<u>\$ (70,450)</u>	<u>\$ (52,714)</u>	<u>\$ (34,166)</u>	<u>\$ (18,623)</u>	<u>\$ (28,289)</u>	<u>\$ (17,185)</u>	<u>\$ 30,263</u>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,344	\$ 41,344	\$ 42,863	\$ 40,935	\$ 37,835
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	459.56%	447.56%	431.70%	439.72%	346.95%

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, (from 7/1/13)
Remaining amortization period	18 years
Asset valuation method	Market value
Cost of Living increase	N/A
Salary increases	N/A
Investment rate of return	6.50% (7.0% prior to July 1, 2013)
Retirement age	Upon attainment of 25 years of service.
Mortality	RP 2000 Combined Healthy Mortality Table projected to the year 2020 with Scale AA.

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
POLICE AND FIREFIGHTERS' RETIREMENT FUND
LAST 10 FISCAL YEARS**

Year Ending June 30,	Annual Money-weighted Rate of Return
2007	16.7%
2008	-7.9%
2009	-13.0%
2010	11.8%
2011	16.0%
2012	4.1%
2013	15.1%
2014	16.7%
2015	7.8%
2016	1.6%

Notes

The amounts shown are net of investment expenses.

**CITY OF DANVILLE KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS - NON-HAZARDOUS
Last Three Fiscal Years**

	2014	2015	2016
City's proportion of the net pension liability	0.11%	0.11%	0.11%
City's proportionate share of the net pension liability (asset)	\$ 3,929,199	\$ 3,456,145	\$ 4,621,569
City's covered employee payroll	\$ 2,649,591	\$ 2,715,319	\$ 2,933,875
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	148.29%	127.28%	157.52%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**CITY OF DANVILLE KENTUCKY
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
CERS - NON-HAZARDOUS
Last Four Fiscal Years**

	2013	2014	2015	2016
Contractually required employer contribution	\$ 319,799	\$ 364,054	\$ 346,203	\$ 364,661
Contributions relative to contractually required employer contribution	<u>\$ 319,799</u>	<u>\$ 364,054</u>	<u>\$ 346,203</u>	<u>\$ 364,661</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 2,534,067	\$ 2,649,591	\$ 2,715,319	\$ 2,933,875
Employer contributions as a percentage of covered-employee payroll	12.62%	13.74%	12.75%	12.43%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with

Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000

Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with

Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF DANVILLE KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS - HAZARDOUS
Last Three Fiscal Years**

	2014	2015	2016
City's proportion of the net pension liability	0.47%	0.47%	0.44%
City's proportionate share of the net pension liability (asset)	\$ 6,280,303	\$ 5,643,708	\$ 6,785,945
City's covered employee payroll	\$ 2,382,154	\$ 2,260,881	\$ 2,477,834
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	263.64%	249.62%	273.87%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**CITY OF DANVILLE KENTUCKY
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
CERS - HAZARDOUS
Last Four Fiscal Years**

	2013	2014	2015	2016
Contractually required employer contribution	\$ 485,074	\$ 518,595	\$ 468,680	\$ 495,590
Contributions relative to contractually required employer contribution	<u>\$ 485,074</u>	<u>\$ 518,595</u>	<u>\$ 468,680</u>	<u>\$ 495,590</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 2,413,303	\$ 2,382,154	\$ 2,260,881	\$ 2,477,834
Employer contributions as a percentage of covered-employee payroll	20.10%	21.77%	20.73%	20.00%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with

Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000

Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with

Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

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, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ 1,797,500	\$ 1,797,500	\$ 1,741,605	\$ (55,895)
Licenses and fees	9,367,494	9,367,494	10,145,364	777,870
Intergovernmental revenue	335,261	335,261	258,684	(76,577)
Penalties and forfeitures	11,000	11,000	11,599	599
Other revenue	<u>1,386,220</u>	<u>1,386,220</u>	<u>1,431,298</u>	<u>45,078</u>
Total revenues	<u>12,897,475</u>	<u>12,897,475</u>	<u>13,588,550</u>	<u>691,075</u>
Expenditures				
Current operating				
General government	2,199,506	2,199,506	1,834,840	364,666
Public services	1,424,526	1,424,526	1,228,306	196,220
Public safety	7,021,554	7,021,554	6,186,289	835,265
Community services	1,247,601	1,247,601	878,050	369,551
Debt service	659,385	659,385	659,111	274
Capital outlay	<u>2,347,935</u>	<u>2,347,935</u>	<u>1,220,562</u>	<u>1,127,373</u>
Total expenditures	<u>14,900,507</u>	<u>14,900,507</u>	<u>12,007,158</u>	<u>2,893,349</u>
Excess (deficiency) of revenues over expenditures	(2,003,032)	(2,003,032)	1,581,392	3,584,424
Other financing sources (uses)				
Transfers (to) from other funds, net	(548,907)	(548,907)	(662,285)	(113,378)
Sale of property	<u>-</u>	<u>-</u>	<u>10,440</u>	<u>10,440</u>
Total other financing sources (uses)	(548,907)	(548,907)	(651,845)	(102,938)
Excess (deficiency) of revenues over expenditures and transfers	(2,551,939)	(2,551,939)	929,547	3,481,486
Fund balance, beginning of year	<u>5,157,787</u>	<u>5,157,787</u>	<u>7,719,148</u>	<u>2,561,361</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,605,848</u>	<u>\$ 2,605,848</u>	<u>\$ 8,648,695</u>	<u>\$ 6,042,847</u>

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Taxes				
Real and personal property	\$ 1,383,000	\$ 1,383,000	\$ 1,395,307	\$ 12,307
Tangible property	262,000	262,000	241,484	(20,516)
Motor vehicle	112,500	112,500	60,449	(52,051)
PILOT - Housing Authority	40,000	40,000	44,365	4,365
Total taxes	<u>1,797,500</u>	<u>1,797,500</u>	<u>1,741,605</u>	<u>(55,895)</u>
Licenses and fees				
Payroll licenses	9,000	9,000	12,701	3,701
Insurance licenses	1,650,000	1,650,000	1,793,982	143,982
Occupational licenses	5,574,994	5,574,994	5,893,665	318,671
Net profits	778,000	778,000	1,067,071	289,071
Liquor licenses	620,000	620,000	634,357	14,357
Franchise fees-Rural Electric Cooperative Corporation	24,500	24,500	23,571	(929)
Franchise fees-Kentucky Utilities	515,000	515,000	519,795	4,795
Franchise fees-Comcast	103,000	103,000	107,099	4,099
Franchise fees-Bank	93,000	93,000	93,123	123
Total licenses and fees	<u>9,367,494</u>	<u>9,367,494</u>	<u>10,145,364</u>	<u>777,870</u>
Intergovernmental revenue				
Firefighters' incentive	106,000	106,000	95,102	(10,898)
Law enforcement incentive	121,000	121,000	115,371	(5,629)
BASE court	21,000	21,000	19,519	(1,481)
Other intergovernmental revenue	87,261	87,261	28,692	(58,569)
Total intergovernmental revenue	<u>335,261</u>	<u>335,261</u>	<u>258,684</u>	<u>(76,577)</u>
Fines and forfeitures				
Arrest fees	11,000	11,000	11,342	342
Other penalties	-	-	257	257
Total fines and forfeitures	<u>11,000</u>	<u>11,000</u>	<u>11,599</u>	<u>599</u>
Other revenue				
Community tower rental	54,500	54,500	54,763	263
Fire protection	24,500	24,500	24,735	235
Community contracts	144,796	144,796	144,798	2
Management fees	976,659	976,659	897,385	(79,274)
Change in fair value of investments	-	-	13,171	13,171
Interest	35,000	35,000	55,311	20,311
Tobacco crop	-	-	-	-
Boyle County cost sharing	90,000	90,000	90,000	-
Insurance proceeds	-	-	54,348	54,348
School officer	45,765	45,765	45,783	18
Miscellaneous	15,000	15,000	51,004	36,004
Total other revenue	<u>1,386,220</u>	<u>1,386,220</u>	<u>1,431,298</u>	<u>45,078</u>
Total revenue	<u>\$ 12,897,475</u>	<u>\$ 12,897,475</u>	<u>\$ 13,588,550</u>	<u>\$ 691,075</u>

