

CITY OF DANVILLE
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2018

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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, 2018, 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 auditor's 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, 2018, 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.

Emphasis of a Matter – Implementation of New GASB Accounting Standards

As discussed in Notes 7 and 15 to the financial statements, effective July 1, 2017, the City adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB schedules, and budgetary comparison information on pages 3–8 and 50–65 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 combining nonmajor fund financial statements 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 nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019, 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
January 11, 2019

City of Danville, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018. 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, 2018, the City's assets (page 9) exceeded liabilities by \$12,948,770 in Governmental activities. The Net Position is less than the past fiscal year due to projects that have been completed but the funding had been procured but not spent in past fiscal years. Scheduled debt amortization that is presented on Government-Wide Financial Statements has begun for finished projects along with increased pension liability with new OPEB liability calculations. The Net Pension Liability for June 30, 2018 is \$17,053,671 which is higher than last fiscal year due to the change in the State of Kentucky's overall figures and allocations the OPEB liability is \$6,130,195.
- Unrestricted cash and investment balances for Governmental activities (page 9) as of June 30, were \$12,811,033 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt and capital leases) were \$2,179,906.
- Net position for June 30, 2017 was restated to include the new OPEB liability calculations, this restatement resulted in an overall decrease in net position of \$3,734,458. Using the restated net position for 2017, net position for all funds increased by \$2,104,384 (page 10). This increase, \$517,035 is attributed to the net position decrease from business-type activities and \$2,621,419 is attributed to the net position increase from governmental activities. The primary reasons for the decrease in net position of business-type activities is the increased computation on the CERS pension liability and the new OPEB liability computation. The primary reasons for the increase in net position of governmental activities is due to increased revenues of the general fund from rate changes and contract negotiations and operating expenses coming in very favorable compared to the budget in the general fund along with money being saved for upcoming projects.
- Fund balances (a measure of current financial resources) in the governmental funds increased \$3,416,736 to a total of \$13,950,056 (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, \$13,293,592 (page 11) is unassigned and available for future programs and it is used to meet the reserve requirements per city ordinance.
- The General Fund unassigned fund balance (page 11), as of June 30, 2018, was \$13,019,751, or about 77% of total general fund expenditures.
- The City has debt and pension liabilities of \$29,335,313 in Governmental Funds and \$50,609,043 in Business-type Funds at June 30, 2018. The City did issue new debt during the fiscal year ended June 30, 2018. The 2017A GO bonds were borrowed for the energy efficiency project for the General Fund, Utility Fund, Museum Fund and Parking Fund. In addition, 2017B GO Bonds were issued to refinance debt in the Parking Fund for interest saving over the life of the bond. In fiscal year 2018, the city started a leasing program for passenger vehicles with is stated capital leases the financial statements. The City also recognizes an increase in Net Pension Liability and Compensated absences liabilities for the 2018 fiscal year.

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 and New OPEB 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 ten 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 66 and 67. 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 61.

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 68 and 69.

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 are 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 49.

Other information - This section of the report includes two types of supplementary information. *Required Supplementary Information* (pages 50 through 60) must be included to conform to generally accepted accounting principles. 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 70 through 71). The Schedule of Expenditures of Federal Awards (page 60) and the Independent Auditors Report on Compliance required by OMB circular A-133 with required schedule (pages 61 through 63).

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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 22,228	\$ 14,442	\$ 12,301	\$ 10,576	\$ 34,529	\$ 25,018
Capital assets	22,760	20,567	71,556	65,759	94,316	86,326
Total assets	44,988	35,009	83,857	76,335	128,845	111,344
Long-term debt outstanding	9,658	8,362	45,749	37,817	55,407	46,179
Other liabilities	22,381	16,320	6,604	6,497	28,985	22,817
Total liabilities	32,039	24,682	52,353	44,314	84,392	68,996
Net position:						
Invested in capital assets, net of related debt	13,101	12,206	25,807	27,943	38,909	40,149
Restricted	150	223	3,800	4,586	3,950	4,809
Unrestricted (deficit)	(303)	(2,102)	1,897	(508)	1,594	(2,610)
Total Net Position	\$ 12,949	\$ 10,327	\$ 31,504	\$ 32,021	\$ 44,453	\$ 42,348

June 30, 2017 totals are restated to reflect the new OPEB liabilities.

The majority of the City’s net position (88%) reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. This percentage is slightly more than the prior year due to the construction projects completion. The decrease in restricted net position is also due to construction projects being finished. 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, \$3.9 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 remaining financing for on-going projects.

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

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 \$1,416,736. The reasons for this increase were addressed earlier in this report.

Non-major funds include Police Safety, Drug Forfeiture, Hazard Mitigation, Streetscape, Toy Program, 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 66 and 67.

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.

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 Activities	Business- Type Activities	Total
Land	\$ 2,578,059	\$ 1,534,850	\$ 4,112,909
Buildings	8,559,409	33,955,415	42,514,824
Improvements other than buildings	1,485,095	262,829	1,747,924
Vehicles	1,416,293	809,567	2,225,860
Equipment	1,370,847	308,422	1,679,269
Infrastructure	4,890,248	27,860,031	32,750,279
Construction in progress	2,459,605	6,824,786	9,284,391
Total	<u>\$ 22,759,556</u>	<u>\$ 71,555,900</u>	<u>\$ 94,315,456</u>

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

Weisiger Park upgrades with a cumulative cost of \$685,540 was finished in the fiscal year.

Both Spears Creek Lagoon Project and the Water Treatment Plant upgrades were finished in the fiscal year with cumulative costs of \$3,319,754 and \$28,391,125 respectively.

During the current fiscal year, the City incurred costs for engineering and construction related to an energy efficiency project that span across four funds (general fund, utility fund, museum fund and parking fund). Cumulative expenses at June 30, 2018 for this project was \$7,522,548.

Long-Term Debt

The principal outstanding on the City's long-term debt is summarized in the following table. (Excluding deferred amounts and leases)

	City of Danville's Outstanding Debt		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
KLC Funding Trust	\$ 3,856,721	\$	\$ 3,856,721
Series 2012 GO Bonds	3,730,000		3,730,000
Ky. Bond Corporation-Lease	325,000	505,000	830,000
Series 2017A GO Bonds	1,116,775	7,418,226	8,535,001
Series 2017B GO Bonds		2,665,000	2,665,000
Series 2014 Bonds (A,B,&C)		5,010,000	5,010,000
Series 2015 Bonds (A&B)		13,403,000	13,403,000
Series 2008 Rural Dev. Bonds		1,339,700	1,339,700
Series 2000 RUS Revenue Bonds		350,400	350,400
Series 2010 Build America Bond		547,500	547,500
Series 1995 RUS Revenue Bonds		345,000	345,000
KIA Loan – Water Treatment Plant		11,814,571	11,814,571
Total	\$ <u>9,028,496</u>	\$ <u>43,398,397</u>	\$ <u>52,426,893</u>

The City's long term debt increased by \$6,884,899 during the fiscal year. The new debt is contributed to the new construction loans for the Energy Efficiency Project (2017A) and the refinance of 2006 bonds with the 2017B Bonds.

Economic Factors and Next Year's Budget

The City is currently in the final construction phase of the Energy Efficiency Project. The City has budgeted to finish this approximately 9 million dollar project in the June 30, 2019 fiscal year. The City is also in the final construction phase of the Lexington Road Project.

The City will complete the equipping of the new ladder truck and equipment and bought land to build a new central fire station downtown. The 2018 bonds were issued to pay for the ladder truck and the construction of the new fire station anticipating construction to begin spring 2019.

The City previously borrowed \$1,035,000 to match EDA funds and finish the Corporate Road utility project which is in the construction phase along with the Perryville Road utility project.

The City also purchased the property known as the Boyle County Fairgrounds for future municipal use.

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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 12,811,033	\$ 5,752,752	\$ 18,563,785
Investments	1,187,626	117,472	1,305,098
Receivables, net	1,976,262	1,008,675	2,984,937
Inventory, at cost	-	173,221	173,221
Prepaid expenses and other current assets	4,912	-	4,912
Total current assets	<u>15,979,833</u>	<u>7,052,120</u>	<u>23,031,953</u>
Non-current assets			
Restricted cash and cash equivalents	150,129	3,325,212	3,475,341
Restricted investments	-	474,405	474,405
Nondepreciable capital assets	5,037,664	8,359,636	13,397,300
Depreciable capital assets, net	17,721,892	63,196,264	80,918,156
Total non-current assets	<u>22,909,685</u>	<u>75,355,517</u>	<u>98,265,202</u>
Total assets	<u>38,889,518</u>	<u>82,407,637</u>	<u>121,297,155</u>
DEFERRED OUTFLOWS OF RESOURCES			
Defeasance on refunding	-	40,694	40,694
Deferred outflows - pension	4,111,016	1,059,670	5,170,686
Deferred outflows - OPEB	1,987,185	349,320	2,336,505
Total assets and deferred outflows of resources	<u>\$ 44,987,719</u>	<u>\$ 83,857,321</u>	<u>\$ 128,845,040</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 1,554,389	\$ 1,483,268	\$ 3,037,657
Accrued payroll and benefits	349,806	60,659	410,465
Self-insurance claims payable	230,734	16,428	247,162
Deposits	11,270	34,700	45,970
Current portion of compensated absences	33,707	8,958	42,665
Accrued interest payable	-	362,284	362,284
Current portion of capital leases	89,404	131,855	221,259
Current portion of bonds and notes payable	296,249	1,607,323	1,903,572
Total current liabilities	<u>2,565,559</u>	<u>3,705,475</u>	<u>6,271,034</u>
Non-current liabilities			
Bonds and notes payable, net of current portion	8,895,545	43,032,218	51,927,763
Capital leases, net of current portion	376,517	615,775	992,292
Net pension liability - CERS	13,510,184	3,543,487	17,053,671
Net pension liability - police and firefighters' retirement	928,578	-	928,578
Net OPEB liability - CERS	4,952,646	1,177,549	6,130,195
Compensated absences, net of current portion	252,483	129,594	382,077
Total non-current liabilities	<u>28,915,953</u>	<u>48,498,623</u>	<u>77,414,576</u>
Total liabilities	<u>31,481,512</u>	<u>52,204,098</u>	<u>83,685,610</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	248,106	87,846	335,952
Deferred inflows - OPEB	309,331	61,654	370,985
Total deferred inflows of resources	<u>557,437</u>	<u>149,500</u>	<u>706,937</u>
NET POSITION			
Net investment in capital assets	13,101,841	25,806,445	38,908,286
Restricted	150,129	3,799,617	3,949,746
Unrestricted	(303,200)	1,897,661	1,594,461
Total net position	<u>12,948,770</u>	<u>31,503,723</u>	<u>44,452,493</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 44,987,719</u>	<u>\$ 83,857,321</u>	<u>\$ 128,845,040</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, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government							
Governmental activities							
General government	\$ 2,580,398	\$ -	\$ -	\$ 59,803	\$ (2,520,595)	\$ -	\$ (2,520,595)
Public services	2,808,774	-	-	331,002	(2,477,772)	-	(2,477,772)
Public safety	8,882,395	-	311,562	-	(8,570,833)	-	(8,570,833)
Community services	1,336,927	-	-	-	(1,336,927)	-	(1,336,927)
Interest on long-term debt	259,591	-	-	-	(259,591)	-	(259,591)
Total governmental activities	<u>15,868,085</u>	<u>-</u>	<u>311,562</u>	<u>390,805</u>	<u>(15,165,718)</u>	<u>-</u>	<u>(15,165,718)</u>
Business-type activities							
Utilities	8,922,493	9,298,659	-	195,735	-	571,901	571,901
Parking	310,016	278,082	-	-	-	(31,934)	(31,934)
Garbage	992,836	940,520	-	-	-	(52,316)	(52,316)
Cemetery	231,670	68,881	-	-	-	(162,789)	(162,789)
Museum	36,055	-	-	-	-	(36,055)	(36,055)
Storm water	446,655	584,885	-	-	-	138,230	138,230
Total business-type activities	<u>10,939,725</u>	<u>11,171,027</u>	<u>-</u>	<u>195,735</u>	<u>-</u>	<u>427,037</u>	<u>427,037</u>
Total primary government	<u>\$ 26,807,810</u>	<u>\$ 11,171,027</u>	<u>\$ -</u>	<u>\$ 586,540</u>	<u>(15,165,718)</u>	<u>427,037</u>	<u>(14,738,681)</u>
General revenues							
Taxes					2,040,423	-	2,040,423
Licenses and fees					13,589,153	-	13,589,153
Fines and forfeitures					9,638	-	9,638
Management fees					1,031,081	-	1,031,081
Other					1,513,076	(1,340,306)	172,770
Total general revenues					<u>18,183,371</u>	<u>(1,340,306)</u>	<u>16,843,065</u>
Transfers in (out)					<u>(396,234)</u>	<u>396,234</u>	<u>-</u>
Total general revenues and transfers					<u>17,787,137</u>	<u>(944,072)</u>	<u>16,843,065</u>
Change in net position					2,621,419	(517,035)	2,104,384
Net position, beginning of year, as restated					<u>10,327,351</u>	<u>32,020,758</u>	<u>42,348,109</u>
NET POSITION, END OF YEAR					<u>\$ 12,948,770</u>	<u>\$ 31,503,723</u>	<u>\$ 44,452,493</u>

