CITY OF DANVILLE
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2012

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City of Danville, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2012

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, 2012. 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, 2012, the City's assets (page 9) exceeded liabilities by $43,910,781. This amount includes $37,027,967 of resources that are restricted to specific projects by laws, regulations, or contractual agreements, or that are invested in capital assets, net of related debt. $6,882,814 of these resources is unrestricted and is available to fund the City's outstanding obligations and future programs.
- Unrestricted cash and investment balances (page 9) as of June 30, were $5,958,871 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt) were $1,004,668.
- Net assets increased by $1,278,819 (page 10). Of this increase, $918,475 is attributed to the net asset increase from business-type activities and $994,914 is attributed to the net asset increase from governmental activities. The primary reasons for the increase in net assets of business-type activities is due to modest increases in user fees in the utilities fund and various government grants received during the fiscal year to fund various construction projects in the utilities fund. The primary reasons for the increase in net assets of governmental activities is due to ABC tax revenues of the general fund being stronger than anticipated and operating expenses coming in very favorable compared to the budget in the general fund.
- Fund balances (a measure of current financial resources) in the governmental funds increased $1,378,077 to a total of $5,635,776 (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, $5,489,357 (page 11) is unassigned and available for future programs.
- The General Fund unassigned fund balance (page 11), as of June 30, 2012, was $4,851,359, or about 49% of total general fund expenditures.
- The City's long term debt decreased $1,241,709 during the year. The City did not issue any new debt during the fiscal year ended June 30, 2012. Scheduled debt payments amounted to $1,296,059. Net amortization of discounts and issuance costs were $49,831, and the long-term portion of compensated absences increased by a net of $4,519.

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 Assets 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 assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as transactions occur, regardless of when the related cash flows are reported. Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

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

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

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

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

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

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

The City maintains eleven individual governmental funds. Major governmental funds include the General Fund only.

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 46 and 47. 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 42.

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 48 and 49.

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

Notes to the financial statements - Notes provide additional information that is essential to a full understanding of the information included in the financial schedules. Notes provide additional details about the balances and transactions in the City's financial statements and are presented on pages 18 through 40.

Other Information - The last section of this report includes two types of supplementary information. *Required supplementary Information* (pages 41 through 45) must be included to conform with generally accepted accounting principles, while *Other Supplementary Information* (pages 46 through 49) is presented to expand the City's financial presentations. Management's Discussion and Analysis is classified as *required supplementary information*. In addition, Defined Benefit Pension Trust Schedules of Funding Progress, Employer Contribution, and Notes are presented as *Required Supplementary Information*. The schedules outline key financial information about the city's police & fire pension fund.

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 6,072	$ 5,095	$ 4,000	$ 4,820	$ 10,072	$ 9,915
Capital assets	18,234	18,857	37,628	37,626	55,862	56,483
Total assets	24,306	23,952	41,628	42,446	65,934	66,398
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Long-term debt outstanding	7,897	8,136	12,754	13,760	20,651	21,896
Other liabilities	641	1,042	732	1,462	1,373	2,504
Total liabilities	8,538	9,178	13,486	15,222	22,024	24,400
Net assets:						
Invested in capital assets, net of related debt	10,338	10,721	24,875	23,866	35,213	34,587
Restricted	0	0	1,815	1,706	1,815	1,706
Unrestricted (deficit)	5,430	4,053	1,452	1,652	6,882	5,705
Total Net Assets	$ 15,768	$ 14,774	$ 28,142	$ 27,224	$ 43,910	$ 41,998

By far the largest portion of the City's net assets (80%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. 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. $1.8 million of the City's net assets (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.

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

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ -	$ -	$ 9,096	$ 8,095	$ 9,096	$ 8,095
Operating grants and contributions	758	615			758	615
Capital grants and contributions			334	1,741	334	1,741
General revenues:						
Property taxes	1,685	1,586			1,685	1,586
License fees and permits	7,992	7,600			7,992	7,600
Penalties and forfeits	25	27			25	27
Management fees	779	752			779	752
Other	527	305	65	50	592	355
Total Revenues	11,766	10,885	9,495	9,886	21,261	20,771

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Expenses:						
General Government	1,671	1,751			1,671	1,751
Public Safety	6,397	6,338			6,397	6,338
Public Services	1,362	1,470			1,362	1,470
Community Services	802	971			802	971
Debt Service	283	275	607	601	890	876
Utilities			6,397	6,324	6,397	6,324
Garbage operations			919	862	919	862
Cemetery operations			197	197	197	197
Museum operations			28	28	28	28
Parking operations			310	331	310	331
Storm water			375	344	375	344
Total Expenses	10,515	10,805	8,833	8,687	19,348	19,492
Excess (deficiency) before transfers and special items	1,251	80	662	1,199	1,913	1,279
Transfers	(256)	(454)	256	454		
Increase (decrease) in net assets	$ 995	$ (374)	$ 918	$ 1,653	$ 1,913	$ 1,279

$9.68 million of the governmental services are financed with property taxes and license fees.

Governmental activities increased the City's net assets by $994,914. The primary reason for the increase has already been addressed in this report.

Business-type activities increased the City's net assets by $918,475. This increase is net of depreciation expense of $1,347,320 (a non cash item). The water & sewer fund remains healthy as operating costs continue to be in line with operating revenues. Effective July 1, 2011, water rates were increased by approximately 45% in order to provide partial funding for the construction of a new water plant.

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 $1,378,077. The reasons for this increase were addressed earlier in this report.

Non-major funds include the Municipal Road Aid, Police Safety, Drug Forfeiture, Hazard Mitigation, Renaissance, Streetscape, Toys for Tots, Cemetery Trusts, and Park Trust funds. These funds are combined for this report because their revenues and expenses are smaller than other funds of the City. You can find details about these funds in the combining statements for the non-major governmental funds on pages 46 and 47.

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.

General Fund Budgetary Highlights

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

During the fiscal year ended June 30, 2012, there were three budget amendments. Budgeted expenditures in the storm-water, garbage, and museum funds were increased to allow for additional expenditures in the amount of $113,615, $30,000, and $2,000, respectively.

Capital Asset and Debt Administration

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

Capital Assets

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

City of Danville, Kentucky Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	$ 2,552,556	$ 1,309,568	$ 3,862,124
Buildings	8,924,680	7,112,838	16,037,518
Improvements other than buildings	908,125	258,816	1,166,941
Vehicles	561,489	71,595	633,084
Equipment	204,353	578,195	782,548
Infrastructure	5,072,994	27,283,409	32,356,403
Construction in progress	10,232	1,013,895	1,024,127
Total	$ 18,234,429	$ 37,628,316	$ 55,862,745

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

$307,450 was expended during the year related to various storm water sub-basin improvement projects. Two projects were completed during the current fiscal year at a total cost of $382,921.

$226,830 was expended during the year related to the Phylbin Village sewer project. This project was completed during the current fiscal year at a total cost of $2,707,044.

During the current fiscal year, the City incurred preliminary design costs related to its new water treatment facility in the amount of $704,270. This project is in the early stages at June 30, 2012 and no construction costs have been incurred as of June 30, 2012.

Long-Term Debt

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

City of Danville's Outstanding Debt

	Governmental Activities	Business-Type Activities	Total
KLC Funding Trust	$ 7,585,466	$	$ 7,585,466
Ky. Bond Corporation-Lease	445,000	700,000	1,145,000
Series 2008 Rural Dev. Bonds		1,449,300	1,449,300
Series 2006 (A&B) Revenue Bonds		4,295,000	4,295,000
Series 2003 Revenue Bonds		860,000	860,000
Series 2000 RUS Revenue Bonds		398,400	398,400
Series 2010 Build America Bond		600,000	600,000
Series 1995 RUS Revenue Bonds		419,000	419,000
KIA Loan C88-06		265,000	265,000
KIA Loan – Treatment Plant		4,012,133	4,012,133
Total	$ 8,030,466	$ 12,998,833	$ 21,029,299

The City's long term debt decreased $1,241,709 during the fiscal year. The components of this net decrease were previously discussed on page 1 of this report.

Economic Factors and Next Year's Budget

The City is currently in the planning phase of constructing a new water treatment plant. The City has budgeted $9,750,000 for the fiscal year ended June 30, 2013 related to this project. The latest engineering studies estimate the ultimate cost of this project to be approximately $27 million once completed. At the present time, the primary funding for this project is expected to be provided by the issuance of bonds and other debt instruments.