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
General government				
Legislative and executive				
Personnel	\$ 634,648	\$ 634,648	\$ 576,223	\$ 58,425
Contractual	400,750	400,750	221,928	178,822
Other	<u>177,780</u>	<u>177,780</u>	<u>102,238</u>	<u>75,542</u>
Total legislative and executive	<u>1,213,178</u>	<u>1,213,178</u>	<u>900,389</u>	<u>312,789</u>
Finance and administration				
Personnel	375,816	375,816	357,159	18,657
Contractual	366,410	366,410	338,653	27,757
Other	<u>28,200</u>	<u>28,200</u>	<u>22,993</u>	<u>5,207</u>
Total finance and administration	<u>770,426</u>	<u>770,426</u>	<u>718,805</u>	<u>51,621</u>
Information technology				
Personnel	175,152	175,152	129,420	45,732
Contractual	-	-	41,558	(41,558)
Other	<u>40,750</u>	<u>40,750</u>	<u>44,668</u>	<u>(3,918)</u>
Total information technology	<u>215,902</u>	<u>215,902</u>	<u>215,646</u>	<u>256</u>
Total general government	<u>2,199,506</u>	<u>2,199,506</u>	<u>1,834,840</u>	<u>364,666</u>
Public services				
Personnel	350,169	350,169	324,864	25,305
Contractual	760,557	760,557	669,612	90,945
Other	<u>313,800</u>	<u>313,800</u>	<u>233,830</u>	<u>79,970</u>
Total public services	<u>1,424,526</u>	<u>1,424,526</u>	<u>1,228,306</u>	<u>196,220</u>
Total public services	<u>1,424,526</u>	<u>1,424,526</u>	<u>1,228,306</u>	<u>196,220</u>
Public safety				
Police department				
Personnel	2,971,329	2,971,329	2,713,461	257,868
Contractual	195,000	195,000	165,692	29,308
Other	<u>358,350</u>	<u>358,350</u>	<u>241,012</u>	<u>117,338</u>
Total police department	<u>3,524,679</u>	<u>3,524,679</u>	<u>3,120,165</u>	<u>404,514</u>
Communications and administration services				
Personnel	621,314	621,314	529,099	92,215
Contractual	53,030	53,030	46,411	6,619
Other	<u>24,400</u>	<u>24,400</u>	<u>17,205</u>	<u>7,195</u>
Total communications and administration services	<u>698,744</u>	<u>698,744</u>	<u>592,715</u>	<u>106,029</u>