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

**CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 11,875,381	\$ 778,980	\$ 306,801	\$ 12,961,162
Investments	1,181,591	-	6,035	1,187,626
Receivables, net	1,975,159	-	1,103	1,976,262
Prepaid expenses and other assets	<u>4,912</u>	<u>-</u>	<u>-</u>	<u>4,912</u>
Total assets	<u>\$ 15,037,043</u>	<u>\$ 778,980</u>	<u>\$ 313,939</u>	<u>\$ 16,129,962</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,236,734	\$ 307,864	\$ 9,791	\$ 1,554,389
Accrued payroll and benefits	349,806	-	-	349,806
Self-insurance claims payable	230,734	-	-	230,734
Deposits	11,270	-	-	11,270
Compensated absences	<u>33,707</u>	<u>-</u>	<u>-</u>	<u>33,707</u>
Total liabilities	<u>1,862,251</u>	<u>307,864</u>	<u>9,791</u>	<u>2,179,906</u>
Fund balances				
Nonspendable	4,912	-	-	4,912
Restricted	150,129	471,116	30,307	651,552
Unassigned	<u>13,019,751</u>	<u>-</u>	<u>273,841</u>	<u>13,293,592</u>
Total fund balances	<u>13,174,792</u>	<u>471,116</u>	<u>304,148</u>	<u>13,950,056</u>
Total liabilities and fund balances	<u>\$ 15,037,043</u>	<u>\$ 778,980</u>	<u>\$ 313,939</u>	<u>\$ 16,129,962</u>
Amounts reported for governmental activities in the statement of net position are different because:				
Fund balances reported above				\$ 13,950,056
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				22,759,556
Long-term liabilities, including bonds and notes payable, net pension/OPEB liability, capital leases, and accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.				(29,301,606)
Net deferred inflows/outflows related to the long-term pension/OPEB liability are not reported in the funds.				<u>5,540,764</u>
Net position of governmental activities				<u>\$ 12,948,770</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, 2018

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 2,040,423	\$ -	\$ -	\$ 2,040,423
Licenses and fees	13,589,153	-	-	13,589,153
Intergovernmental revenue	357,440	331,002	13,925	702,367
Fines and forfeitures	9,453	-	185	9,638
Other revenues	<u>2,507,630</u>	<u>8,925</u>	<u>27,602</u>	<u>2,544,157</u>
Total revenues	<u>18,504,099</u>	<u>339,927</u>	<u>41,712</u>	<u>18,885,738</u>
EXPENDITURES				
Current operating				
General government	2,117,983	-	-	2,117,983
Public services	1,547,748	579,731	-	2,127,479
Public safety	6,982,637	-	28,231	7,010,868
Community services	1,061,082	-	25,549	1,086,631
Debt service	694,406	-	-	694,406
Capital outlay	<u>3,668,388</u>	<u>-</u>	<u>7,500</u>	<u>3,675,888</u>
Total expenditures	<u>16,072,244</u>	<u>579,731</u>	<u>61,280</u>	<u>16,713,255</u>
Excess (deficiency) of revenues over expenditures	2,431,855	(239,804)	(19,568)	2,172,483
Other financing sources (uses):				
Transfers (to) from other funds	(830,484)	350,000	84,250	(396,234)
Proceeds from bond issuance	<u>1,640,487</u>	<u>-</u>	<u>-</u>	<u>1,640,487</u>
Total other financing sources (uses)	<u>810,003</u>	<u>350,000</u>	<u>84,250</u>	<u>1,244,253</u>
Net change in fund balance	3,241,858	110,196	64,682	3,416,736
Fund balance, beginning of year	<u>9,932,934</u>	<u>360,920</u>	<u>239,466</u>	<u>10,533,320</u>
FUND BALANCE, END OF YEAR	<u>\$ 13,174,792</u>	<u>\$ 471,116</u>	<u>\$ 304,148</u>	<u>\$ 13,950,056</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances				\$ 3,416,736
add: capital outlay expenditures capitalized				3,664,938
add: debt service expenditures				694,406
less: proceeds from bond				(1,640,487)
less: bond premium				(93,904)
less: depreciation on governmental activities assets				(1,472,788)
less: amortization of deferred bond cost				3,470
less: interest on long-term debt				(259,591)
change in net pension liability - CERS				(1,477,368)
change in net OPEB liability - CERS				(389,124)
change in net pension liability - police & firefighters' retirement				184,797
change in long-term compensated absences				<u>(9,666)</u>
Change in net position of governmental activities				<u>\$ 2,621,419</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

ASSETS	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	Totals
Current assets					
Cash and cash equivalents	\$ 4,227,290	\$ 77,824	\$ 1,178,826	\$ 268,812	\$ 5,752,752
Investments	-	-	-	117,472	117,472
Accounts receivable, net	822,297	53,558	57,055	75,765	1,008,675
Inventory, at cost	173,221	-	-	-	173,221
Total current assets	<u>5,222,808</u>	<u>131,382</u>	<u>1,235,881</u>	<u>462,049</u>	<u>7,052,120</u>
Non-current assets					
Restricted cash and cash equivalents	3,302,054	-	23,158	-	3,325,212
Restricted investments	474,405	-	-	-	474,405
Nondepreciable capital assets	6,696,936	1,251,802	259,352	151,546	8,359,636
Depreciable capital assets, net	55,430,873	5,787,694	1,597,972	379,725	63,196,264
Total non-current assets	<u>65,904,268</u>	<u>7,039,496</u>	<u>1,880,482</u>	<u>531,271</u>	<u>75,355,517</u>
Total assets	<u>71,127,076</u>	<u>7,170,878</u>	<u>3,116,363</u>	<u>993,320</u>	<u>82,407,637</u>
DEFERRED OUTFLOWS OF RESOURCES					
Defeasance on refunding	-	40,694	-	-	40,694
Deferred outflows - pension	929,138	18,229	64,507	47,796	1,059,670
Deferred outflows - OPEB	312,829	3,918	22,078	10,495	349,320
Total assets and deferred outflows of resources	<u>\$ 72,369,043</u>	<u>\$ 7,233,719</u>	<u>\$ 3,202,948</u>	<u>\$ 1,051,611</u>	<u>\$ 83,857,321</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 1,310,313	\$ 19,216	\$ 101,552	\$ 52,187	\$ 1,483,268
Accrued payroll and benefits	56,519	282	2,252	1,606	60,659
Self-insurance claims payable	14,209	49	679	1,491	16,428
Deposits	34,700	-	-	-	34,700
Current portion of compensated absences	8,589	-	153	216	8,958
Current portion of capital leases	113,337	-	9,525	8,993	131,855
Accrued interest payable	340,013	11,963	9,738	570	362,284
Current portion of bonds and notes payable	1,407,323	165,000	35,000	-	1,607,323
Total current liabilities	<u>3,285,003</u>	<u>196,510</u>	<u>158,899</u>	<u>65,063</u>	<u>3,705,475</u>
Non-current liabilities					
Bonds and notes payable	38,658,585	3,862,939	470,000	40,694	43,032,218
Capital leases, net of current portion	546,934	-	35,699	33,142	615,775
Net pension liability - CERS	3,130,976	57,465	211,011	144,035	3,543,487
Net OPEB liability - CERS	1,054,539	13,210	74,423	35,377	1,177,549
Compensated absences, net of current portion	122,591	-	2,901	4,102	129,594
Total non-current liabilities	<u>43,513,625</u>	<u>3,933,614</u>	<u>794,034</u>	<u>257,350</u>	<u>48,498,623</u>
Total liabilities	<u>46,798,628</u>	<u>4,130,124</u>	<u>952,933</u>	<u>322,413</u>	<u>52,204,098</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pension	78,670	985	5,552	2,639	87,846
Deferred inflows - OPEB	55,213	692	3,897	1,852	61,654
Total deferred inflows of resources	<u>133,883</u>	<u>1,677</u>	<u>9,449</u>	<u>4,491</u>	<u>149,500</u>
NET POSITION					
Net investment in capital assets	21,061,617	2,999,594	1,297,362	447,872	25,806,445
Restricted	3,776,459	-	23,158	-	3,799,617
Unrestricted	598,456	102,324	920,046	276,835	1,897,661
Total net position	<u>25,436,532</u>	<u>3,101,918</u>	<u>2,240,566</u>	<u>724,707</u>	<u>31,503,723</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 72,369,043</u>	<u>\$ 7,233,719</u>	<u>\$ 3,202,948</u>	<u>\$ 1,051,611</u>	<u>\$ 83,857,321</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, 2018