The City is also in the process of performing sub-basin improvements in the storm-water fund. Budgeted expenditures for the fiscal year ended June 30, 2013 related to these projects are $922,900. These expenditures are to be funded primarily by loans in the amount of $675,000 and grants in the amount of $137,000.

Subsequent to year end, the City purchased a public works building which it had previously been leasing. The total cost of the building was approximately $1,233,000. The City borrowed the money to finance this purchase plus an additional $700,000 to finance the necessary remodeling of the building.

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, telephone number (859) 238-1200.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Danville, Kentucky, as of June 30, 2012, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Danville, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with ***Government Auditing Standards***, we have also issued a report dated January 21, 2013, on our consideration of the City of Danville, Kentucky's internal control over financial reporting and our tests of its compliance with certain 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be read in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 6 and 42 through 45 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Danville, Kentucky's financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
January 21, 2013

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-Type Activities	Total	2011 Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 3,782,004	$ 942,411	$ 4,724,415	$ 4,457,863
Receivables, net	1,017,704	788,311	1,806,015	1,826,853
Investments	1,120,710	113,746	1,234,456	1,186,603
Inventory, at cost	-	241,915	241,915	211,413
Due from other funds	26,945	(26,945)	-	-
Prepaid expenses and other current assets	7,171	-	7,171	7,412
Total current assets	5,954,534	2,059,438	8,013,972	7,690,144
Non-current assets				
Restricted cash	117,060	1,430,554	1,547,614	1,721,203
Restricted investments	-	509,756	509,756	503,051
Capital assets, net	18,234,429	37,628,316	55,862,745	56,483,630
Total non-current assets	18,351,489	39,568,626	57,920,115	58,707,884
Total assets	$ 24,306,023	$ 41,628,064	$ 65,934,087	$ 66,398,028
LIABILITIES				
Current liabilities				
Accounts payable	$ 66,959	$ 439,234	$ 506,193	$ 1,793,576
Accrued wages	173,145	77,390	250,535	221,121
Payroll taxes & benefits payable	173,752	-	173,752	45,327
Deposits	11,157	48,550	59,707	57,594
Current portion of compensated absences	10,805	3,676	14,481	14,255
Accrued interest payable	-	93,344	93,344	101,534
Current portion of bonds and notes payable	256,533	1,036,222	1,292,755	1,252,872
Total current liabilities	692,351	1,698,416	2,390,767	3,486,279
Non-current liabilities				
Bonds and notes payable, net of current portion	7,639,912	11,717,486	19,357,398	20,643,509
Compensated absences, net of current portion	205,300	69,841	275,141	270,848
Total non-current liabilities	7,845,212	11,787,327	19,632,539	20,914,357
Total liabilities	8,537,563	13,485,743	22,023,306	24,400,636
NET ASSETS				
Investment in capital assets, net of related debt	10,337,984	24,874,608	35,212,592	34,587,249
Restricted	-	1,815,375	1,815,375	1,705,375
Unrestricted	5,430,476	1,452,338	6,882,814	5,704,768
Total net assets	15,768,460	28,142,321	43,910,781	41,997,392
Total liabilities and net assets	$ 24,306,023	$ 41,628,064	$ 65,934,087	$ 66,398,028

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense): Governmental Activities	Net Revenue (Expense): Business-Type Activities	Net Revenue (Expense): Total	2011 Total
Governmental activities								
General government	$ 1,670,623	$ -	$ 65,217	$ -	$ (1,605,406)	$ -	$ (1,605,406)	$ (1,698,973)
Public services	1,362,483	-	401,671	-	(960,812)	-	(960,812)	(1,118,793)
Public safety	6,397,465	-	291,478	-	(6,105,987)	-	(6,105,987)	(6,126,014)
Community services	802,127	-	-	-	(802,127)	-	(802,127)	(971,453)
Debt service	282,566	-	-	-	(282,566)	-	(282,566)	(275,086)
Total governmental activities	10,515,264	-	758,366	-	(9,756,898)	-	(9,756,898)	(10,190,319)
Business-type activities								
Utilities	6,396,274	7,279,281	-	275,291	-	1,158,298	1,158,298	1,817,849
Parking	310,300	255,866	-	- -	-	(54,434)	(54,434)	(74,841)
Garbage	919,230	864,031	-	- -	-	(55,199)	(55,199)	(103,199)
Cemetery	196,573	115,999	-	-	-	(80,574)	(80,574)	(93,861)
Museum	28,285	-	-	-	-	(28,285)	(28,285)	(28,082)
Storm water	374,941	580,955	-	58,688	-	264,702	264,702	232,998
Debt service	607,435	-	-	-	-	(607,435)	(607,435)	(601,382)
Total business-type activities	8,833,038	9,096,132	-	333,979	-	597,073	597,073	1,149,482
Total	19,348,302	9,096,132	758,366	333,979	(9,756,898)	597,073	(9,159,825)	(9,040,837)
		General revenues						
		Taxes			1,684,910	-	1,684,910	1,586,278
		Licenses and fees			7,992,216	-	7,992,216	7,599,867
		Fines and forfeitures			24,735	-	24,735	27,102
		Management fees			779,175	-	779,175	751,776
		Other			519,065	65,506	584,571	354,633
		Total general revenues			11,000,101	65,506	11,065,607	10,319,656
		Gain on sale of property			7,607	-	7,607	-
		Transfers			(255,896)	255,896	-	-
		Total general revenues and transfers			10,751,812	321,402	11,073,214	10,319,656
		Change in net assets			994,914	918,475	1,913,389	1,278,819
		Net assets, beginning of year			14,773,546	27,223,846	41,997,392	40,718,573
		NET ASSETS, END OF YEAR			$ 15,768,460	$ 28,142,321	$ 43,910,781	$ 41,997,392

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

CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Other Nonmajor Governmental Funds	2012 Total Governmental Funds	2011 Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 3,121,627	$ 660,377	$ 3,782,004	$ 3,077,407
Receivables, net of allowance for uncollectible accounts of $39,436	1,011,967	5,737	1,017,704	794,774
Investments	1,114,888	5,822	1,120,710	1,075,686
Restricted cash	117,060	-	117,060	139,258
Due from other funds	26,945	-	26,945	-
Prepaid expenses and other assets	7,171	-	7,171	7,412
Total assets	$ 5,399,658	$ 671,936	$ 6,071,594	$ 5,094,537
LIABILITIES				
Accounts payable	$ 62,482	$ 4,477	$ 66,959	$ 612,168
Accrued wages	173,050	95	173,145	157,410
Accrued payroll taxes & benefits payable	173,745	7	173,752	45,327
Deposits	11,157	-	11,157	11,144
Compensated absences	10,805	-	10,805	10,789
	431,239	4,579	435,818	836,838
FUND BALANCE				
Fund balance, restricted	117,060	29,359	146,419	168,465
Fund balance, unassigned	4,851,359	637,998	5,489,357	4,089,234
Total fund balance	4,968,419	667,357	5,635,776	4,257,699
Total liabilities and fund balance	$ 5,399,658	$ 671,936	$ 6,071,594	$ 5,094,537
Amounts reported for governmental activities in the statement of net assets are different because:				
Fund balances reported above			$ 5,635,776	$ 4,257,699
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $85,525,667 and $84,787,848 for the fiscal years ended June 30, 2012 and 2011, respectively.			18,234,429	18,857,080
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets:				
Loan and lease purchase agreements			(7,896,445)	(8,136,252)
Accrued compensated absences			(205,300)	(204,981)
Net assets of governmental activities			$ 15,768,460	$ 14,773,546