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public safety, continued				
Code enforcement				
Personnel	\$ 262,650	\$ 262,650	\$ 205,033	\$ 57,617
Contractual	20,413	20,413	4,773	15,640
Other	16,400	16,400	12,762	3,638
	<u>299,463</u>	<u>299,463</u>	<u>222,568</u>	<u>76,895</u>
Fire and emergency services				
Personnel	2,154,863	2,154,863	1,962,893	191,970
Contractual	187,655	187,655	144,525	43,130
Other	156,150	156,150	143,423	12,727
	<u>2,498,668</u>	<u>2,498,668</u>	<u>2,250,841</u>	<u>247,827</u>
Total fire and emergency services	<u>2,498,668</u>	<u>2,498,668</u>	<u>2,250,841</u>	<u>247,827</u>
Total public safety	<u>7,021,554</u>	<u>7,021,554</u>	<u>6,186,289</u>	<u>835,265</u>
Community services				
Community agencies				
Grants	184,200	184,200	180,450	3,750
Non-departmental				
Grants	560,000	560,000	416,504	143,496
Police and fire retirement	165,000	165,000	165,000	-
Economic development initiative	125,000	125,000	127,053	(2,053)
Contingency - general fund	160,401	160,401	(7,875)	168,276
Insurance/judgement/claims	40,000	40,000	7,105	32,895
Workers' comp audit	13,000	13,000	(10,187)	23,187
	<u>1,063,401</u>	<u>1,063,401</u>	<u>697,600</u>	<u>365,801</u>
Total non-departmental	<u>1,063,401</u>	<u>1,063,401</u>	<u>697,600</u>	<u>365,801</u>
Total community services	<u>1,247,601</u>	<u>1,247,601</u>	<u>878,050</u>	<u>369,551</u>
Debt service				
CERS	83,078	83,078	83,074	4
City Hall	576,307	576,307	576,037	270
	<u>659,385</u>	<u>659,385</u>	<u>659,111</u>	<u>274</u>
Total debt service	<u>659,385</u>	<u>659,385</u>	<u>659,111</u>	<u>274</u>
Capital outlay				
Finance and administration	767,514	767,514	152,915	614,599
Fire department	211,000	211,000	187,735	23,265
Public services	1,035,421	1,035,421	591,915	443,506
Police department	334,000	334,000	287,997	46,003
	<u>2,347,935</u>	<u>2,347,935</u>	<u>1,220,562</u>	<u>1,127,373</u>
Total capital outlay	<u>2,347,935</u>	<u>2,347,935</u>	<u>1,220,562</u>	<u>1,127,373</u>
Total expenditures	<u>\$ 14,900,507</u>	<u>\$ 14,900,507</u>	<u>\$ 12,007,158</u>	<u>\$ 2,893,349</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, 2016**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenue	\$ 314,728	\$ 314,728	\$ 321,802	\$ 7,074
Other revenue	<u>300</u>	<u>300</u>	<u>2,340</u>	<u>2,040</u>
Total revenues	<u>315,028</u>	<u>315,028</u>	<u>324,142</u>	<u>9,114</u>
Expenditures				
Current operating				
Public services	400,000	400,000	392,833	7,167
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>400,000</u>	<u>400,000</u>	<u>392,833</u>	<u>7,167</u>
Excess (deficiency) of revenues over expenditures	(84,972)	(84,972)	(68,691)	16,281
Transfers (to) from other funds, net	<u>25,000</u>	<u>25,000</u>	<u>50,000</u>	<u>25,000</u>
Excess (deficiency) of revenues over expenditures and transfers	(59,972)	(59,972)	(18,691)	25,000
Fund balance, beginning of year	<u>543,312</u>	<u>543,312</u>	<u>392,669</u>	<u>(150,643)</u>
FUND BALANCE, END OF YEAR	<u>\$ 483,340</u>	<u>\$ 483,340</u>	<u>\$ 373,978</u>	<u>\$ (109,362)</u>

SUPPLEMENTARY INFORMATION

**CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016**

	<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>2016 Total</u>
ASSETS										
Cash and cash equivalents	\$ 12,760	\$ 24,144	\$ 26,138	\$ -	\$ -	\$ 20,819	27,032	\$ 5,021	\$ 24,723	\$ 140,637
Receivables	1,899	-	-	3,180	291,102	-	-	-	-	296,181
Investments	-	-	-	-	-	-	5,916	-	-	5,916
Total assets	<u>\$ 14,659</u>	<u>\$ 24,144</u>	<u>\$ 26,138</u>	<u>\$ 3,180</u>	<u>\$ 291,102</u>	<u>\$ 20,819</u>	<u>\$ 32,948</u>	<u>\$ 5,021</u>	<u>\$ 24,723</u>	<u>\$ 442,734</u>
LIABILITIES AND FUND BALANCE										
Accounts payable	\$ -	\$ -	\$ -	\$ 3,180	\$ 199,213	\$ -	\$ -	\$ -	\$ -	\$ 202,393
Accrued wages	-	-	-	-	91,889	-	-	-	-	91,889
Accrued payroll taxes & benefits payable	<u>141</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>141</u>
Total liabilities	<u>141</u>	<u>-</u>	<u>-</u>	<u>3,180</u>	<u>291,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>294,423</u>
Fund balance, restricted	-	-	-	-	-	-	-	5,021	24,723	29,744
Fund balance, unassigned	<u>14,518</u>	<u>24,144</u>	<u>26,138</u>	<u>-</u>	<u>-</u>	<u>20,819</u>	<u>32,948</u>	<u>-</u>	<u>-</u>	<u>118,567</u>
Total fund balance	<u>14,518</u>	<u>24,144</u>	<u>26,138</u>	<u>-</u>	<u>-</u>	<u>20,819</u>	<u>32,948</u>	<u>5,021</u>	<u>24,723</u>	<u>148,311</u>
Total liabilities and fund balance	<u>\$ 14,659</u>	<u>\$ 24,144</u>	<u>\$ 26,138</u>	<u>\$ 3,180</u>	<u>\$ 291,102</u>	<u>\$ 20,819</u>	<u>\$ 32,948</u>	<u>\$ 5,021</u>	<u>\$ 24,723</u>	<u>\$ 442,734</u>