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	Totals
Operating revenues					
Water sales	\$ 4,663,493	\$ -	\$ -	\$ -	\$ 4,663,493
Water surcharge	133,830	-	-	-	133,830
Sewer charges	4,093,212	-	-	-	4,093,212
Connection fees	66,238	-	-	-	66,238
Parking rental fees	-	278,082	-	-	278,082
Other fees for services	-	-	584,885	1,009,401	1,594,286
Other revenues	341,886	-	-	-	341,886
Total operating revenues	<u>9,298,659</u>	<u>278,082</u>	<u>584,885</u>	<u>1,009,401</u>	<u>11,171,027</u>
Operating expenses					
Water	5,058,614	-	-	-	5,058,614
Sewer	751,022	-	-	-	751,022
Perryville	168,099	-	-	-	168,099
Personnel	-	46,979	230,477	103,322	380,778
Contractual	-	62,521	11,140	1,094,210	1,167,871
Management fees	967,541	-	63,540	-	1,031,081
Depreciation	1,611,490	199,830	71,577	34,616	1,917,513
Other operating expenses	365,727	686	69,921	28,413	464,747
Total operating expenses	<u>8,922,493</u>	<u>310,016</u>	<u>446,655</u>	<u>1,260,561</u>	<u>10,939,725</u>
Operating income (loss)	<u>376,166</u>	<u>(31,934)</u>	<u>138,230</u>	<u>(251,160)</u>	<u>231,302</u>
Non-operating revenues (expenses)					
Grants	195,735	-	-	-	195,735
Interest expense	(1,033,120)	(140,362)	(23,361)	(9,673)	(1,206,516)
Bond issuance cost	(171,664)	(57,923)	-	(793)	(230,380)
Other non-operating revenues (expenses)	71,303	4,133	16,462	4,692	96,590
Total non-operating revenues (expenses)	<u>(937,746)</u>	<u>(194,152)</u>	<u>(6,899)</u>	<u>(5,774)</u>	<u>(1,144,571)</u>
Income (loss) before transfers	(561,580)	(226,086)	131,331	(256,934)	(913,269)
Transfers from other funds	-	115,124	-	281,110	396,234
Change in net position	(561,580)	(110,962)	131,331	24,176	(517,035)
Net position, beginning of year, as restated	<u>25,998,112</u>	<u>3,212,880</u>	<u>2,109,235</u>	<u>700,531</u>	<u>32,020,758</u>
NET POSITION, END OF YEAR	<u>\$ 25,436,532</u>	<u>\$ 3,101,918</u>	<u>\$ 2,240,566</u>	<u>\$ 724,707</u>	<u>\$ 31,503,723</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, 2018

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Totals Funds	Totals
Cash flows from operating activities					
Receipts from customers	\$ 10,653,886	\$ 229,649	\$ 563,746	\$ 990,914	\$ 12,438,195
Payments to suppliers	(4,235,438)	(47,889)	(81,111)	(1,153,803)	(5,518,241)
Payments to employees	(2,394,803)	(45,662)	(209,225)	(88,820)	(2,738,510)
Payments to general fund for management services	(967,541)	-	-	-	(967,541)
Net cash provided by (used in) operating activities	<u>3,056,104</u>	<u>136,098</u>	<u>273,410</u>	<u>(251,709)</u>	<u>3,213,903</u>
Cash flows from noncapital financing activities					
Transfers (to) from other funds	-	115,124	-	281,110	396,234
Other revenues	44	-	-	3,899	3,943
Net cash provided by (used in) noncapital financing activities	<u>44</u>	<u>115,124</u>	<u>-</u>	<u>285,009</u>	<u>400,177</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	(6,225,405)	(374,121)	(209,364)	(70,910)	(6,879,800)
Principal paid on notes and bonds	(1,098,078)	(165,000)	(35,000)	-	(1,298,078)
Interest paid on notes and bonds	(978,766)	(50,635)	(23,886)	570	(1,052,717)
Bond issue cost	(171,664)	(57,923)	-	-	(229,587)
Principal paid on capital leases	(73,204)	-	(7,242)	(6,061)	(86,507)
Borrowings of notes and bonds	7,758,807	236,575	-	40,694	8,036,076
Net cash provided by (used in) capital and related financing activities	<u>(788,310)</u>	<u>(411,104)</u>	<u>(275,492)</u>	<u>(35,707)</u>	<u>(1,510,613)</u>
Cash flows from investing activities					
Net investment proceeds (purchases)	3,935	-	-	2,086	6,021
Interest and dividends	71,259	4,133	16,462	(9,673)	82,181
Net cash provided by (used in) investing activities	<u>75,194</u>	<u>4,133</u>	<u>16,462</u>	<u>(7,587)</u>	<u>88,202</u>
Net increase (decrease) in cash and cash equivalents	2,343,032	(155,749)	14,380	(9,994)	2,191,669
Cash and cash equivalents, beginning of year	<u>5,186,312</u>	<u>233,573</u>	<u>1,187,604</u>	<u>278,806</u>	<u>6,886,295</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 7,529,344</u>	<u>\$ 77,824</u>	<u>\$ 1,201,984</u>	<u>\$ 268,812</u>	<u>\$ 9,077,964</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 376,166	\$ (31,934)	\$ 138,230	\$ (251,160)	\$ 231,302
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,611,490	199,830	71,577	34,616	1,917,513
Net pension adjustments	332,735	4,186	23,483	11,162	371,566
Net OPEB adjustments	36,798	461	2,597	1,243	41,099
Change in assets and liabilities:					
Accounts receivable	1,359,627	(48,433)	(21,139)	(18,487)	1,271,568
Inventory	28,859	-	-	-	28,859
Accounts payable	(740,310)	15,318	63,490	(31,180)	(692,682)
Accrued expenses	5,083	(559)	(939)	-	3,585
Self-insurance claims payable	14,209	49	679	1,491	16,428
Customer deposits	(4,400)	-	-	-	(4,400)
Compensated absences	35,847	(2,820)	(4,568)	606	29,065
Net cash provided by (used in) operating activities	<u>\$ 3,056,104</u>	<u>\$ 136,098</u>	<u>\$ 273,410</u>	<u>\$ (251,709)</u>	<u>\$ 3,213,903</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2018

	<u>Police and Firemen's Pension Fund</u>
ASSETS	
Cash and cash equivalents	\$ 44,216
Investments	<u>753,660</u>
Total assets	<u>\$ 797,876</u>
NET POSITION	
Net position held in trust for pension benefits	<u>\$ 797,876</u>
TOTAL NET POSITION	<u>\$ 797,876</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, 2018

	<u>Police and Firemen's Pension Fund</u>
Additions	
Employers contributions	\$ 165,000
Interest and dividends	26,453
Realized gains (loss) on investments	15,723
Unrealized gains (loss) on investments	<u>8,897</u>
 Total additions	 <u>216,073</u>
Deductions	
Benefit payments	183,120
Investment expense	<u>3,313</u>
 Total deductions	 <u>186,433</u>
 Change in net position	 <u>29,640</u>
 Net position, beginning of year	 <u>768,236</u>
 NET POSITION, END OF YEAR	 <u>\$ 797,876</u>

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

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018.

The City, in conjunction with Boyle County, has created the Danville-Boyle County Airport Board (DBCAB). The board is comprised of three members from the City of Danville and three members from Boyle County. The City appropriated \$30,000 for an operating grant to the DBCAB for the year ended June 30, 2018.

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 \$238,000 for an operating grant to the DBCPRB for the year ended June 30, 2018.

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, 2018.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018

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, 2018

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, 2018

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 and Sewer Distribution System	2-50 Years
Studies, Surveys, and Maps	2-10 Years
Machinery and 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, 2018

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 discounts and premiums are deferred and amortized over the term of the related issues. Bonds payable are reported net of the applicable discounts and premiums.

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, 2018

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. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

O. 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 City Manager to carry the intent of the City commission.

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

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Reconciliation of Government-Wide and Fund Financial Statements

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

A similar reconciliation is included on the Statement of Revenues, Expenditures and Changes in Fund Balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the Statement of Activities. Capital outlay is replaced with depreciation expense. Capital lease revenues are added, while principal payments on long-term debt are eliminated from the operating costs.

Q. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 11, 2019, 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, 2018, have not been evaluated by the City.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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, a 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

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.

B. 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, 2018, taxes were levied November 1, 2017 and were payable by December 31, 2017. A 10% penalty was imposed on all taxes delinquent as of January 1, 2018. In addition, an interest charge of 1/2% per month is levied on all delinquent taxes. As of May 1, 2018 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 14.40 cents per \$100 on real property, 14.40 cents per \$100 on personal property, and 20.00 cents per \$100 on motor vehicles and personal watercraft for the fiscal year ended June 30, 2018, are within permissible limits under the above legislation.

3. CASH DEPOSITS AND INVESTMENTS

As of June 30, 2018, the City had the following investments and maturities:

PRIMARY GOVERNMENT (EXCEPT FIDUCIARY FUNDS)

Investment type	Fair Value	Investment Maturities in years				Credit rating
		Less than 1	1-5	6-10	Over 10	
U.S. Agencies	\$ 713,575	\$ 77,012	\$ 323,814	\$ 264,795	\$47,954	AAA
State and Municipal Bonds	76,944	-	51,458	25,486	-	AA
Money Market						
Mutual Funds	127,265	127,265	-	-	-	AAA
Certificate of Deposits	<u>861,719</u>	<u>169,958</u>	<u>691,761</u>	<u>-</u>	<u>-</u>	N/A
Totals	<u>\$ 1,779,503</u>	<u>\$ 374,235</u>	<u>\$1,067,033</u>	<u>\$ 290,281</u>	<u>\$47,954</u>	

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

3. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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 40% in U.S. Agencies, 4% in municipal bonds, 7% in money markets and 48% of its investments in bank certificates of deposit (at one bank).