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, 2012

	General Fund	Other Nonmajor Governmental Funds	2012 Total Governmental Funds	2011 Total Governmental Funds
REVENUES				
Taxes	$ 1,684,910	$ -	$ 1,684,910	$ 1,586,278
Licenses and fees	7,992,216	-	7,992,216	7,599,867
Intergovernmental revenue	356,695	401,671	758,366	615,289
Fines and fofeitures	23,030	1,705	24,735	27,102
Other revenues	1,280,011	18,229	1,298,240	1,056,688
Total revenues	11,336,862	421,605	11,758,467	10,885,224
EXPENDITURES				
Current operating				
General government	1,472,607	-	1,472,607	1,579,157
Public services	973,509	15,691	989,200	1,097,049
Public safety	6,035,169	195,457	6,230,626	6,182,692
Community services	780,673	21,454	802,127	971,453
Debt services	522,373	-	522,373	447,761
Capital outlay	104,936	10,232	115,168	913,830
Total expenditures	9,889,267	242,834	10,132,101	11,191,942
Excess of revenues over expenditures	1,447,595	178,771	1,626,366	(306,718)
Other financing sources (uses):				
Transfers (to) from other funds	(230,896)	(25,000)	(255,896)	(454,160)
Sale of property	7,607	-	7,607	10,000
Loan proceeds	-	-	-	495,000
Total other financing sources (uses)	(223,289)	(25,000)	(248,289)	50,840
Net change in fund balance	1,224,306	153,771	1,378,077	(255,878)
Fund balance, beginning of year	3,744,113	513,586	4,257,699	4,513,577
FUND BALANCE, END OF YEAR	$ 4,968,419	$ 667,357	$ 5,635,776	$ 4,257,699
Amounts reported for *govermental activities* in the Statement of Activities are different because:				
Net change in fund balance - total governmental funds, reported above			$ 1,378,077	$ (255,878)
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the Statement of Activities and depreciated over their estimated economic lives.				
Increase in capital assets			115,168	911,931
Depreciation expense			(737,819)	(723,189)
Bond and note payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the Statement of Net Assets.			239,807	172,675
Loan proceeds			-	(495,000)
Generally, expenditures recognized in the general fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred:				
Accrued interest expense			-	10,476
Compensated absences			(319)	4,452
Change in net assets of governmental activities			$ 994,914	$ (374,533)

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

CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2012

ASSETS	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2012 Total	2011 Total
Current assets						
Cash and cash equivalents	$ 422,882	$ 106,189	$ 411,588	$ 1,752	$ 942,411	$ 1,380,456
Accounts receivable, net of allowance for uncollectible accounts fo $548,567	594,767	51,534	83,627	58,383	788,311	1,032,079
Investments	-	-	-	113,746	113,746	110,917
Due from (to) other funds	-	-	-	(26,945)	(26,945)	-
Inventory, at cost	241,915	-	-	-	241,915	211,413
Total current assets	1,259,564	157,723	495,215	146,936	2,059,438	2,734,865
Non-current assets						
Restricted cash and cash equivalents	1,296,999	8,620	124,935	-	1,430,554	1,581,945
Restricted investments	509,756	-	-	-	509,756	503,051
Capital assets, net	28,222,251	7,723,174	1,244,328	438,563	37,628,316	37,626,550
Total non-current assets	30,029,006	7,731,794	1,369,263	438,563	39,568,626	39,711,546
Total assets	$ 31,288,570	$ 7,889,517	$ 1,864,478	$ 585,499	$ 41,628,064	$ 42,446,411
LIABILITIES						
Current liabilities						
Accounts payable	$ 361,899	$ 46	$ 74,785	$ 2,504	$ 439,234	$ 1,181,408
Accrued expenses	64,042	1,507	6,249	5,592	77,390	63,711
Deposits	48,550	-	-	-	48,550	46,450
Current portion of compensated absences	3,227	51	277	121	3,676	3,466
Accrued interest payable	65,190	15,960	12,194	-	93,344	101,534
Current portion of bonds and notes payable	918,394	89,070	28,758	-	1,036,222	1,007,662
Total current liabilities	1,461,302	106,634	122,263	8,217	1,698,416	2,404,231
Non-current liabilities						
Bonds and notes payable	7,010,912	4,057,696	648,878	-	11,717,486	12,752,467
Compensated absences,net of current portion	61,314	969	5,260	2,298	69,841	65,867
Total non-current liabilities	7,072,226	4,058,665	654,138	2,298	11,787,327	12,818,334
Total liabilities	8,533,528	4,165,299	776,401	10,515	13,485,743	15,222,565
NET ASSETS						
Invested in capital assets, net of related debt	20,292,945	3,576,408	566,692	438,563	24,874,608	23,866,421
Restricted	1,806,755	8,620	-	-	1,815,375	1,705,375
Unrestricted	655,342	139,190	521,385	136,421	1,452,338	1,652,050
Total net assets	22,755,042	3,724,218	1,088,077	574,984	28,142,321	27,223,846
Total liabilities and net assets	$ 31,288,570	$ 7,889,517	$ 1,864,478	$ 585,499	$ 41,628,064	$ 42,446,411

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2012

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2012 Total	2011 Total
Revenues						
Water sales	$ 3,842,335	$ -	$ -	$ -	$ 3,842,335	$ 3,068,407
Water surcharge	241,989	-	-	-	241,989	215,465
Sewer charges	2,845,056	-	-	-	2,845,056	2,792,993
Connection fees	56,882	-	-	-	56,882	55,558
Parking rental fees	-	255,866	-	-	255,866	256,245
Other fees for services	-	-	580,955	980,030	1,560,985	1,417,193
Other revenues	293,019	-	-	-	293,019	289,455
Total revenues	7,279,281	255,866	580,955	980,030	9,096,132	8,095,316
Operating expenses						
Water	2,700,847	-	-	-	2,700,847	2,835,003
Sewer	1,537,701	-	-	-	1,537,701	1,465,889
Perryville	136,257	-	-	-	136,257	132,856
Personnel	-	49,510	225,429	111,950	386,889	353,793
Contractual	-	60,939	106,923	997,458	1,165,320	1,116,946
Management fees	728,843	-	-	-	728,843	699,530
Depreciation	1,114,601	190,585	24,757	17,377	1,347,320	1,271,979
Other operating expenses	178,025	9,266	17,832	17,303	222,426	209,149
Total operating expenses	6,396,274	310,300	374,941	1,144,088	8,225,603	8,085,145
Operating income (loss)	883,007	(54,434)	206,014	(164,058)	870,529	10,171
Non-operating revenues (expenses)						
Grants	275,291	-	58,688	-	333,979	1,742,622
Interest expense	(383,169)	(199,091)	(25,175)	-	(607,435)	(601,382)
Other non-operating revenues (expenses)	57,295	472	1,698	6,041	65,506	47,782
Non-operating revenues (expenses)	(50,583)	(198,619)	35,211	6,041	(207,950)	1,189,022
Income (loss) before other revenues expenses, gains, losses and transfers	832,424	(253,053)	241,225	(158,017)	662,579	1,199,193
Transfers (to) from other funds	-	99,473	-	156,423	255,896	454,160
Change in net assets	832,424	(153,580)	241,225	(1,594)	918,475	1,653,353
Net assets, beginning of year	21,922,618	3,877,798	846,852	576,578	27,223,846	25,570,493
NET ASSETS, END OF YEAR	$ 22,755,042	$ 3,724,218	$ 1,088,077	$ 574,984	$ 28,142,321	$ 27,223,846

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, 2012

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2012 Total	2011 Total
Cash flows from operating activities						
Receipts from customers	$ 7,588,168	$ 234,630	$ 537,054	$ 980,048	$ 9,339,900	$ 7,614,382
Payments to suppliers	(3,134,558)	(79,445)	(101,112)	(1,085,029)	(4,400,144)	(2,886,024)
Payments to employees	(2,124,861)	(48,887)	(222,543)	(107,819)	(2,504,110)	(2,389,386)
Payments to general fund for management services	(728,843)	-	-	-	(728,843)	(699,530)
Net cash provided by (used in) operating activities	1,599,906	106,298	213,399	(212,800)	1,706,803	1,639,442
Cash flows from noncapital financing activities						
Transfers (to) from other funds	-	99,473	-	156,423	255,896	454,160
Deposits, net	2,100	-	-	-	2,100	(6,263)
Due (to) from other funds	(23,465)	-	(2,525)	52,935	26,945	-
Other revenues	37,563	-	-	-	37,563	15,453
Net cash provided by (used in) noncapital financing activities	16,198	99,473	(2,525)	209,358	322,504	463,350
Cash flows from capital and related financing activities						
Purchases of capital assets	(985,023)	-	(364,064)	-	(1,349,087)	(3,067,774)
Principal paid on notes and bonds	(925,852)	(95,000)	(30,000)	-	(1,050,852)	(1,044,669)
Interest (paid) accrued on notes and bonds	(390,694)	(199,419)	(25,510)	-	(615,623)	(588,568)
Borrowings of notes and bonds	-	-	-	-	-	1,375,000
Bond issuance costs	-	5,929	1,242	-	7,171	(17,676)
Refunding of debt	37,260	-	-	-	37,260	37,260
Capital improvement grant proceeds	275,291	-	58,688	-	333,979	1,740,693
Net cash provided by (used) in capital and related financing activities	(1,989,018)	(288,490)	(359,644)	-	(2,637,152)	(1,565,734)
Cash flows from investing activities						
Investments reduction increase	(6,705)	-	-	(2,829)	(9,534)	15,396
Interest and dividends	19,732	472	1,698	6,041	27,943	34,257
Net cash provided by investing activities	13,027	472	1,698	3,212	18,409	49,653
Net increase (decrease) in cash and cash equivalents and restricted cash	(359,887)	(82,247)	(147,072)	(230)	(589,436)	586,711
Cash and cash equivalents and restricted cash, beginning of year	2,079,768	197,056	683,595	1,982	2,962,401	2,375,690
Cash and cash equivalents and restricted cash, end of year	$ 1,719,881	$ 114,809	$ 536,523	$ 1,752	$ 2,372,965	$ 2,962,401
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	$ 883,007	$ (54,434)	$ 206,014	$ (164,058)	$ 870,529	$ 10,171
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,114,601	190,585	24,757	17,377	1,347,320	1,271,979
Provision for bad debt	69,298	170	-	45,122	114,590	78,706
Change in assets and liabilities:						
Accounts receivable	239,589	(21,406)	(43,901)	(45,104)	129,178	(559,640)
Inventory	(30,503)	-	-	-	(30,503)	4,138
Prepaid expenses and other assets	-	-	-	-	-	(1,928)
Accounts payable	(686,309)	(9,240)	23,643	(70,268)	(742,174)	820,733
Accrued expenses	9,102	367	934	3,276	13,679	9,194
Compensated absences	1,121	256	1,952	855	4,184	6,089
Net cash provided by (used in) operating activities	$ 1,599,906	$ 106,298	$ 213,399	$ (212,800)	$ 1,706,803	$ 1,639,442