**CITY OF DANVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2016**

	<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 Funds</u>	<u>Park Nonexpendable Trust Fund</u>	<u>Cemetery Nonexpendable Trust Fund</u>	<u>2016 Total</u>
REVENUES										
Intergovernmental	\$ 6,633	\$ -	\$ -	\$ 3,180	\$ 312,605	\$ -	\$ -	\$ -	\$ -	\$ 322,418
Penalties and forfeitures	-	4,505	-	-	-	-	-	-	-	4,505
Other revenues	<u>72</u>	<u>127</u>	<u>146</u>	<u>-</u>	<u>426</u>	<u>21,419</u>	<u>212</u>	<u>28</u>	<u>74</u>	<u>22,504</u>
Total revenues	<u>6,705</u>	<u>4,632</u>	<u>146</u>	<u>3,180</u>	<u>313,031</u>	<u>21,419</u>	<u>212</u>	<u>28</u>	<u>74</u>	<u>349,427</u>
EXPENDITURES										
Public safety	5,723	-	-	-	-	-	-	-	-	5,723
Community services	-	-	-	3,180	-	9,755	-	-	-	12,935
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>747,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>747,848</u>
Total expenditures	<u>5,723</u>	<u>-</u>	<u>-</u>	<u>3,180</u>	<u>747,848</u>	<u>9,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>766,506</u>
Excess (deficiency) of revenues over expenditures	982	4,632	146	-	(434,817)	11,664	212	28	74	(417,079)
Other financing sources (uses):										
Transfers (to) from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,378</u>
Net change in fund balance	982	4,632	146	-	(321,439)	11,664	212	28	74	(303,701)
Fund balance, beginning of year	<u>13,536</u>	<u>19,512</u>	<u>25,992</u>	<u>-</u>	<u>321,439</u>	<u>9,155</u>	<u>32,736</u>	<u>4,993</u>	<u>24,649</u>	<u>452,012</u>
Fund balance, end of year	<u>\$ 14,518</u>	<u>\$ 24,144</u>	<u>\$ 26,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,819</u>	<u>\$ 32,948</u>	<u>\$ 5,021</u>	<u>\$ 24,723</u>	<u>\$ 148,311</u>

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
June 30, 2016

	Garbage Fund	Cemetery Fund	Museum Fund	2016 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 26,548	\$ 169,727	\$ 7,525	\$ 203,800
Accounts receivable, net	66,314	3,317	42,282	111,913
Investments	<u>-</u>	<u>122,792</u>	<u>-</u>	<u>122,792</u>
Total current assets	<u>92,862</u>	<u>295,836</u>	<u>49,807</u>	<u>438,505</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	-	-	-
Capital assets, net	<u>-</u>	<u>102,249</u>	<u>371,114</u>	<u>473,363</u>
Total noncurrent assets	<u>-</u>	<u>102,249</u>	<u>371,114</u>	<u>473,363</u>
Total assets	<u>92,862</u>	<u>398,085</u>	<u>420,921</u>	<u>911,868</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	<u>-</u>	<u>31,640</u>	<u>-</u>	<u>31,640</u>
Total assets and deferred outflows of resources	<u>\$ 92,862</u>	<u>\$ 429,725</u>	<u>\$ 420,921</u>	<u>\$ 943,508</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 75,782	\$ 6,762	\$ 2,811	\$ 85,355
Accrued expenses	-	1,455	-	1,455
Current portion of compensated absences	<u>-</u>	<u>320</u>	<u>-</u>	<u>320</u>
Total current liabilities	<u>75,782</u>	<u>8,537</u>	<u>2,811</u>	<u>87,130</u>
Non-current liabilities				
Compensated absences, net of current portion	-	6,072	-	6,072
Net pension liability	<u>-</u>	<u>109,532</u>	<u>-</u>	<u>109,532</u>
Total non-current liabilities	<u>-</u>	<u>115,604</u>	<u>-</u>	<u>115,604</u>
Total liabilities	<u>75,782</u>	<u>124,141</u>	<u>2,811</u>	<u>202,734</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	<u>-</u>	<u>2,088</u>	<u>-</u>	<u>2,088</u>
NET POSITION				
Net invested in capital assets	-	102,249	371,114	473,363
Net position, unrestricted	<u>17,080</u>	<u>201,247</u>	<u>46,996</u>	<u>265,323</u>
Total net position	<u>17,080</u>	<u>303,496</u>	<u>418,110</u>	<u>738,686</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 92,862</u>	<u>\$ 429,725</u>	<u>\$ 420,921</u>	<u>\$ 943,508</u>

**CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
for the year ended June 30, 2016**

	<u>Garbage Fund</u>	<u>Cemetery Fund</u>	<u>Museum Fund</u>	<u>2016 Total</u>
Revenues				
Fees for services	\$ 901,990	\$ 73,419	\$ -	\$ 975,409
Total revenues	<u>901,990</u>	<u>73,419</u>	<u>-</u>	<u>975,409</u>
Operating Expenses				
Personnel	-	106,490	-	106,490
Contractual	955,219	80,922	20,068	1,056,209
Depreciation	-	8,596	13,874	22,470
Other expenses	-	8,048	-	8,048
Total operating expenses	955,219	204,056	33,942	1,193,217
Operating (loss)	<u>(53,229)</u>	<u>(130,637)</u>	<u>(33,942)</u>	<u>(217,808)</u>
Nonoperating revenues (expenses)				
Investment earnings	<u>116</u>	<u>4,724</u>	<u>132</u>	<u>4,972</u>
Total nonoperating revenues (expenses)	<u>116</u>	<u>4,724</u>	<u>132</u>	<u>4,972</u>
(Loss) before other revenues, expenses, gains, losses and transfers	(53,113)	(125,913)	(33,810)	(212,836)
Transfers from other funds	<u>62,559</u>	<u>198,826</u>	<u>33,246</u>	<u>294,631</u>
Change in net position	9,446	72,913	(564)	81,795
Net position, beginning of year	<u>7,634</u>	<u>230,583</u>	<u>418,674</u>	<u>656,891</u>
Net position, end of year	<u>\$ 17,080</u>	<u>\$ 303,496</u>	<u>\$ 418,110</u>	<u>\$ 738,686</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, 2016, 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 December 27, 2016.

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.

RFH

RFH, PLLC
Lexington, Kentucky
December 27, 2016

CITY OF DANVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

Federal Grantor Program Title	Federal CFDA Number	Federal Expenditures
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	\$ 4,369,093
Department of the Interior Historic Preservation Fund Grants-In-Aid (Note 1)	15.904	8,192
United States Department of Transportation Highway Planning and Construction (Note 2)	20.205	312,606
State and Community Highway Safety (Note 3)	20.600	<u>6,633</u>
Total United States Department of Transportation		<u>319,239</u>
United States Department of Homeland Security Homeland Security Grant Program (Note 3)	97.067	<u>20,000</u>
 Total Federal Financial Assistance		 <u>\$ 4,716,524</u>

- (1) Pass Through Grantor - Kentucky Heritage Cabinet
- (2) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet, Office of Highway Safety
- (3) Pass Through Grantor - Commonwealth of Kentucky Department for Local Government

Note 1 - 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 Title 2 U.S. Code of Federal (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Note 2 - Indirect Cost Rates

The City of Danville did not elect to use the 10 percent de *minimus* cost rate as allowed under the *Uniform Guidance*.

Note 3 - Subrecipients

The City of Danville did not pass through any funds to subrecipients.

Reconciliation to financial statements:

Operating Grants and Contributions, page 10	\$ 581,102
Capital Grants and Contributions, page 10	321,802
Purchases of capital assets (Utility Fund), page 15	7,940,905
Less non-federal funding received	<u>(4,127,285)</u>
	 <u>\$ 4,716,524</u>



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Commissioners
City of Danville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Danville, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Danville, Kentucky's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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 the City of Danville, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2016.

Report on Internal Control over Compliance

Management of the 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 the 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 the Uniform Guidance, 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 the City of Danville, Kentucky's internal control over compliance.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
December 27, 2016

**CITY OF DANVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2016**

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 2 CFR 200.516(a)? Yes No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A
and type B programs: \$ 750,000

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