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

As of June 30, 2018, the City's deposits were fully covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

Total cash deposits	\$ 23,481,932
FDIC insured	(1,289,412)
Collateral held by pledging bank	<u>(23,125,526)</u>
(Over) collateralized	\$ <u>(933,006)</u>

As of June 30, 2018, the Police/Fire Pension Fund had the following restricted investments:

Investment type	Fair Value	Investment Maturities in years				Credit rating
		Less than 1	1-5	6-10	Over 10	
Municipal Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	AAA
Corporate Bonds	147,367	-	119,372	27,995	-	BBB+
Money Market						
Mutual Funds	188,716	188,716	-	-	-	AAA
Foreign Equities	26,787	26,787	-	-	-	N/A
Alternative						
Investments	40,394	40,394	-	-	-	N/A
Domestic Equities	<u>350,396</u>	<u>350,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	N/A
Totals	<u>\$ 753,660</u>	<u>\$ 606,293</u>	<u>\$ 119,372</u>	<u>\$ 27,995</u>	<u>\$ -</u>	

Interest Rate Risk - The investment policies for the pension funds do not place limits on investment maturities. Eighty percent of the pension fund investments mature in less than one year and sixteen 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 fund investments are in AAA rated U.S. Agencies, A to BAA rated Corporate Bonds, six different Mutual Funds and thirty different Domestic Equities.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

3. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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 46% of its investments invested in common stock of 18 companies. The remaining investments are concentrated as follows – 20% corporate bonds, 25% money market mutual funds, 5% in alternative investments and 4% foreign equities.

4. RECEIVABLES

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

	General Fund	Municipal Road Aid Fund	Nonmajor Funds	Governmental Funds Total
Governmental funds:				
Taxes	\$ 47,262	\$ -	\$ -	\$ 47,262
Licenses and fees	1,892,425	-	-	1,892,425
Intergovernmental	27,132	-	1,103	28,235
Fines and forfeitures	270	-	-	270
Other revenues	<u>10,748</u>	<u>-</u>	<u>-</u>	<u>10,748</u>
Gross receivables	1,977,837	-	1,103	1,978,940
Less: allowance for uncollectible	<u>(2,678)</u>	<u>-</u>	<u>-</u>	<u>(2,678)</u>
Net receivables	<u>\$ 1,975,159</u>	<u>\$ -</u>	<u>\$ 1,103</u>	<u>\$ 1,976,262</u>

	Utilities Fund	Parking Fund	Storm Water Fund	Nonmajor Funds	Proprietary Funds Total
Proprietary funds:					
Customers	\$ 1,463,138	\$ 57,933	\$ 153,119	\$ 167,009	\$1,841,199
Intergovernmental	<u>239,564</u>	<u>-</u>	<u>-</u>	<u>3,100</u>	<u>242,664</u>
Customers	1,702,702	57,933	153,119	\$ 170,109	\$2,083,863
Intergovernmental	<u>(880,405)</u>	<u>(4,375)</u>	<u>(96,064)</u>	<u>(94,344)</u>	<u>(1,075,188)</u>
Net receivables	<u>\$ 822,297</u>	<u>\$ 53,558</u>	<u>\$ 57,055</u>	<u>\$ 75,765</u>	<u>\$1,008,675</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 2,578,059	\$ -	\$ -	\$ 2,578,059
Construction in progress	<u>891,827</u>	<u>2,341,456</u>	<u>(773,678)</u>	<u>2,459,605</u>
Total	<u>3,469,886</u>	<u>2,341,456</u>	<u>(773,678)</u>	<u>5,037,664</u>
Capital assets being depreciated:				
Land improvements	1,461,404	736,154	-	2,197,558
Buildings	11,888,158	88,138	-	11,976,296
Vehicles	4,726,167	568,754	(662,183)	4,632,738
Equipment	<u>2,706,926</u>	<u>704,114</u>	<u>-</u>	<u>3,411,040</u>
Total	<u>20,782,655</u>	<u>2,097,160</u>	<u>(662,183)</u>	<u>22,217,632</u>
Total non-infrastructure assets	<u>24,252,541</u>	<u>4,438,616</u>	<u>(1,435,861)</u>	<u>27,255,296</u>
Infrastructure assets	<u>85,765,852</u>	<u>-</u>	<u>-</u>	<u>85,765,852</u>
Total capital assets	<u>\$110,018,393</u>	<u>\$ 4,438,616</u>	<u>\$(1,435,861)</u>	<u>\$113,021,148</u>
Accumulated depreciation:				
Land improvements	646,076	66,387	-	712,463
Buildings	3,131,500	285,387	-	3,416,887
Vehicles	3,283,562	595,066	(662,183)	3,216,445
Equipment	1,794,973	245,220	-	2,040,193
Infrastructure	<u>80,594,876</u>	<u>280,728</u>	<u>-</u>	<u>80,875,604</u>
Total	<u>89,450,987</u>	<u>1,472,788</u>	<u>(662,183)</u>	<u>90,261,592</u>
Total capital assets, net	<u>\$ 20,567,406</u>	<u>\$ 2,965,828</u>	<u>\$ (773,678)</u>	<u>\$ 22,759,556</u>
<u>Business-Type Activities</u>				
Capital assets not being depreciated:				
Land	\$ 1,309,568	\$ 225,282	\$ -	\$ 1,534,850
Construction in progress	<u>31,755,272</u>	<u>6,846,301</u>	<u>(31,776,787)</u>	<u>6,824,786</u>
Total	<u>33,064,840</u>	<u>7,071,583</u>	<u>(31,776,787)</u>	<u>8,359,636</u>
Capital assets being depreciated:				
Buildings	8,436,255	28,391,126	-	36,827,381
Improvements	434,183	22,500	-	456,683
Vehicles	1,049,231	834,137	(296,378)	1,586,990
Equipment	1,669,455	10,999	-	1,680,454
Infrastructure	<u>51,635,403</u>	<u>3,160,392</u>	<u>-</u>	<u>54,795,795</u>
Total	<u>63,224,527</u>	<u>32,419,154</u>	<u>(296,378)</u>	<u>95,347,303</u>
Total capital assets	<u>96,289,367</u>	<u>39,490,737</u>	<u>(32,073,165)</u>	<u>103,706,939</u>
Accumulated depreciation:				
Buildings	2,316,452	555,514	-	2,871,966
Improvements	177,420	16,434	-	193,854
Vehicles	889,835	183,966	(296,378)	777,423
Equipment	1,286,765	85,267	-	1,372,032
Infrastructure	<u>25,859,432</u>	<u>1,076,332</u>	<u>-</u>	<u>26,935,764</u>
Total	<u>30,529,904</u>	<u>1,917,513</u>	<u>(296,378)</u>	<u>32,151,039</u>
Total capital assets, net	<u>\$ 65,759,463</u>	<u>\$37,573,224</u>	<u>\$(31,776,787)</u>	<u>\$ 71,555,900</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 132,192
Public services	699,404
Public safety	<u>641,192</u>
 Total depreciation expense	 <u>\$ 1,472,788</u>

Depreciation expense was charged to the proprietary functions as follows:

Utilities	\$ 1,611,490
Cemetery	19,025
Museum	15,590
Parking	199,831
Storm Water	<u>71,577</u>
 Total depreciation expense	 <u>\$ 1,917,513</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.

A. 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.

Plan Members	Employees
Retirees	8
Active	0

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. 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, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. 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%	8.5%
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, 2018, were as follows:

Total pension liability	\$ 1,726,454
Less: Plan fiduciary net position	<u>797,876</u>
Net position liability	<u>\$ 928,578</u>
Plan fiduciary net position as a percentage of total pension liability	46.21%

Actuarial Assumptions – The total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions:

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

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

Mortality rates for disabled 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Police and Firefighters' Retirement Fund (PFRF), continued

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%	\$ 1,069,941
Current discount rate	6.50%	\$ 928,578
1% increase	7.50%	\$ 805,264

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 2017-2018 the City made a contribution of \$165,000.

B. 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.

Contributions – For the year ended June 30, 2018, 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 were 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages for non-hazardous job classifications and 31.55% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 7. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications and 22.20% to the pension trust 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, 2018, the City contributed \$464,618, or 100% of the required contribution for non-hazardous job classifications, and \$597,289, 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	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	Not available

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ 17,053,671	\$ 6,569,873	\$ 10,483,798

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

The net pension liability was measured as of June 30, 2017, 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, 2017 was .112% for non-hazardous and .469% for hazardous.

The proportionate share at June 30, 2017 was equal to the proportionate share as of June 30, 2016 for non-hazardous and the hazardous decreased by .003%.

For the year ended June 30, 2018, the City recognized pension expense of \$2,910,822. At June 30, 2018, 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	\$ 392,683	\$ 166,768
Changes of assumptions	3,303,607	-
Net difference between projected and actual earnings on Plan investments	172,876	-
Changes in proportion and differences between City contributions and proportionate share of contributions	239,614	169,184
City contributions subsequent to the measurement date	<u>1,061,906</u>	<u>-</u>
Total	<u>\$ 5,170,686</u>	<u>\$ 335,952</u>

The \$1,061,906 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, 2018. 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,

2019	\$	1,668,523
2020	\$	1,650,721
2021	\$	652,321
2022	\$	(198,737)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%	
Salary increases	3.05%, average, including inflation	
Investment rate of return	6.25%, net of Plan investment expense, including inflation	

Hazardous

Inflation	2.30%	
Salary increases	3.05%, average, including inflation	
Investment rate of return	6.25%, net of Plan investment expense, including inflation	

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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, 2017 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 long-term 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
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	<u>2.0%</u>	3.65%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25 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 26 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.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 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	5.25%	\$ 8,286,062		5.25%	\$ 13,181,480	
Current discount rate	6.25%	\$ 6,569,873		6.25%	\$ 10,483,798	
1% increase	7.25%	\$ 5,134,431		7.25%	\$ 8,255,912	

Payable to the Pension Plan – At June 30, 2018, the City reported a payable of \$143,217 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 6, the City of Danville participates in the County Employees' Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 6, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018, the employer's contribution was 4.70% to the insurance trust for non-hazardous job classifications and 9.35% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 were 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. 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.

For the year ended June 30, 2018, the City contributed \$150,808, or 100% of the required contribution for non-hazardous job classifications, and \$251,561, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 6,130,195</u>	<u>\$ 2,256,447</u>	<u>\$ 3,873,748</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was .112% for non-hazardous and .469% for hazardous.