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	Police and Firemen's Pension Fund	2011 Total
ASSETS		
Cash and cash equivalents	$ 64,037	$ 32,725
Investments	666,461	681,188
Total assets	$ 730,498	$ 713,913
NET ASSETS		
Net assets held in trust for pension benefits	$ 730,498	$ 713,913
TOTAL NET ASSETS	$ 730,498	$ 713,913

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
for the year ended June 30, 2012

	Police and Firemen's Pension Fund	2011 Total
Additions		
Employers contributions	$ 190,000	$ 190,000
Employee Contributions	1,516	1,717
Interest and dividends	22,946	26,504
Realized gains (loss) on investments	7,197	4,591
Unrealized gain (loss) on investments	4,261	74,205
Total additions	225,920	297,017
Deductions		
Benefit payements	203,960	213,800
Trustee fee	5,375	5,107
Total deductions	209,335	218,907
Change in net assets	16,585	78,110
Net assets, beginning of year	713,913	635,803
NET ASSETS, END OF YEAR	$ 730,498	$ 713,913

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Danville, Kentucky (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 $65,000 for an operating grant to the DBCPZC for the year ended June 30, 2012.

The City, in conjunction with Boyle County, has created the Danville-Boyle County Airport Board (DBCAB). The DBCAB's board is comprised of three members from the City of Danville and three members from Boyle County. The City appropriated $18,000 for an operating grant to the DBCAB for the year ended June 30, 2012.

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 $200,000 for an operating grant to the DBCPRB for the year ended June 30, 2012.

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, 2012.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

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.

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

The City reports the following major governmental fund:

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 City reports the following 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Presentation, continued

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 & 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Cash Deposits and Investments

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

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

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

All investments are reported at fair value.

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

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

2. Receivables and Payables

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

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

3. Inventories

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

4. Restricted Assets

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Restricted Assets, continued

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

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

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

5. Capital Assets

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences

All non-public safety employees earn vacation leave at a rate of 5/6 of a day per month (80 hours per year) up to ten years of service, 1 1/4 days per month (120 hours per year) for greater than ten tears 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.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs and bond discounts are deferred and amortized over the term of the related issues. Bonds payable are reported net of the applicable discounts and issuance costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Long-term Obligations, continued

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

8. Fund Balance

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable 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:

Nonspendable - 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 nonspendable, 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 nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net assets 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.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

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

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

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

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

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

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgetary Information, continued

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

Property taxes

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

For the year ended June 30, 2012, taxes were levied November 1, 2011 and were payable by December 31, 2011. A 10% penalty was imposed on all taxes delinquent as of January 1, 2012. In addition, an interest charge of 1/2% per month is levied on all delinquent taxes. As of May 1, 2011 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 13.9 cents per $100 on real property and 16.0 cents per $100 on personal property for the fiscal year ended June 30, 2012, are within permissible limits under the above legislation. The City does not collect personal property taxes on motor vehicles or watercraft.

3. CASH DEPOSITS AND INVESTMENTS

As of June 30, 2012, the City had the following investments and maturities:

PRIMARY GOVERNMENT (EXCEPT FIDUCIARY FUNDS)

		Investment Maturities in years				
Investment type	Fair Value	Less than 1	1-5	6-10	Over 10	Credit rating
U.S. Agencies	$ 238,064	$ 30,689	$ 96,766	$ 110,609	-	AAA
State and Municipal Bonds	84,380	-	-	84,380	-	
Corporate Bonds	336,543	-	201,286	135,257	-	BBB to AAA
Money Market Mutual Funds	47,450	47,450	-	-	-	AAA
Certificate of Deposits	414,273	414,273	-	-	-	N/A
Totals	$ 1,120,710	$ 492,412	$ 298,052	$ 330,246	$ -	

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 88% 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 21% in U.S. Agencies, 30% in Corporate Bonds and 37% of its investments in bank certificates of deposit (at one bank).

Custodial Credit Risk. Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments that are in the possession of the financial institution. The City's investment policy dictates that all cash maintained in any financial institution named as a depository be insured or collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. Collateral must be held by an independent third-party custodian. The City is fully collateralized and all pledged investments were held in the City's name as of June 30, 2012.

As of June 30, 2012, the Police/Fire Pension Fund had the following restricted investments:

		Investment Maturities in years				
Investment type	Fair Value	Less than 1	1-5	6-10	Over 10	Credit rating
U.S. Agencies	$ 15,237	$ 15,237	$ -	$ -	$	AAA
Corporate Bonds	55,528	30,260	25,268	-		A to BAA
Money Market Mutual Funds	245,126	245,126	-	-		AAA
Domestic Equities	350,570	350,570	-	-	-	N/A
Totals	$ 666,461	$ 641,193	$ 25,268	$ -	$ -	

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

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

Concentration of credit risk. The pension fund places no limit on the amount the fund may invest in any one issuer. The pension fund has 53% of its investments invested in common stock of 20 companies. The remaining investments are concentrated as follows – 2% U.S. Agencies, 8% Corporate Bonds, and 37% Mutual Funds. There are no investments in any one organization (other than U.S. Agencies) that exceed 5% of the total investments.

4. CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Land	$ 2,552,556	$ -	$ -	$ 2,552,556
Land improvements	1,370,334	-	-	1,370,334
Buildings	10,646,797	-	-	10,646,797
Vehicles	3,337,801	-	-	3,337,801
Equipment	1,381,398	104,936	-	1,486,334
Construction in progress	-	10,232	-	10,232
Total	16,736,330	115,168	-	16,851,498
Total Non-Infrastructure Assets	19,288,886	115,168	-	19,404,054
Infrastructure assets	84,356,042	-	-	84,356,042
Total capital assets	$103,644,928	$ 115,168	$ -	$103,760,096
Accumulated Depreciation:				
Land improvements	426,601	35,608	-	462,209
Buildings	1,469,561	252,556	-	1,722,117
Vehicles	2,609,401	166,911	-	2,776,312
Equipment	1,256,855	25,126	-	1,281,981
Infrastructure	79,025,430	257,618	-	79,283,048
Total	84,787,848	737,819	-	85,525,667
Total capital assets, net	$18,857,080	$ (622,651)	$ -	$18,234,429
Business-Type Activities				
Land	$ 1,261,796	$ 47,772	$ -	$ 1,309,568
Buildings	8,436,255	-	-	8,436,255
Improvements	366,268	-	-	366,268
Vehicles	817,719	-	-	817,719
Equipment	1,434,683	7,550	-	1,442,233
Infrastructure	44,795,238	3,042,193	-	47,837,431
Construction in progress	2,762,324	1,341,536	(3,089,965)	1,013,895
Total	$ 59,874,283	$ 4,439,051	$(3,089,965)	$61,223,369
Accumulated Depreciation:				
Buildings	1,125,315	198,102	-	1,323,417
Improvements	93,101	14,351	-	107,452
Vehicles	710,319	35,805	-	746,124
Equipment	783,734	80,304	-	864,038
Infrastructure	19,535,264	991,759	-	20,554,022
Total	22,247,733	1,347,320	-	23,595,053
Total capital assets, net	$ 37,626,550	$ 3,091,731	$(3,089,965)	$37,628,316