For the year ended June 30, 2018, the City recognized OPEB expense of \$846,870. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 15,294
Changes of assumptions	1,919,852	-
Net difference between projected and actual earnings on Plan investments	-	349,686
Changes in proportion and differences between City contributions and proportionate share of contributions	-	6,005
City contributions subsequent to the measurement date	416,653	-
Total	<u>\$ 2,336,505</u>	<u>\$ 370,985</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The \$416,653 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 OPEB liability in the year ending June 30, 2019. This includes an adjustment of \$14,284 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. 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,

2019	\$	404,256
2020	\$	404,256
2021	\$	404,256
2022	\$	219,859
2023	\$	90,811
2024	\$	25,429

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous and
Hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65: Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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 arithmetic 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
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	<u>2.0%</u>	2.69%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.84% and 5.96% for non-hazardous and hazardous classifications, respectively. 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 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the City's Proportionate Share of the Net OPEB 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 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 or 1-percentage-point higher than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net OPEB liability	Discount rate	City's proportionate share of net OPEB liability
1% decrease	4.84%	\$ 2,871,220	4.96%	\$ 5,191,359
Current discount rate	5.84%	\$ 2,256,447	5.96%	\$ 3,873,748
1% increase	6.84%	\$ 1,744,882	6.96%	\$ 2,795,734

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net OPEB liability	Discount rate	City's proportionate share of net OPEB liability
1% decrease		\$ 1,730,819		\$ 2,742,170
Current discount rate		\$ 2,256,447		\$ 3,873,748
1% increase		\$ 2,939,755		\$ 5,274,257

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2018:

Description	Balance June 30, 2017	Issued	Retired	Balance June 30, 2018	Due within One year
<u>Governmental Activities</u>					
<u>General Fund</u>					
KLC note payable with interest at 3.00%, maturing in fiscal year 2038	\$ 3,977,745	\$ -	\$ 121,024	\$ 3,856,721	\$ 126,249
KBC capital lease with interest at 1.00% to 4.00% maturing in fiscal year 2030	345,000	-	20,000	325,000	20,000
KLC note payable interest at 4.10% maturing in fiscal year 2018	86,000	-	86,000	-	-
Series 2012 GO with interest at 1.00% to 3.25% maturing in fiscal year 2038	3,880,000	-	150,000	3,730,000	150,000
Series 2017A GO with interest at 1.00% to 2.95% maturing in fiscal year 2036	-	1,116,775	-	1,116,775	-
Deferred amounts	<u>72,862</u>	<u>93,904</u>	<u>3,468</u>	<u>163,298</u>	<u>-</u>
Total bonds and notes payable	<u>8,361,607</u>	<u>1,210,679</u>	<u>380,492</u>	<u>9,191,794</u>	<u>296,249</u>
Compensated absences	264,433	21,757	-	286,190	33,707
Capital leases	-	523,712	57,791	465,921	89,404
Net pension liability - CERS	10,636,868	2,873,316	-	13,510,184	-
Net OPEB liability - CERS	-	4,952,646	-	4,952,646	-
Net pension liability - Police and Firefighters' retirement	<u>1,113,375</u>	<u>-</u>	<u>184,797</u>	<u>928,578</u>	<u>-</u>
Total governmental activities	<u>\$ 20,376,283</u>	<u>\$ 9,582,110</u>	<u>\$ 623,080</u>	<u>\$ 29,335,313</u>	<u>\$ 419,360</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. LONG-TERM DEBT (CONTINUED)

The annual debt service requirements to maturity for all governmental activity bonds and notes payable are as follows:

Year ended	Principal	Interest	Total
2019	\$ 296,249	\$ 312,075	\$ 608,324
2020	351,079	302,248	653,327
2021	358,190	290,405	648,595
2022	376,987	278,525	655,512
2023	383,167	265,811	648,978
2024-2028	2,134,375	1,119,099	3,253,474
2029-2033	2,419,925	728,470	3,148,395
2034-2038	2,708,524	270,079	2,978,603
Deferred	<u>163,298</u>	<u>-</u>	<u>163,298</u>
	<u>\$ 9,191,794</u>	<u>\$ 3,566,712</u>	<u>\$ 12,758,506</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. LONG-TERM DEBT (CONTINUED)

Description	Balance June 30, 2017	Issued	Retired	Balance June 30, 2018	Due within One year
<u>Business-type Activities</u>					
Utility Fund					
Series 2008 with interest at 4.38%, maturing in fiscal year 2049	\$ 1,360,000	\$ -	\$ 20,300	\$ 1,339,700	\$ 21,200
Series 1995 with interest at 4.50%, maturing in fiscal year 2034	359,000	-	14,000	345,000	15,000
Series 2000 with interest at 4.75% maturing in fiscal year 2040	359,400	-	9,000	350,400	9,400
Series 2010 with interest at 3.00% maturing in fiscal year 2050	557,000	-	9,500	547,500	10,000
KIA note payable with interest at 1.75% matures in 20 years. Principal payments commence after project completion.	12,067,849	-	253,278	11,814,571	513,223
Series 2014A GO with interest at 3.00% to 3.75% maturing in fiscal year 2035	2,830,000	-	130,000	2,700,000	130,000
Series 2014A with interest at 3.00% maturing in fiscal year 2021	1,700,000	-	465,000	1,235,000	485,000
Series 2015A with interest at 2.875% maturing in fiscal year 2055	8,600,000	-	121,000	8,479,000	125,000
Series 2015B with interest at 2.25% maturing in fiscal year 2055	5,000,000	-	76,000	4,924,000	78,500
Series 2017A GO with interest at 1.00% to 2.95% maturing in fiscal year 2036	-	7,160,000	-	7,160,000	20,000
Deferred amounts	<u>617,683</u>	<u>598,807</u>	<u>45,753</u>	<u>1,170,737</u>	<u>-</u>
Total Utility Fund	<u>33,450,932</u>	<u>7,758,807</u>	<u>1,143,831</u>	<u>40,065,908</u>	<u>1,407,323</u>
Storm Water Fund					
KBC capital lease with interest at 1.00% to 4.00% maturing in fiscal year 2030	<u>540,000</u>	<u>-</u>	<u>35,000</u>	<u>505,000</u>	<u>35,000</u>
Total Storm Water Fund	<u>540,000</u>	<u>-</u>	<u>35,000</u>	<u>505,000</u>	<u>35,000</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. LONG-TERM DEBT (CONTINUED)

Description	Balance June 30, 2017	Issued	Retired	Balance June 30, 2018	Due within One year
Parking Fund					
Series 2006A GO with interest at 4.15% to 5.74% maturing in fiscal year 2037	\$ 2,760,000	\$ -	\$2,760,000	\$ -	\$ -
Series 2014C GO with interest at 2.50% to 3.86% maturing in fiscal year 2036	1,120,000	-	45,000	1,075,000	45,000
Series 2017A GO with interest at 1.00% to 2.95% maturing in fiscal year 2036	-	220,688	-	220,688	-
Series 2017B GO with interest at 2.00% to 3.00% maturing in fiscal year 2036	-	2,805,000	140,000	2,665,000	120,000
Deferred amounts	<u>(54,251)</u>	<u>69,814</u>	<u>(51,688)</u>	<u>67,251</u>	<u>-</u>
Total Parking Fund	<u>3,825,749</u>	<u>3,095,502</u>	<u>2,893,312</u>	<u>4,027,939</u>	<u>165,000</u>
Museum Fund					
Series 2017A GO with interest at 1.00% to 2.95% maturing in fiscal year 2036	-	37,538	-	37,538	-
Deferred amounts	<u>-</u>	<u>3,156</u>	<u>-</u>	<u>3,156</u>	<u>-</u>
Total Museum Fund	<u>-</u>	<u>40,694</u>	<u>-</u>	<u>40,694</u>	<u>-</u>
Total bonds and notes payable	<u>37,816,681</u>	<u>10,895,003</u>	<u>4,072,143</u>	<u>44,639,541</u>	<u>1,607,323</u>
Bonds and notes payable	37,816,681	10,895,003	4,072,143	44,639,541	1,607,323
Compensated absences	109,487	29,065	-	138,552	8,958
Capital leases	-	834,137	86,507	747,630	131,855
Net pension liability - CERS	3,004,477	539,010	-	3,543,487	-
Net OPEB liability - CERS	<u>-</u>	<u>1,177,549</u>	<u>-</u>	<u>1,177,549</u>	<u>-</u>
Total business-type activities	<u>\$ 40,930,645</u>	<u>\$13,474,764</u>	<u>\$ 4,158,650</u>	<u>\$ 50,246,759</u>	<u>\$1,748,136</u>

In September of 2017, the City refinanced \$2,760,000 of the 2006 General Obligation Bonds with the 2017B General Obligation Bond for \$2,805,000. The bonds bear a coupon interest rate ranging from 2% to 3% and will mature on December 1, 2036. The new issue will reduce future debt service by \$452,301 and has a net economic gain of \$354,689.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. LONG-TERM DEBT (CONTINUED)

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2018 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the various funds. At June 30, 2018, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

The annual debt service requirements to maturity for all business-type activity bonds and notes payable are as follows:

Year ended	Principal	Interest	Total
2019	\$ 1,607,323	\$ 1,116,118	\$ 2,723,441
2020	1,643,973	1,074,857	2,718,830
2021	1,421,212	1,039,943	2,461,155
2022	1,466,931	1,005,935	2,472,866
2023	1,510,437	963,482	2,473,919
2024-2028	8,265,756	4,101,600	12,367,356
2029-2033	9,372,971	2,872,130	12,245,101
2034-2038	9,148,594	1,665,188	10,813,782
2039-2043	2,362,700	1,119,622	3,482,322
2044-2048	2,706,800	762,184	3,468,984
2049-2053	2,734,700	370,463	3,105,163
2054-2055	1,157,000	46,266	1,203,266
Deferred	<u>1,241,144</u>	<u>-</u>	<u>1,241,144</u>
	<u>\$ 44,639,541</u>	<u>\$ 16,137,788</u>	<u>\$ 60,777,329</u>

9. 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. The amount of bonds outstanding at June 30, 2018 is not readily available.

10. 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, 2018

11. 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.

The City has established a Health Self-Insurance Plan. Employees participate in the program and certain other medical insurance programs offered by the City. Under this program, the first \$50,000 of a participant's medical claim are payable by the Health Self-Insurance Plan. The City purchases insurance for claims in excess of coverage provided by the fund. All funds with employees of the city participate in the program and makes payments to the health fund based on estimates of the amount needed to pay current year claims. A liability for incurred but not reported claims as of June 30, 2018 has not been estimated based on the nature of the claims process. This is in accordance with the requirements of GASB Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements unless such an estimate cannot be made.

12. TRANSFER OF FUNDS

Transfers between funds consisted of the following for the fiscal year ended June 30, 2018:

Type	From fund	To fund	Purpose	Amount
Operating	General	Municipal Road Aid	Street repairs	\$ 350,000
Operating	General	Streetscape	Operating expense	84,250
Operating	General	Museum	Operating expense	26,061
Operating	General	Cemetery	Operating expense	196,870
Operating	General	Garbage	Operating expense	58,179
Operating	General	Parking	Operating expense	<u>115,124</u>
				<u>\$ 830,484</u>

13. TAX ABATEMENTS

In April 2015, the City passed Ordinance 1855 under KRS 154.32-090. The purpose of the ordinance was to attract an employer to the City through the use of a tax abatement. The employer as part of the arrangement, can receive a partial credit against the new employee's occupational license tax of 0.625%. The employer must employ at least 44 new employees and can receive the credit for up to 65 employees. The City recaptures a prorated amount of abated taxes if these conditions are not met. Credits are available for a term of 14 years or recoveries of \$193,750, whichever occurs first. The amount of the abatement is issued quarterly through repayment back to the employer.

For the year ended June 30, 2018, the City abated occupational license fees totaling \$15,365 through this agreement.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

14. CAPITAL LEASE OBLIGATIONS

The City has entered into agreements with Fleet Management to lease various vehicles. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded as assets and liabilities at the present value of the future minimum lease payments as of the date of their inception.

The following is an analysis of the capital lease obligations by fund:

	Initial Lease Value	Balance June 30, 2018
General fund	\$ 523,712	\$ 465,921
Utility fund	733,475	660,271
Storm water fund	52,466	45,224
Cemetery fund	<u>48,196</u>	<u>42,135</u>
 Total capital lease obligation	 <u>\$ 1,357,849</u>	 <u>\$ 1,213,551</u>

The annual obligation requirements to maturity for all capital leases are as follows:

Year Ended	Principal	Interest	Total
2019	\$ 221,259	\$ 53,729	\$ 274,988
2020	235,423	39,565	274,988
2021	249,587	25,401	274,988
2022	297,035	12,213	309,248
2023	<u>210,247</u>	<u>5,619</u>	<u>215,866</u>
 Total	 <u>\$ 1,213,551</u>	 <u>\$ 136,527</u>	 <u>\$ 1,350,078</u>

15. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 75

During 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

CITY OF DANVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

15. RESTATEMENT OF NET POSITION (CONTINUED)

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Governmental activities

Net position, at beginning of year	\$ 13,213,019
Beginning net OPEB liability	<u>(2,885,668)</u>
Net position, at beginning of year, as restated	<u>\$ 10,327,351</u>

Business-type activities

Utility Fund	
Net position, at beginning of year	\$ 26,758,239
Beginning net OPEB liability	<u>(760,127)</u>
Net position, at beginning of year, as restated	<u>\$ 25,998,112</u>
Parking Fund	
Net position, at beginning of year	\$ 3,222,398
Beginning net OPEB liability	<u>(9,518)</u>
Net position, at beginning of year, as restated	<u>\$ 3,212,880</u>
Storm Water Fund	
Net position, at beginning of year	\$ 2,162,880
Beginning net OPEB liability	<u>(53,645)</u>
Net position, at beginning of year, as restated	<u>\$ 2,109,235</u>
Cemetery Fund	
Net position, at beginning of year	\$ 314,682
Beginning net OPEB liability	<u>(25,500)</u>
Net position, at beginning of year, as restated	<u>\$ 289,182</u>
Total Business-type activities	
Net position, at beginning of year	\$ 32,869,548
Beginning net OPEB liability	<u>(848,790)</u>
Net position, at beginning of year, as restated	<u>\$ 32,020,758</u>

16. SUBSEQUENT EVENTS

On October 31, 2018, the City issued Series 2018 General Obligation Public Project Bonds totaling \$9,900,000.

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**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total Pension Liability										
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,548	\$ 20,682	\$ 20,443
Interest	116,353	154,676	160,061	164,512	158,934	138,175	149,296	161,520	167,761	167,165
Difference between expected and actual experience	(88,390)	(540,591)	(8,253)	12,075	87,635	82,379	(90,888)	(127,274)	(66,541)	32,205
Changes in assumptions	-	-	-	-	93,992	475,464	-	-	-	-
Benefit payments	(183,120)	(224,188)	(245,159)	(244,955)	(241,766)	(230,609)	(203,960)	(213,800)	(208,053)	(215,009)
Net change in total pension liability	(155,157)	(610,103)	(93,349)	(68,368)	98,795	465,409	(145,552)	(159,006)	(86,151)	4,804
Total pension liability - beginning	<u>1,881,611</u>	<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>
Total pension liability - ending	<u>\$ 1,726,454</u>	<u>\$ 1,881,611</u>	<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>
Plan Fiduciary Net Position										
Contributions - employee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,515	\$ 1,718	\$ 1,749	\$ 1,692
Contributions - employer	165,000	165,000	165,000	190,000	126,000	190,000	190,000	190,000	185,040	185,040
Net investment income	47,760	84,891	46,190	26,925	123,406	107,005	29,029	100,193	68,422	(89,678)
Benefit payments	(183,120)	(224,188)	(245,159)	(244,955)	(241,768)	(230,609)	(203,960)	(213,800)	(208,054)	(215,009)
Net change in plan net position	29,640	25,703	(33,969)	(28,030)	7,638	66,396	16,584	78,111	47,157	(117,955)
Plan fiduciary net position - beginning	<u>768,236</u>	<u>742,533</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>
Plan fiduciary net position - ending	<u>797,876</u>	<u>768,236</u>	<u>742,533</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>
Net pension liability - ending	<u>\$ 928,578</u>	<u>\$ 1,113,375</u>	<u>\$ 1,749,181</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>
Plan fiduciary net position as a percentage of total pension liability	46.21%	40.83%	29.80%	30.04%	30.32%	31.19%	34.96%	31.95%	26.56%	23.74%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,344	\$ 41,344	\$ 42,863
Net pension liability as a percentage of covered employee payroll	N/A	3679%	4252%	4412%						

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 110,506	\$ 167,726	\$ 164,914	\$ 166,979	\$ 154,658	\$ 119,550	\$ 137,286	\$ 155,834	\$ 166,417	\$ 156,751
Contributions in relation to actuarially determined contribution	<u>(165,000)</u>	<u>(165,000)</u>	<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>
Contribution deficiency (excess)	<u>\$ (54,494)</u>	<u>\$ 2,726</u>	<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>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,344	\$ 41,344	\$ 42,863
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	459.56%	447.56%	431.70%

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	15 years
Asset valuation method	Market value
Cost of Living increase	N/A
Salary increases	N/A
Inflation	3.00% per year
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
2009	-13.0%
2010	11.8%
2011	16.0%
2012	4.1%
2013	15.1%
2014	16.7%
2015	7.8%
2016	1.6%
2017	11.9%
2018	6.3%

Notes

The amounts shown are net of investment expenses.

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.11%	0.11%	0.11%	0.11%	0.11%
City's proportionate share of the net pension liability (asset)	\$ 6,569,873	\$ 5,537,010	\$ 4,621,569	\$ 3,456,145	\$ 3,929,199
City's covered employee payroll	\$ 2,960,031	\$ 2,933,875	\$ 2,715,319	\$ 2,649,591	\$ 2,534,067
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	221.95%	188.73%	170.20%	130.44%	155.06%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF DANVILLE KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS
CERS - NON-HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 464,618	\$ 373,773	\$ 364,661	\$ 346,203	\$ 364,054	\$ 319,799
Contributions relative to contractually required employer contribution	<u>464,618</u>	<u>373,773</u>	<u>364,661</u>	<u>346,203</u>	<u>364,054</u>	<u>319,799</u>
Contribution deficiency (excess)	<u>\$ -</u>					
City's covered employee payroll	\$ 3,208,685	\$ 2,960,031	\$ 2,933,875	\$ 2,715,319	\$ 2,649,591	\$ 2,534,067
Employer contributions as a percentage of covered-employee payroll	14.48%	12.63%	12.43%	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.47%	0.47%	0.44%	0.47%	0.47%
City's proportionate share of the net pension liability (asset)	\$ 10,483,798	\$ 8,104,335	\$ 6,785,945	\$ 5,643,708	\$ 6,280,303
City's covered employee payroll	\$ 2,572,333	\$ 2,477,834	\$ 2,260,881	\$ 2,382,154	\$ 2,413,303
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	407.56%	327.07%	300.15%	236.92%	260.24%
Plan fiduciary net position as a percentage of the total pension liability	49.78%	53.95%	57.52%	63.46%	57.74%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF DANVILLE KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS
CERS - HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 597,289	\$ 576,504	\$ 495,590	\$ 468,680	\$ 518,595	\$ 485,074
Contributions relative to contractually required employer contribution	<u>597,289</u>	<u>576,504</u>	<u>495,590</u>	<u>468,680</u>	<u>518,595</u>	<u>485,074</u>
Contribution deficiency (excess)	<u>\$ -</u>					
City's covered employee payroll	\$ 2,690,490	\$ 2,572,333	\$ 2,477,834	\$ 2,260,881	\$ 2,382,154	\$ 2,413,303
Employer contributions as a percentage of covered-employee payroll	22.20%	22.41%	20.00%	20.73%	21.77%	20.10%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
CERS - NONHAZARDOUS
Last Two Fiscal Years**

	2018	2017
City's proportion of the net OPEB liability	0.11%	0.11%
City's proportionate share of the net OPEB liability (asset)	\$ 2,256,447	\$ 1,769,891
City's covered employee payroll	\$ 2,960,031	\$ 2,933,875
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	76.23%	60.33%
Plan fiduciary net position as a percentage of the total OPEB liability of covered-employee payroll	52.39%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS
CERS - NONHAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 150,808	\$ 140,010	\$ 136,132	\$ 133,594	\$ 136,454	\$ 175,611
Contributions relative to contractually required employer contribution	<u>150,808</u>	<u>140,010</u>	<u>136,132</u>	<u>133,594</u>	<u>136,454</u>	<u>175,611</u>
Contribution deficiency (excess)	<u>\$ -</u>					
City's covered employee payroll	\$3,208,685	\$ 2,960,031	\$ 2,933,875	\$ 2,715,319	\$2,649,591	\$2,534,067
Employer contributions as a percentage of covered-employee payroll	4.70%	4.73%	4.64%	4.92%	5.15%	6.93%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the net OPEB liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF DANVILLE, KENTUCKY
 REQUIRED SUPPLEMENTARY SCHEDULE
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 CERS - HAZARDOUS
 Last Two Fiscal Years**

	2018	2017
City's proportion of the net OPEB liability	0.47%	0.47%
City's proportionate share of the net OPEB liability (asset)	\$ 3,873,748	\$ 2,314,707
City's covered employee payroll	\$ 2,572,333	\$ 2,477,834
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	150.59%	93.42%
Plan fiduciary net position as a percentage of the total OPEB liability of covered-employee payroll	58.99%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS
CERS - HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 251,561	\$ 240,513	\$ 310,630	\$ 307,028	\$ 331,834	\$ 422,328
Contributions relative to contractually required employer contribution	<u>251,561</u>	<u>240,513</u>	<u>310,630</u>	<u>307,028</u>	<u>331,834</u>	<u>422,328</u>
Contribution deficiency (excess)	<u>\$ -</u>					
City's covered employee payroll	\$2,690,490	\$ 2,572,333	\$ 2,477,834	\$ 2,260,881	\$2,382,154	\$2,413,303
Employer contributions as a percentage of covered-employee payroll	9.35%	9.35%	12.54%	13.58%	13.93%	17.50%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the net OPEB liability.