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

General Government	$ 197,697
Public Services	373,283
Public Safety	166,839
Total Depreciation Expense	$ 737,819

Depreciation expense was charged to proprietary functions as follows:

Utilities	$ 1,114,601
Cemetery	3,843
Museum	13,534
Parking	190,585
Storm water	24,757
Total Depreciation Expense	$ 1,347,320

5. DEFINED BENEFIT PENSION PLANS

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

Police and Firefighters' Retirement Fund (PFRF)

1 - Plan Description and Provisions

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

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

Plan Members

Group	Active Employees
Retirees	8
Beneficiaries	5
Fully vested	0
Non-vested	0

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

1 - Plan Description and Provisions (continued)

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

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

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

a) If any member of the police and fire department becomes temporarily totally disabled, physically or mentally, the board of trustees of the pension fund shall order paid to him monthly, during his disability, until he has recovered and returned to active duty, a sum of not more than one-half (1/2) his salary per month, the amount to be determined by the board. This provision shall not apply if a salary is paid during the same period.

b) If any member of the police or fire department becomes permanently disabled, physically or mentally, so as to render necessary his retirement from service in the department, the board of trustees shall retire him from service and order paid to him monthly fifty percent (50%) of his monthly salary at the time of his retirement.

c) If any member of the police or fire department is killed or dies as the result of an injury received in the performance of duty, or dies of any disease contracted by reason of his occupation, or dies while in the service from any cause as a result of his service in the department, or dies in service or while on the retired list from any cause after one (1) year of service in the department and leaves a widow or a child under eighteen (18) years of age, the board of trustees shall order a pension paid to the widow, while unmarried, of one-half (1/2) of salary per month and for each child until it reaches the age of eighteen (18) years twenty-four dollars ($24) per month. The board may provide a minimum benefit of no more than four hundred dollars ($400) per month, initially, to the surviving spouse if the benefit can be supported on an actuarially sound basis by the fund. The board may increase the minimum benefit pursuant to the terms of subsection (4) of this section. If the deceased member was unmarried and childless, a pension shall be paid to his dependent father and mother of one-fourth (1/4) of salary per month. If one (1) parent is dead, the other shall receive the entire one-fourth (1/4) salary.

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

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

2 – Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting – The preparation of the financial statements of the PFRF generally conform to the provisions of the GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The financial statements of the fund are prepared on the accrual basis. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The cost of administering the plans is financed by the City of Danville.

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.

3 – Funding Policy and Annual Pension Cost

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 2011-2012 the City made a contribution of $190,000. Actuarial assumptions and other information used to determine the annual required contributions are located in the Required Supplemental Information – Pensions section of the report, because this plan does not issue separately audited financial statements.

Annual Pension Cost and Net Pension Obligation

Annual contribution required	$ 137,286
Interest on net pension obligation	3,478
Adjustment to annual required contributions	(3,873)
Annual pension cost	136,891
Contribution made	(190,000)
Decrease in net pension obligation	(53,109)
Net pension obligation at beginning of year	(49,681)
Net pension obligation at June 30, 2012	$ (102,790)

Three Year Trend Information	June 30, 2010	June 30, 2011	June 30, 2012
Annual pension cost (APC)	$ 166,448	$ 155,712	$ 136,891
Percentage of APC contributed	111%	122%	139%
Net pension obligation (liability)	(14,801)	(49,089)	(102,790)

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

Commonwealth of Kentucky County Employees' Retirement System

The City of Danville is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96%, of each employee's wages for non-hazardous job classifications and 35.76% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

Year	Required Contribution	Percentage Contributed
2012	$ 1,622,397	100%
2011	$ 1,436,513	100%
2010	$ 1,424,259	100%

Medical Insurance Plan

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

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

6. LONG TERM DEBT

1995 and 2000 Rural Utility Service Revenue Bonds

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

2003 Water and Sewer Refunding Revenue Bonds

On April 14, 2003, the Danville City Commission passed Ordinance No. 1644. This ordinance provided for the issuance of $3,540,000 in Water and Sewer Refunding Revenue Bonds, Series 2003, for the purpose of refunding the City's outstanding Water and Sewer Revenue Bonds, Series 1993, in order to achieve debt service savings. Ordinance 1644 placed the 2003 bonds in parity with the 1967 bonds and adopted and confirmed the covenants and provisions established by the 1967 bond ordinance. Deferred issue costs of $461,551 are amortized over the life of this issue.

Series 2008 USDA Rural Development Bonds

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

Series 2010 USDA Rural Development Build America Bonds

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

Water and Sewer Revenue Bonds outstanding at June 30, 2012 are as follows:

City of Danville Water & Sewer Revenue Bonds	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2012
Series 1995	$ 489,000	4.50%	2034	$ 419,000
Series 2000	449,500	4.75%	2040	398,400
Series 2003	3,540,000	2 to 3.375%	2014	860,000
Series 2008	1,480,000	4.375%	2049	1,449,300
Series 2010	600,000	3.00%	2050	600,000
				$ 3,726,700

6. LONG TERM DEBT (CONTINUED)

Revenue Bond Debt Service Requirements

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ 467,500	$ 147,645	$ 615,145
2014	479,000	131,831	610,831
2015	46,100	115,277	161,377
2016	48,800	113,310	162,110
2017	49,900	111,252	161,152
2018-22	288,100	522,132	810,232
2023-27	357,200	455,045	812,245
2028-32	444,000	371,483	815,483
2033-37	450,000	274,109	724,109
2038-42	430,000	183,410	613,410
2043-47	438,600	98,618	537,218
2048-50	227,500	14,572	242,072
	$ 3,726,700	$2,538,684	$ 6,265,384

Total Debt Service by Bond Series

	Principal	Interest	Total Payment
Series 1995 RUS Revenue Bonds			
Junction City Water System	$ 419,000	$ 243,383	$ 662,383
Series 2000 RUS Revenue Bonds			
Perryville Water System	398,400	330,025	728,425
Series 2003 Revenue Bonds	860,000	43,388	903,388
Series 2008 Rural Dev. Bonds	1,449,300	1,501,453	2,950,753
Series 2010 Rural Dev. Bonds	600,000	420,435	1,020,435
	$ 3,726,700	$ 2,538,684	$ 6,265,384

Bond Covenants and Provisions

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

1) All cash revenues of the system are to be first deposited in the Water and Sewer Revenue Fund Account.

2) As a first charge on the Revenue Account, pro-rata monthly transfers of an amount sufficient to pay the principal and interest on the 1967 and 2003 bonds are to be made to the Bond and Interest Redemption Fund/Account.

3) Monthly transfers equal to 1/12 of 10% of the maximum annual debt service which will come due during any 12-month period ending February 1 are required to be made to the Bond and Interest Redemption Fund/Account as a Debt Service Reserve. These transfers must be made until an amount equivalent to the amount referred to in Note A (restricted assets, page 27) under the 1967 and 2003 bond issues has been accumulated.

6. LONG TERM DEBT (CONTINUED)

After observing the above priorities -

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

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

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

For the fiscal year ended June 30, 2012, the City is in substantial compliance with all covenants and provisions of the loan agreements.

Water and Sewer Fund Kentucky Infrastructure Authority Loan

On May 1, 1999, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow, for new construction, $6,925,703 with an interest rate of 3.8% to be repaid over a twenty year period. During the 2006 fiscal year the City added $689,403 to the KIA Treatment Plant loan increasing the total loan receipts to $7,615,106. During the 2004 fiscal year the City purchased the Water Systems from the Cities of Perryville and Junction City, Kentucky. The City agreed to assume KIA loans made to each city. The KIA loan for the Perryville system had a balance of $222,048 with an interest rate of 4.2% to be repaid over an eight year period. The KIA loan for the Junction City system had a balance of $945,224 with an interest rate of 5.375% to 5.750% to be repaid over a ten year period.