The above schedule will present 10 years of historical data, once available.

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, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ 1,890,000	\$ 1,890,000	\$ 2,040,423	\$ 150,423
Licenses and fees	12,130,500	12,130,500	13,589,153	1,458,653
Intergovernmental revenue	260,250	260,250	357,440	97,190
Penalties and forfeitures	11,100	11,100	9,453	(1,647)
Other revenue	<u>1,468,325</u>	<u>1,468,325</u>	<u>2,507,630</u>	<u>1,039,305</u>
Total revenues	<u>15,760,175</u>	<u>15,760,175</u>	<u>18,504,099</u>	<u>2,743,924</u>
Expenditures				
Current operating				
General government	2,456,551	2,456,551	2,117,983	338,568
Public services	1,910,363	1,910,363	1,547,748	362,615
Public safety	7,911,882	7,911,882	6,982,637	929,245
Community services	1,453,063	1,453,063	1,061,082	391,981
Debt service	1,675,569	1,675,569	694,406	981,163
Capital outlay	<u>11,930,804</u>	<u>11,930,804</u>	<u>3,668,388</u>	<u>8,262,416</u>
Total expenditures	<u>27,338,232</u>	<u>27,338,232</u>	<u>16,072,244</u>	<u>11,265,988</u>
Excess (deficiency) of revenues over expenditures	(11,578,057)	(11,578,057)	2,431,855	14,009,912
Other financing sources (uses)				
Proceeds from bond issuance	1,640,487	1,640,487	1,640,487	-
Transfers (to) from other funds	<u>(831,684)</u>	<u>(831,684)</u>	<u>(830,484)</u>	<u>1,200</u>
Total other financing sources (uses)	808,803	808,803	810,003	1,200
Excess (deficiency) of revenues over expenditures and transfers	(10,769,254)	(10,769,254)	3,241,858	14,011,112
Fund balance, beginning of year	<u>9,932,934</u>	<u>9,932,934</u>	<u>9,932,934</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ (836,320)</u>	<u>\$ (836,320)</u>	<u>\$ 13,174,792</u>	<u>\$ 14,011,112</u>

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Taxes				
Real and personal property	\$ 1,360,000	\$ 1,360,000	\$ 1,468,156	\$ 108,156
Tangible property	325,000	325,000	327,013	2,013
Motor vehicle	155,000	155,000	194,499	39,499
PILOT - Housing Authority	<u>50,000</u>	<u>50,000</u>	<u>50,755</u>	<u>755</u>
Total taxes	<u>1,890,000</u>	<u>1,890,000</u>	<u>2,040,423</u>	<u>150,423</u>
Licenses and fees				
Payroll licenses	11,000	11,000	14,706	3,706
Insurance licenses	1,793,000	1,793,000	1,991,656	198,656
Occupational licenses	7,700,000	7,700,000	8,480,557	780,557
Net profits	1,078,000	1,078,000	1,343,877	265,877
Liquor licenses	595,000	595,000	589,066	(5,934)
Franchise fees-Rural Electric Cooperative Corporation	24,500	24,500	23,248	(1,252)
Franchise fees-Kentucky Utilities	665,000	665,000	826,553	161,553
Franchise fees-Atmos	58,000	58,000	115,011	57,011
Franchise fees-Comcast	106,000	106,000	107,172	1,172
Franchise fees-Bank	<u>100,000</u>	<u>100,000</u>	<u>97,307</u>	<u>(2,693)</u>
Total licenses and fees	<u>12,130,500</u>	<u>12,130,500</u>	<u>13,589,153</u>	<u>1,458,653</u>
Intergovernmental revenue				
Firefighters' incentive	100,000	100,000	123,755	23,755
Law enforcement incentive	140,000	140,000	156,790	16,790
BASE court	18,000	18,000	17,092	(908)
Other intergovernmental revenue	<u>2,250</u>	<u>2,250</u>	<u>59,803</u>	<u>57,553</u>
Total intergovernmental revenue	<u>260,250</u>	<u>260,250</u>	<u>357,440</u>	<u>97,190</u>
Fines and forfeitures				
Arrest fees	11,000	11,000	7,782	(3,218)
Other penalties	<u>100</u>	<u>100</u>	<u>1,671</u>	<u>1,571</u>
Total fines and forfeitures	<u>11,100</u>	<u>11,100</u>	<u>9,453</u>	<u>(1,647)</u>
Other revenue				
Community tower rental	54,500	54,500	61,401	6,901
Fire protection	24,500	24,500	25,237	737
Community contracts	144,796	144,796	176,594	31,798
Management fees	1,066,264	1,066,264	1,031,081	(35,183)
Change in fair value of investments	-	-	(19,393)	(19,393)
Interest	37,500	37,500	167,658	130,158
Boyle County cost sharing	45,000	45,000	949,115	904,115
Insurance proceeds	5,000	5,000	19,718	14,718
School officer	45,765	45,765	45,783	18
Miscellaneous	<u>45,000</u>	<u>45,000</u>	<u>50,436</u>	<u>5,436</u>
Total other revenue	<u>1,468,325</u>	<u>1,468,325</u>	<u>2,507,630</u>	<u>1,039,305</u>
Total revenue	<u>\$ 15,760,175</u>	<u>\$ 15,760,175</u>	<u>\$ 18,504,099</u>	<u>\$ 2,743,924</u>

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
General government				
Legislative and executive				
Personnel	\$ 691,399	\$ 691,399	\$ 694,179	\$ (2,780)
Contractual	396,910	396,910	237,966	158,944
Other	<u>142,700</u>	<u>142,700</u>	<u>83,087</u>	<u>59,613</u>
Total legislative and executive	<u>1,231,009</u>	<u>1,231,009</u>	<u>1,015,232</u>	<u>215,777</u>
Finance and administration				
Personnel	423,335	423,335	385,431	37,904
Contractual	443,560	443,560	423,323	20,237
Other	<u>33,550</u>	<u>33,550</u>	<u>23,624</u>	<u>9,926</u>
Total finance and administration	<u>900,445</u>	<u>900,445</u>	<u>832,378</u>	<u>68,067</u>
Information technology				
Personnel	190,897	190,897	197,111	(6,214)
Contractual	65,900	65,900	18,749	47,151
Other	<u>68,300</u>	<u>68,300</u>	<u>54,513</u>	<u>13,787</u>
Total information technology	<u>325,097</u>	<u>325,097</u>	<u>270,373</u>	<u>54,724</u>
Total general government	<u>2,456,551</u>	<u>2,456,551</u>	<u>2,117,983</u>	<u>338,568</u>
Public services				
Personnel	429,683	429,683	427,995	1,688
Contractual	827,730	827,730	813,559	14,171
Other	<u>652,950</u>	<u>652,950</u>	<u>306,194</u>	<u>346,756</u>
Total public services	<u>1,910,363</u>	<u>1,910,363</u>	<u>1,547,748</u>	<u>362,615</u>
Public safety				
Police department				
Personnel	3,271,367	3,271,367	2,863,135	408,232
Contractual	218,200	218,200	185,085	33,115
Other	<u>340,550</u>	<u>340,550</u>	<u>316,281</u>	<u>24,269</u>
Total police department	<u>3,830,117</u>	<u>3,830,117</u>	<u>3,364,501</u>	<u>465,616</u>
Communications and administration services				
Personnel	681,964	681,964	657,784	24,180
Contractual	62,000	62,000	86,119	(24,119)
Other	<u>44,700</u>	<u>44,700</u>	<u>28,028</u>	<u>16,672</u>
Total communications and administration services	<u>788,664</u>	<u>788,664</u>	<u>771,931</u>	<u>16,733</u>
Code enforcement				
Personnel	308,940	308,940	266,756	42,184
Contractual	120,610	120,610	25,247	95,363
Other	<u>39,250</u>	<u>39,250</u>	<u>26,896</u>	<u>12,354</u>
Total code enforcement	<u>468,800</u>	<u>468,800</u>	<u>318,899</u>	<u>149,901</u>

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Public safety, continued				
Fire and emergency services				
Personnel	\$ 2,404,726	\$ 2,404,726	\$ 2,247,289	\$ 157,437
Contractual	230,125	230,125	138,897	91,228
Other	<u>189,450</u>	<u>189,450</u>	<u>141,120</u>	<u>48,330</u>
Total fire and emergency services	<u>2,824,301</u>	<u>2,824,301</u>	<u>2,527,306</u>	<u>296,995</u>
Total public safety	<u>7,911,882</u>	<u>7,911,882</u>	<u>6,982,637</u>	<u>929,245</u>
Community services				
Community agencies				
Grants	<u>225,200</u>	<u>225,200</u>	<u>219,200</u>	<u>6,000</u>
Non-departmental				
Grants	605,500	605,500	452,437	153,063
Police and fire retirement	165,000	165,000	165,000	-
Economic development initiative	197,000	197,000	180,000	17,000
Contingency - general fund	207,363	207,363	28,364	178,999
Insurance/judgement/claims	40,000	40,000	24,851	15,149
Workers' comp audit	<u>13,000</u>	<u>13,000</u>	<u>(8,770)</u>	<u>21,770</u>
Total non-departmental	<u>1,227,863</u>	<u>1,227,863</u>	<u>841,882</u>	<u>385,981</u>
Total community services	<u>1,453,063</u>	<u>1,453,063</u>	<u>1,061,082</u>	<u>391,981</u>
Debt service				
CERS	87,935	87,935	87,935	-
Other	<u>1,587,634</u>	<u>1,587,634</u>	<u>606,471</u>	<u>981,163</u>
Total debt service	<u>1,675,569</u>	<u>1,675,569</u>	<u>694,406</u>	<u>981,163</u>
Capital outlay				
Finance and administration	163,000	163,000	806,021	(643,021)
Fire department	8,975,000	8,975,000	905,587	8,069,413
Public services	2,321,804	2,321,804	1,332,910	988,894
Police department	<u>471,000</u>	<u>1,071,000</u>	<u>623,870</u>	<u>447,130</u>
Total capital outlay	<u>11,930,804</u>	<u>12,530,804</u>	<u>3,668,388</u>	<u>8,862,416</u>
Total expenditures	<u>27,338,232</u>	<u>27,938,232</u>	<u>16,072,244</u>	<u>11,865,988</u>
Excess (deficiency) of revenues over expenditures	(11,578,057)	(12,178,057)	2,431,855	(14,609,912)
Other financing sources (uses)				
Proceeds from bond issuance	1,146,000	1,146,000	1,640,487	(494,487)
Transfers	<u>(831,684)</u>	<u>(831,684)</u>	<u>(830,484)</u>	<u>(1,200)</u>
Total other financing sources (uses)	<u>314,316</u>	<u>314,316</u>	<u>810,003</u>	<u>(495,687)</u>
Net change in fund balance	<u>\$ (11,263,741)</u>	<u>\$ (11,863,741)</u>	<u>\$ 3,241,858</u>	<u>\$ (15,105,599)</u>