The Kentucky Infrastructure Authority Loans outstanding at June 30, 2012 are as follows:

Description of Issue	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2012
KIA Loan C88-06 Junction City Acquisition	945,224	2.25 to 5.25%	2014	265,000
KIA Loan A98-08 Treatment Plant	7,615,106	3.8%	2021	4,012,133
				$ 4,277,133

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

Year Ending June 30,	Principal	Interest	Total Payment
2013	$ 488,155	$ 170,885	$ 659,040
2014	608,812	150,043	758,855
2015	440,070	122,847	562,917
2016	456,951	105,077	562,028
2017	474,480	86,626	561,106
2018-2021	1,808,666	147,516	1,956,182
	$ 4,277,133	$ 782,995	$ 5,060,128

6. LONG TERM DEBT (CONTINUED)

For the fiscal year ended June 30, 2012, the City is in substantial compliance with all covenants and provisions of the KIA loan agreements.

Parking Garage General Obligation Bonds

Bond Series 2006 A and B were issued on December 1, 2006 to borrow money for parking garage construction of $3,450,000 and $1,200,000 with interest rates of 4.1455% and 5.7392% to be repaid over a thirty year period. Deferred issue costs of $186,500 are amortized over the life of the issues.

General Obligation Bond Debt Service Requirements

The annual principal and interest requirements of the parking garage general obligation bonds payable as of June 30, 2012 are as follows:

Year Ending June 30	Principal	Interest	Total
2013	95,000	189,548	284,548
2014	100,000	185,411	285,411
2015	105,000	180,940	285,940
2016	110,000	176,228	286,228
2017	115,000	171,315	286,315
2018-22	660,000	774,291	1,434,291
2023-27	805,000	613,300	1,418,300
2028-32	1,020,000	411,583	1,431,583
2033-37	1,005,000	145,591	1,150,591
	$ 4,015,000	$ 2,848,207	$ 6,863,207

Storm Water Kentucky Bond Corporation 2010 First Series A Revenue Bond

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

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

Year Ending June 30	Principal	Interest	Total
2013	30,000	24,838	54,838
2014	30,000	24,163	54,163
2015	30,000	23,488	53,488
2016	35,000	22,813	57,813
2017	35,000	21,938	56,938
2018-22	180,000	85,988	265,988
2023-27	210,000	54,850	264,850
2028-30	150,000	12,000	162,000
	$ 700,000	$ 270,075	$ 970,075

For the fiscal year ended June 30, 2012, the City is in substantial compliance with all covenants and provisions of the 2010 First Series A Revenue Bond.

6. LONG TERM DEBT (CONTINUED)

Amount Due to Kentucky League of Cities

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

The original amount of this obligation was $1,199,065. The City financed this obligation through the Kentucky League of Cities (KLC) note with a 4.10% interest rate. The outstanding loan balance at June 30, 2012 is $460,000.

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

Year Ending June 30	Principal	Interest	Total
2013	69,000	18,113	87,113
2014	72,000	15,257	87,257
2015	76,000	12,214	88,214
2016	74,000	9,074	83,074
2017	83,000	5,686	88,686
2018	86,000	1,935	87,935
Total	$ 460,000	$ 62,279	$ 522,279

Municipal Facility Construction Funded by Kentucky League of Cities

The City borrowed $7,317,347 for 30 years at 3.00% interest rate, which was approved by Ordinance No. 1743. The ordinance approved maximum loan of $7,500,000 and a sinking fund for tax funds and debt service payments.

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

Year Ending June 30	Principal	Interest	Total
2013	$ 160,636	$ 280,022	$ 440,658
2014	166,628	274,029	440,657
2015	173,344	267,307	440,651
2016	179,848	260,797	440,645
2017	187,927	252,700	440,627
2017-21	1,057,022	1,002,532	2,059,553
2022-26	1,287,698	798,592	2,086,290
2027-31	1,568,987	549,799	2,118,786
2032-36	1,912,862	245,517	2,158,380
2037-38	393,676	9,757	403,433
Total	$ 7,088,627	$3,941,051	$11,029,678

For the fiscal year ended June 30, 2012, the City is in substantial compliance with all covenants and provisions of the 2009 KLC agreement.

6. LONG TERM DEBT (CONTINUED)

Park Improvement Funded by Kentucky League of Cities

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

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

Year Ending June 30	Principal	Interest	Total
2013	$ 6,897	$ 1,367	$ 8,264
2014	7,124	1,140	8,264
2015	7,360	905	8,265
2016	7,603	662	8,265
2017	7,855	367	8,222
Total	$ 36,839	$ 4,441	$ 41,280

For the fiscal year ended June 30, 2012, the City is in substantial compliance with all covenants and provisions of the KLC agreement.

Fire Truck Lease by Kentucky Bond Corporation

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

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

Year Ending June 30	Principal	Interest	Total
2013	$ 20,000	$ 15,344	$ 35,344
2014	20,000	14,894	34,894
2015	20,000	14,444	34,444
2016	20,000	13,973	33,973
2017	20,000	13,452	33,452
2018-2022	115,000	53,822	168,822
2023-2027	135,000	33,100	168,100
2028-2030	95,000	6,219	101,219
Total	$ 445,000	$ 165,247	$ 610,247

For the fiscal year ended June 30, 2012, the City is in substantial compliance with all covenants and provisions of the KLC agreement.

6. LONG TERM DEBT (CONTINUED)

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2012, was as follows:

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

Governmental activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 215,770	$ 335	$ -	$ 216,105	$ 10,805
Loan obligations:					
Amount due KLC	7,810,672	-	(225,206)	7,585,466	236,533
Amount due to KBC	465,000	-	(20,000)	445,000	20,000
Less deferred amounts	(139,420)	-	5,399	(134,021)	-
Governmental activity long-term liabilities	$ 8,352,022	$ 335	$ (239,807)	$ 8,112,550	$ 267,338
Business-type activities					
Loan obligations:					
Bonds – Utility & Parking	$ 8,559,200	$ -	$ (537,500)	$ 8,021,700	$ 562,500
Less deferred amounts:					
Issuance discounts	(154,165)	-	5,929	(148,234)	(5,930)
Refunding	(153,853)	-	51,283	(102,572)	(51,283)
Total bonds	8,251,182	-	(480,288)	7,770,894	505,287
KBC bond – Storm Water	730,000	-	(30,000)	700,000	30,000
Less deferred amounts:					
Refunding	(23,606)	-	1,242	(22,364)	(1,242)
Total KBC bond	706,394	-	(28,758)	677,636	28,758
KIA loans - Utility	4,760,486	-	(483,353)	4,277,133	488,155
Less deferred amounts:					
Deferred gain	42,067	-	(14,022)	28,045	14,022
Total KIA loans	4,802,553	-	(497,375)	4,305,178	502,177
Compensated absences	69,333	4,184	-	73,517	3,676
Business-type activities	$ 13,829,462	$ 4,184	$(1,006,421)	$12,827,225	$ 1,039,898

Deferred amounts – Bond discounts, refunding issue costs and gains are netted from the loan obligation payable on the statement of net assets.

7. 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.

8. 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.

9. 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.

10. TRANSFERS OF FUNDS

Transfers between funds consisted of the following for the fiscal year ended June 30, 2012**:**

Type	From fund	To fund	Purpose		Amount
Operating	Municipal Aid	General	Street repairs	$	25,000
Operating	General	Museum	Operating expense		14,470
Operating	General	Cemetery	Operating expense		71,377
Operating	General	Garbage	Operating expense		70,576
Operating	General	Parking	Operating expense		99,473
				$	280,896

11. RECLASSIFICATIONS

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

12. SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through January 21, 2013, 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, 2012, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
DEFINED BENEFIT RETIREMENT PLAN
for the year ended June 30, 2012

I. SCHEDULE OF FUNDING PROGRESS

Police and Fire Pension Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2001	$ 1,091,744	$ 2,719,227	$ 1,627,483	40%	$ 26,554	6129%
6/30/2002	$ 1,004,846	$ 2,751,583	$ 1,746,737	37%	$ 28,747	6076%
6/30/2003	$ 888,977	$ 2,729,660	$ 1,840,683	33%	$ 30,941	5949%
6/30/2004	$ 897,495	$ 2,592,904	$ 1,695,409	35%	$ 33,134	5117%
6/30/2005	$ 829,247	$ 2,615,080	$ 1,785,833	32%	$ 33,425	5343%
6/30/2006	$ 768,326	$ 2,629,048	$ 1,860,722	29%	$ 37,001	5029%
6/30/2007	$ 808,057	$ 2,674,820	$ 1,866,763	30%	$ 37,835	4934%
6/30/2008	$ 706,604	$ 2,475,132	$ 1,768,528	29%	$ 40,935	4320%
6/30/2009	$ 588,646	$ 2,479,936	$ 1,891,290	24%	$ 42,863	4412%
6/30/2010	$ 635,803	$ 2,393,785	$ 1,757,982	27%	$ 41,344	4252%
6/30/2011	$ 713,914	$ 2,234,779	$ 1,520,865	32%	$ 41,344	3679%
6/30/2012	$ 730,498	$ 2,089,227	$ 1,358,729	35%	$ -	0%

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Police and Fire Pension Fund

Fiscal Year	Annual Required Contributions	Percentage Contributed
2001	$ 137,014	89%
2002	$ 147,840	88%
2003	$ 156,352	83%
2004	$ 146,174	79%
2005	$ 153,398	87%
2006	$ 161,384	86%
2007	$ 163,201	81%
2008	$ 157,004	110%
2009	$ 166,417	118%
2010	$ 155,834	111%
2011	$ 137,286	138%
2012	$ 105,913	179%

III. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION ON PENSION PLAN FUNDING PROGRESS

	Police and Fire Pension Fund
Valuation date	July 1, 2012
Acturial cost method	Entry age normal
Amortization method	Level dollar
Amortization period	30 years closed
Actuarial asset valuation method	Fair market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	3.0%
Post retirement benefit increases	3.0%
Inflation	None

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
for the year ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	$ 1,585,000	$ 1,585,000	$ 1,684,910	$ 99,910
Licenses and fees	7,028,700	7,028,700	7,992,216	963,516
Intergovernmental revenue	783,000	783,000	356,695	(426,305)
Penalties and forfeitures	16,500	16,500	23,030	6,530
Other revenue	1,145,457	1,145,457	1,280,011	134,554
Total revenues	10,558,657	10,558,657	11,336,862	778,205
Expenditures				
Current operating				
General government	1,726,861	1,726,861	1,472,607	254,254
Public services	1,021,665	1,021,665	973,509	48,156
Public safety	7,163,267	7,163,267	6,035,169	1,128,098
Community services	944,559	944,559	780,673	163,886
Debt service	570,878	570,878	522,373	48,505
Capital outlay	122,642	122,642	104,936	17,706
Total expenditures	11,549,872	11,549,872	9,889,267	1,660,605
Excess (deficiency) of revenues over expenditures	(991,215)	(991,215)	1,447,595	2,438,810
Other financing sources (uses)				
Transfers (to) from other funds, net	(404,160)	(404,160)	(230,896)	173,264
Sale of property	-	-	7,607	7,607
Loan proceeds	-	-	-	-
Total other financing sources (uses)	(404,160)	(404,160)	(223,289)	180,871
Excess (deficiency) of revenues over expenditures and transfers	(1,395,375)	(1,395,375)	1,224,306	2,619,681
Fund balance, beginning of year	4,080,789	4,080,789	4,019,001	(61,788)
FUND BALANCE, END OF YEAR	$ 2,685,414	$ 2,685,414	$ 5,243,307	$ 2,557,893

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES - BUDGET AND ACTUAL
for the year ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Real and personal property	$ 1,305,000	$ 1,305,000	$ 1,357,595	$ 52,595
Tangible property	245,000	245,000	283,866	38,866
PILOT - Housing Authority	35,000	35,000	43,449	8,449
Total taxes	1,585,000	1,585,000	1,684,910	99,910
Licenses and fees				
Payroll licenses	9,500	9,500	9,427	(73)
Insurance licenses	1,300,000	1,300,000	1,226,653	(73,347)
Occupational licenses	4,250,000	4,250,000	4,955,216	705,216
Net profits	420,200	420,200	500,465	80,265
Liquor licenses	348,000	348,000	599,063	251,063
Franchise fees-Rural Electric Cooperative Corporation	21,000	21,000	24,034	3,034
Franchise fees-Kentucky Utilities	470,000	470,000	469,103	(897)
Franchise fees-Comcast	110,000	110,000	108,530	(1,470)
Franchise fees-Bank	100,000	100,000	99,125	(875)
Other licenses and fees	-	-	600	600
Total licenses and fees	7,028,700	7,028,700	7,992,216	963,516
Intergovernmental revenue				
Firefighters' grant	546,500	546,500	6,794	(539,706)
Police grant	-	-	38,647	38,647
Firefighters' incentive	88,500	88,500	109,806	21,306
Law enforcement incentive	121,000	121,000	136,231	15,231
BASE court	27,000	27,000	33,291	6,291
Other intergovernmental revenue	-	-	31,926	31,926
Total intergovernmental revenue	783,000	783,000	356,695	(426,305)
Fines and forfeitures				
Arrest fees	16,500	16,500	12,811	(3,689)
Other penalties	-	-	10,219	10,219
Total fines and forfeitures	16,500	16,500	23,030	6,530
Other revenue				
Community tower rental	84,150	84,150	73,985	(10,165)
Fire protection	22,000	22,000	23,659	1,659
Community contracts	42,400	42,400	150,913	108,513
Management fees	860,507	860,507	779,175	(81,332)
Building rental	200	200	-	(200)
Change in fair value of investments	-	-	18,041	18,041
Interest	20,000	20,000	40,981	20,981
Tobacco crop	1,200	1,200	1,203	3
Boyle County cost sharing	90,000	90,000	90,000	-
Insurance proceeds	0	-	5,972	5,972
School officer	0	-	45,765	45,765
Miscellaneous	25,000	25,000	50,317	25,317
Total other revenue	1,145,457	1,145,457	1,280,011	134,554
Total revenue	$ 10,558,657	$ 10,558,657	$ 11,336,862	$ 778,205

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General government				
Legislative and executive				
Personnel	$ 500,373	$ 500,373	$ 499,435	$ 938
Contractual	303,250	303,250	134,309	168,941
Other	47,250	47,250	52,965	(5,715)
Total legislative and executive	850,873	850,873	686,709	164,164
Finance and administration				
Personnel	296,840	296,840	257,751	39,089
Contractual	352,833	352,833	363,805	(10,972)
Other	22,700	22,700	13,109	9,591
Total finance and administration	672,373	672,373	634,665	37,708
Information technology				
Personnel	156,165	156,165	106,963	49,202
Contractual	23,550	23,550	25,442	(1,892)
Other	23,900	23,900	18,828	5,072
Total information technology	203,615	203,615	151,233	52,382
Total general government	1,726,861	1,726,861	1,472,607	254,254
Public services				
Personnel	273,715	273,715	260,175	13,540
Contractual	603,250	603,250	572,240	31,010
Other	144,700	144,700	141,094	3,606
Total public services	1,021,665	1,021,665	973,509	48,156
Total public services	1,021,665	1,021,665	973,509	48,156
Public safety				
Police department				
Personnel	2,650,880	2,650,880	2,595,500	55,380
Contractual	141,300	141,300	158,462	(17,162)
Other	191,500	191,500	215,880	(24,380)
Total police department	2,983,680	2,983,680	2,969,842	13,838
Communications and administration services				
Personnel	605,909	605,909	595,587	10,322
Contractual	40,250	40,250	37,667	2,583
Other	14,100	14,100	8,870	5,230
Total communications and administration services	660,259	660,259	642,124	18,135

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL, CONTINUED
for the year ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Public safety, continued				
Code enforcement				
Personnel	$ 185,294	$ 185,294	$ 192,758	$ (7,464)
Contractual	7,250	7,250	7,160	90
Other	7,600	7,600	6,435	1,165
Total code enforcement	200,144	200,144	206,353	(6,209)
Fire and emergency services				
Personnel	2,444,029	2,444,029	1,970,493	473,536
Contractual	174,705	174,705	142,251	32,454
Other	700,450	700,450	104,106	596,344
Total fire and emergency services	3,319,184	3,319,184	2,216,850	1,102,334
Total public safety	7,163,267	7,163,267	6,035,169	1,128,098
Community services				
Community agencies				
Grants	135,800	135,800	127,800	8,000
Non-departmental				
Grants	335,525	335,525	326,722	8,803
Police and fire retirement	190,000	190,000	190,000	-
Economic development initiative	120,000	120,000	145,000	(25,000)
Contingency - general fund	111,131	111,131	(2,640)	113,771
Loan costs	-	-	-	-
Insurance/judgement/claims	20,000	20,000	18,423	1,577
Workers' comp audit	12,103	12,103	(24,632)	36,735
Bird eradication	20,000	20,000	-	20,000
Total non-departmental	808,759	808,759	652,873	155,886
Total community services	944,559	944,559	780,673	163,886
Debt service				
CERS	85,696	85,696	85,696	-
City Hall	485,182	485,182	436,677	48,505
Total debt service	570,878	570,878	522,373	48,505
Capital outlay				
Fire department	47,000	47,000	11,257	35,743
Communications	-	-	20,438	(20,438)
Other	75,642	75,642	73,241	2,401
Total capital outlay	122,642	122,642	104,936	17,706
Total expenditures	$ 11,549,872	$ 11,549,872	$ 9,889,267	$ 1,660,605

CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Municipal Road Aid Fund	Police Safety Fund	Drug Forfeiture Fund	Hazard Mitigation Fund	Renaissance Fund	Streetscape Fund	Toys For Tots Fund	Other Expendable Trust Fund	Park Nonexpendable Trust Funds	Cemetery Nonexpendable Trust Fund	2012 Total	2011 Total
ASSETS												
Cash and cash equivalents	$ 406,320	$ 3,793	$ 34,358	$ 25,744	$ 54,785	$ 72,503	$ 6,894	$ 26,621	$ 4,945	$ 24,414	$ 660,377	$ 673,359
Receivables	-	1,786	-	-	-	3,951	-	-	-	-	5,737	-
Investments	-	-	-	-	-	-	-	5,822	-	-	5,822	5,802
Total assets	$ 406,320	$ 5,579	$ 34,358	$ 25,744	$ 54,785	$ 76,454	$ 6,894	$ 32,443	$ 4,945	$ 24,414	$ 671,936	$ 679,161
LIABILITIES AND FUND BALANCE												
Accounts payable	$ 1,026	$ -	$ -	$ -	$ 3,000	$ 451	$ -	$ -	$ -	$ -	$ 4,477	$ 165,362
Accrued wages	-	95	-	-	-	-	-	-	-	-	95	198
Accrued payroll taxes & benefits payable	-	7	-	-	-	-	-	-	-	-	7	15
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	1,026	102	-	-	3,000	451	-	-	-	-	4,579	165,575
Fund balance, restricted	-	-	-	-	-	-	-	-	4,945	24,414	29,359	29,207
Fund balance, unassigned	405,294	5,477	34,358	25,744	51,785	76,003	6,894	32,443	-	-	637,998	484,379
Total fund balance	405,294	5,477	34,358	25,744	51,785	76,003	6,894	32,443	4,945	24,414	667,357	513,586
Total liabilities and fund balance	$ 406,320	$ 5,579	$ 34,358	$ 25,744	$ 54,785	$ 76,454	$ 6,894	$ 32,443	$ 4,945	$ 24,414	$ 671,936	$ 679,161

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2012

	Municipal Road Aid Fund	Police Safety Fund	Drug Forfeiture Fund	Hazard Mitigation Fund	Renaissance Fund	Streetscape Fund	Toys For Tots Fund	Other Expendable Trust Funds	Park Nonexpendable Trust Fund	Cemetery Nonexpendable Trust Fund	2012 Total	2011 Total
REVENUES												
Intergovernmental	$ 369,135	$ 19,636	$ -	$ -	$ 3,000	$ 9,900	$ -	$ -	$ -	$ -	$ 401,671	$ 350,732
Penalties and forfeitures	-	-	1,705	-	-	-	-	-	-	-	1,705	11,373
Other revenues	2,418	5	187	134	269	303	14,602	159	25	127	18,229	33,367
Total revenues	371,553	19,641	1,892	134	3,269	10,203	14,602	159	25	127	421,605	395,472
EXPENDITURES												
Public safety	-	11,804	3,887	-	-	-	-	-	-	-	15,691	16,335
Public services	191,328	-	-	-	-	4,129	-	-	-	-	195,457	282,389
Community services	-	-	-	-	3,000	-	18,454	-	-	-	21,454	27,728
Capital outlay	-	-	-	-	-	10,231	-	-	-	-	10,231	-
Total expenditures	191,328	11,804	3,887	-	3,000	14,360	18,454	-	-	-	242,833	326,452
Excess (deficiency) of revenues over expenditures	180,225	7,837	(1,995)	134	269	(4,157)	(3,852)	159	25	127	178,772	69,020
Transfers (to) from other funds	(65,000)	-	-	-	-	40,000	-	-	-	-	(25,000)	(50,000)
Excess (deficiency) of revenues over expenditures and transfers	115,225	7,837	(1,995)	134	269	35,843	(3,852)	159	25	127	153,772	19,020
Fund balance, beginning of year	290,069	(2,360)	36,353	25,610	51,516	40,160	10,746	32,284	4,920	24,287	513,585	494,566
Fund balance, end of year	$ 405,294	$ 5,477	$ 34,358	$ 25,744	$ 51,785	$ 76,003	$ 6,894	$ 32,443	$ 4,945	$ 24,414	$ 667,357	$ 513,586

CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR PROPRIETARY FUNDS
June 30, 2012

	Garbage Fund	Cemetery Fund	Museum Fund	2012 Total	2011 Total
ASSETS					
Current assets					
Cash and cash equivalents	$ -	$ -	$ 1,752	$ 1,752	$ 1,982
Accounts receivable, net of allowance for uncollectible accounts of $117,558	52,521	5,862	-	58,383	58,401
Investments	-	113,746	-	113,746	110,917
Due from (to) other funds	(26,899)	(46)	-	(26,945)	25,990
Total current assets	25,622	119,562	1,752	146,936	197,290
Noncurrent assets					
Restricted cash and cash equivalents	-	-	-	-	-
Capital assets, net	-	80,887	357,676	438,563	455,940
Total noncurrent assets	-	80,887	357,676	438,563	455,940
Total assets	$ 25,622	$ 200,449	$ 359,428	$ 585,499	$ 653,230
LIABILITIES					
Current liabilities					
Accounts payable	$ 105	$ 2,364	$ 35	$ 2,504	$ 72,772
Accrued expenses	-	5,592	-	5,592	2,316
Current portion of compensated absences	-	121	-	121	78
Current portion of bonds and notes payable	-	-	-	-	-
Total current liabilities	105	8,077	35	8,217	75,166
Non-current liabilities					
Bonds and notes payables	-	-	-	-	-
Compensated absences, net of current portion	-	2,298	-	2,298	1,486
Total non-current liabilities	-	2,298	-	2,298	1,486
Total liabilities	105	10,375	35	10,515	76,652
NET ASSETS					
Invested in capital assets, net of related debt	-	80,887	357,676	438,563	455,940
Net assets, restricted	-	-	-	-	-
Net assets, unrestricted	25,517	109,187	1,717	136,421	120,638
Total net assets	25,517	190,074	359,393	574,984	576,578
Total liabilities and net assets	$ 25,622	$ 200,449	$ 359,428	$ 585,499	$ 653,230

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
for the year ended June 30, 2012

	Garbage Fund	Cemetery Fund	Museum Fund	2012 Total	2011 Total
Revenues					
Fees for services	$ 864,031	$ 115,999	$ -	$ 980,030	$ 840,388
Other revenues	-	-	-	-	21,118
Total revenues	864,031	115,999	-	980,030	861,506
Operating Expenses					
Personnel	-	111,950	-	111,950	79,141
Contractual	919,230	63,477	14,751	997,458	957,550
Depreciation	-	3,843	13,534	17,377	17,379
Other expenses	-	17,303	-	17,303	32,578
Total operating expenses	919,230	196,573	28,285	1,144,088	1,086,648
Operating income (loss)	(55,199)	(80,574)	(28,285)	(164,058)	(225,142)
Nonoperating revenues (expenses)					
Investment earnings	162	5,863	16	6,041	11,028
Other revenues (expense)	-	-	-	-	-
Total nonoperating revenues (expenses)	162	5,863	16	6,041	11,028
Income (loss) before other revenues, expenses, gains, losses and transfers	(55,037)	(74,711)	(28,269)	(158,017)	(214,114)
Transfers from other funds	70,576	71,377	14,470	156,423	207,499
Change in net assets	15,539	(3,334)	(13,799)	(1,594)	(6,615)
Net assets, beginning of year	9,978	193,408	373,192	576,578	583,193
Net assets, end of year	$ 25,517	$ 190,074	$ 359,393	$ 574,984	$ 576,578

Ray, Foley, Hensley & Company, PLLC

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CITY OF DANVILLE, KENTUCKY
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

Mayor and Board of Commissioners
City of Danville
Danville, Kentucky

We have audited 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 (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company
Ray, Foley, Hensley & Company, PLLC
January 21, 2013

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