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
MUNICIPAL ROAD AID FUND
for the year ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenue	\$ 312,000	\$ 312,000	\$ 331,002	\$ 19,002
Other revenue	<u>1,500</u>	<u>1,500</u>	<u>8,925</u>	<u>7,425</u>
Total revenues	<u>313,500</u>	<u>313,500</u>	<u>339,927</u>	<u>26,427</u>
Expenditures				
Current operating				
Public services	<u>700,000</u>	<u>700,000</u>	<u>579,731</u>	<u>120,269</u>
Total expenditures	<u>700,000</u>	<u>700,000</u>	<u>579,731</u>	<u>120,269</u>
Excess (deficiency) of revenues over expenditures	(386,500)	(386,500)	(239,804)	146,696
Transfers (to) from other funds, net	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and transfers	(36,500)	(36,500)	110,196	146,696
Fund balance, beginning of year	<u>360,920</u>	<u>360,920</u>	<u>360,920</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 324,420</u></u>	<u><u>\$ 324,420</u></u>	<u><u>\$ 471,116</u></u>	<u><u>\$ 146,696</u></u>

SUPPLEMENTARY INFORMATION

**CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018**

	<u>Police Safety Fund</u>	<u>Drug Forfeiture Fund</u>	<u>Hazard Mitigation 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>Total</u>
ASSETS									
Cash and cash equivalents	\$ 12,196	\$ 12,261	\$ 26,710	166,571	\$ 31,129	\$ 27,627	\$ 5,131	\$ 25,176	\$ 306,801
Receivables, net	1,103	-	-	-	-	-	-	-	1,103
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,035</u>	<u>-</u>	<u>-</u>	<u>6,035</u>
Total assets	<u>\$ 13,299</u>	<u>\$ 12,261</u>	<u>\$ 26,710</u>	<u>\$ 166,571</u>	<u>\$ 31,129</u>	<u>\$ 33,662</u>	<u>\$ 5,131</u>	<u>\$ 25,176</u>	<u>\$ 313,939</u>
LIABILITIES AND FUND BALANCE									
Accounts payable	<u>\$ 146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,791</u>
Total liabilities	<u>146</u>	<u>-</u>	<u>-</u>	<u>9,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,791</u>
Fund balance, restricted	-	-	-	-	-	-	5,131	25,176	30,307
Fund balance, unassigned	<u>13,153</u>	<u>12,261</u>	<u>26,710</u>	<u>156,926</u>	<u>31,129</u>	<u>33,662</u>	<u>-</u>	<u>-</u>	<u>273,841</u>
Total fund balance	<u>13,153</u>	<u>12,261</u>	<u>26,710</u>	<u>156,926</u>	<u>31,129</u>	<u>33,662</u>	<u>5,131</u>	<u>25,176</u>	<u>304,148</u>
Total liabilities and fund balance	<u>\$ 13,299</u>	<u>\$ 12,261</u>	<u>\$ 26,710</u>	<u>\$ 166,571</u>	<u>\$ 31,129</u>	<u>\$ 33,662</u>	<u>\$ 5,131</u>	<u>\$ 25,176</u>	<u>\$ 313,939</u>

**CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2018**

	<u>Police Safety Fund</u>	<u>Drug Forfeiture Fund</u>	<u>Hazard Mitigation 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>Total</u>
REVENUES									
Intergovernmental	\$ 13,925	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,925
Penalties and forfeitures	-	185	-	-	-	-	-	-	185
Other revenues	199	257	378	1,586	24,301	451	73	357	27,602
	<u>14,124</u>	<u>442</u>	<u>378</u>	<u>1,586</u>	<u>24,301</u>	<u>451</u>	<u>73</u>	<u>357</u>	<u>41,712</u>
Total revenues									
EXPENDITURES									
Public safety	15,373	10,714	-	2,144	-	-	-	-	28,231
Community services	-	-	-	-	25,549	-	-	-	25,549
Capital outlay	-	-	-	7,500	-	-	-	-	7,500
	<u>15,373</u>	<u>10,714</u>	<u>-</u>	<u>9,644</u>	<u>25,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,280</u>
Total expenditures									
Excess (deficiency) of revenues over expenditures	(1,249)	(10,272)	378	(8,058)	(1,248)	451	73	357	(19,568)
Other financing sources (uses):									
Transfers (to) from other funds	-	-	-	84,250	-	-	-	-	84,250
	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,250</u>
Net change in fund balance	(1,249)	(10,272)	378	76,192	(1,248)	451	73	357	64,682
Fund balance, beginning of year	14,402	22,533	26,332	80,734	32,377	33,211	5,058	24,819	239,466
	<u>14,402</u>	<u>22,533</u>	<u>26,332</u>	<u>80,734</u>	<u>32,377</u>	<u>33,211</u>	<u>5,058</u>	<u>24,819</u>	<u>239,466</u>
Fund balance, end of year	<u>\$ 13,153</u>	<u>\$ 12,261</u>	<u>\$ 26,710</u>	<u>\$ 156,926</u>	<u>\$ 31,129</u>	<u>\$ 33,662</u>	<u>\$ 5,131</u>	<u>\$ 25,176</u>	<u>\$ 304,148</u>

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
June 30, 2018

	<u>Garbage Fund</u>	<u>Cemetery Fund</u>	<u>Museum Fund</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 234,385	\$ 34,427	\$ 268,812
Accounts receivable, net	72,665	3,100	-	75,765
Investments	<u>-</u>	<u>117,472</u>	<u>-</u>	<u>117,472</u>
Total current assets	<u>72,665</u>	<u>354,957</u>	<u>34,427</u>	<u>462,049</u>
Noncurrent assets				
Nondepreciable capital assets	-	27,136	124,410	151,546
Depreciable capital assets, net	<u>-</u>	<u>115,790</u>	<u>263,935</u>	<u>379,725</u>
Total noncurrent assets	<u>-</u>	<u>142,926</u>	<u>388,345</u>	<u>531,271</u>
Total assets	<u>72,665</u>	<u>497,883</u>	<u>422,772</u>	<u>993,320</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	-	47,796	-	47,796
Deferred outflows - OPEB	<u>-</u>	<u>10,495</u>	<u>-</u>	<u>10,495</u>
Total assets and deferred outflows of resources	<u>\$ 72,665</u>	<u>\$ 556,174</u>	<u>\$ 422,772</u>	<u>\$ 1,051,611</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 44,012	\$ 4,527	\$ 3,648	\$ 52,187
Accrued payroll and benefits	-	1,606	-	1,606
Accrued interest payable	-	-	570	570
Self-insurance claims payable	-	1,491	-	1,491
Current portion of capital leases	-	8,993	-	8,993
Current portion of compensated absences	<u>-</u>	<u>216</u>	<u>-</u>	<u>216</u>
Total current liabilities	<u>44,012</u>	<u>16,833</u>	<u>4,218</u>	<u>65,063</u>
Non-current liabilities				
Bonds and notes payable	-	-	40,694	40,694
Capital leases, net of current portion	-	33,142	-	33,142
Net pension liability	-	144,035	-	144,035
Net OPEB liability	-	35,377	-	35,377
Compensated absences, net of current portion	<u>-</u>	<u>4,102</u>	<u>-</u>	<u>4,102</u>
Total non-current liabilities	<u>-</u>	<u>216,656</u>	<u>40,694</u>	<u>257,350</u>
Total liabilities	<u>44,012</u>	<u>233,489</u>	<u>44,912</u>	<u>322,413</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	-	2,639	-	2,639
Deferred inflows - OPEB	<u>-</u>	<u>1,852</u>	<u>-</u>	<u>1,852</u>
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 4,491</u>	<u>\$ -</u>	<u>\$ 4,491</u>
NET POSITION				
Net investment in capital assets	-	100,791	347,081	447,872
Net position, unrestricted	<u>28,653</u>	<u>217,403</u>	<u>30,779</u>	<u>276,835</u>
Total net position	<u>28,653</u>	<u>318,194</u>	<u>377,860</u>	<u>724,707</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 72,665</u>	<u>\$ 556,174</u>	<u>\$ 422,772</u>	<u>\$ 1,051,611</u>

**CITY OF DANVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 NONMAJOR PROPRIETARY FUNDS
 for the year ended June 30, 2018**

	<u>Garbage Fund</u>	<u>Cemetery Fund</u>	<u>Museum Fund</u>	<u>Total</u>
Operating revenues				
Fees for services	\$ 940,520	\$ 68,881	\$ -	\$ 1,009,401
Total operating revenues	<u>940,520</u>	<u>68,881</u>	<u>-</u>	<u>1,009,401</u>
Operating expenses				
Personnel	-	103,322	-	103,322
Contractual	992,836	80,909	20,465	1,094,210
Depreciation	-	19,026	15,590	34,616
Other expenses	-	28,413	-	28,413
Total operating expenses	992,836	231,670	36,055	1,260,561
Operating (loss)	<u>(52,316)</u>	<u>(162,789)</u>	<u>(36,055)</u>	<u>(251,160)</u>
Nonoperating revenues (expenses)				
Investment earnings	409	3,564	719	4,692
Interest expense	-	(8,633)	(1,040)	(9,673)
Bond issuance cost	-	-	(793)	(793)
Total nonoperating revenues (expenses)	<u>409</u>	<u>(5,069)</u>	<u>(1,114)</u>	<u>(5,774)</u>
(Loss) before other revenues, expenses, gains, losses and transfers	(51,907)	(167,858)	(37,169)	(256,934)
Transfers from other funds	<u>58,179</u>	<u>196,870</u>	<u>26,061</u>	<u>281,110</u>
Change in net position	6,272	29,012	(11,108)	24,176
Net position, beginning of year, as restated	<u>22,381</u>	<u>289,182</u>	<u>388,968</u>	<u>700,531</u>
Net position, end of year	<u>\$ 28,653</u>	<u>\$ 318,194</u>	<u>\$ 377,860</u>	<u>\$ 724,707</u>



**INDEPENDENT AUDITORS' 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 the Board of Commissioners
City of Danville
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, 2018, and the related notes to the financial statements, which collectively comprise the City of Danville, Kentucky's basic financial statements and have issued our report thereon dated January 11, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
January 11, 2019