CITY OF DANVILLE
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2013

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City of Danville, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2013

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, 2013. 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, 2013, the City's assets (page 9) exceeded liabilities by $46,011,626. This amount includes $37,997,236 of resources that are restricted to specific projects by laws, regulations, or contractual agreements, or that are invested in capital assets, net of related debt. $8,014,390 of these resources are unrestricted and are available to fund the City's outstanding obligations and future programs.
- Unrestricted cash and investment balances (page 9) as of June 30, were $7,592,971 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt) were $1,282,736.
- Net position increased by $2,100,845 (page 10). Of this increase, $1,664,714 is attributed to the net position increase from business-type activities and $436,131 is attributed to the net position increase from governmental activities. The primary reasons for the increase in net position of business-type activities is due to 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 position of governmental activities is due to increased revenues of the general fund being stronger than anticipated and operating expenses coming in very favorable compared to the budget in the general fund.
- Fund balances (a measure of current financial resources) in the governmental funds increased $1,419,106 to a total of $7,054,882 (page 12). The primary reasons for the increase in fund balances in the governmental funds are the same as those noted above related to the increase in net assets. Of the total fund balances in the governmental funds, $6,015,570 (page 11) is unassigned and available for future programs.
- The General Fund unassigned fund balance (page 11), as of June 30, 2013, was $5,233,179, or about 36% of total general fund expenditures.
- The City's long term debt increased $1,040,420 during the year. The City did issue new debt during the fiscal year ended June 30, 2013. $250,000 anticipation note for sewer utility construction of which $200,000 was borrowed and $4,440,000 for refunding a KLC construction bond and the remaining funds for purchase and remodeling of a public work facility. Scheduled debt payments amounted to $3,851,289 including refunding. Net amortization of discounts and issuance costs were $251,708 including refunding, and the long-term portion of compensated absences increased by a net of $4,268.

Overview of Financial Statements

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

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

The Statement of Net Position presents information on all the City's assets and liabilities, including long-term debt and capital assets in the governmental funds. The difference between assets and liabilities is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Government-wide statements are separated into two major categories: 1) *governmental activities* that are principally supported by taxes and intergovernmental revenues, and 2) *business-type activities* that are supported with user fees and charges. Governmental activities include administrative functions, streets, police, fire, recreation and community programs. Business-type activities include the water and sewer utilities, the garbage, the cemetery, the museum, the storm water, and the parking funds.

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

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

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

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

The City maintains eleven individual governmental funds. Major governmental funds include the General Fund 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 49 and 50. The governmental fund statements include a balance sheet and statement of revenues, expenditures, and changes in fund balances.

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

Proprietary funds - The City's proprietary funds include six enterprise funds. The enterprise funds include operations for the water and sewer utilities, garbage disposal, storm water, museum, cemetery operations, and the parking fund. The utilities, parking, and storm water fund are presented as major funds on pages 13 through 15. The other funds are presented in combining statements for the non-major funds on pages 51 and 52.

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

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

Other Information - The last section of this report includes two types of supplementary information. *Required supplementary Information* (pages 44 through 48) must be included to conform with generally accepted accounting principles, while *Other Supplementary Information* (pages 49 through 52) 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 Position. Let's review some of the more important issues in this statement. The following table summarizes the Statement of Net Position (page 9).

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 7,634	$ 6,072	$ 4,652	$ 4,000	$ 12,286	$ 10,072
Capital assets	19,132	18,234	37,931	37,628	57,063	55,862
Total assets	26,766	24,306	42,583	41,628	69,349	65,934
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Continued						
Long-term debt outstanding	9,773	7,897	11,917	12,754	21,690	20,651
Other liabilities	789	641	859	732	1,648	1,373
Total liabilities	10,562	8,538	12,776	13,486	23,338	22,024
Net position:						
Invested in capital assets, net of related debt	9,360	10,338	26,013	24,875	35,373	35,213
Restricted	1,010	0	1,615	1,815	2,625	1,815
Unrestricted (deficit)	5,835	5,430	2,179	1,452	8,014	6,882
Total Net Assets	$ 16,205	$ 15,768	$ 29,807	$ 28,142	$ 46,012	$ 43,910

By far the largest portion of the City's net position (77%) 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. $2.6 million of the City's net position (page 9) are restricted to comply with provisions of various laws, regulations, and contractual agreements. Restricted funds in the business-type activities reflect the reserves required by the water and sewer bond indentures.

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

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ -	$ -	$ 9,441	$ 9,096	$ 9,441	$ 9,096
Operating grants and contributions	913	758			913	758
Capital grants and contributions			518	334	518	334
General revenues:						
Property taxes	1,680	1,685			1,680	1,685
License fees and permits	8,142	7,992			8,142	7,992
Penalties and forfeits	19	25			19	25
Management fees	815	779			815	779
Other	446	527	390	65	836	592
Total Revenues	12,015	11,766	10,349	9,495	22,364	21,261

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Expenses:						
General Government	1,743	1,671			1,743	1,671
Public Safety	6,353	6,397			6,353	6,397
Public Services	1,520	1,362			1,520	1,362
Community Services	1,222	802			1,222	802
Debt Service	361	283	567	607	928	890
Utilities			6,632	6,397	6,632	6,397
Garbage operations			972	919	972	919
Cemetery operations			202	197	202	197
Museum operations			32	28	32	28
Parking operations			331	310	331	310
Storm water			328	375	328	375
Total Expenses	11,199	10,515	9,064	8,833	20,263	19,348
Excess (deficiency) before transfers and special items	816	1,251	1,285	662	2,101	1,279
Transfers	(380)	(256)	380	256		
Increase (decrease) in net assets	$ 436	$ 995	$ 1,665	$ 918	$ 2,101	$ 1,913

$9.82 million of the governmental services are financed with property taxes and license fees.

Governmental activities increased the City's net position by $436,131. The primary reason for the increase has already been addressed in this report.

Business-type activities increased the City's net position by $1,664,714. This increase is net of depreciation expense of $1,379,316 (a non cash item). The water & sewer fund remains healthy as operating costs continue to be in line with operating revenues.

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 $1,419,106. 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 49 and 50.

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, 2013, there were three budget amendments. Budgeted expenditures in the general, garbage, and cemetery funds were increased to allow for additional expenditures in the amount of $312,500, $30,000, and $25,000, 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	$ 2,567,556	$ 1,309,568	$ 3,877,124
Buildings	9,887,624	6,914,736	16,802,360
Improvements other than buildings	872,516	244,464	1,116,980
Vehicles	730,979	36,463	767,442
Equipment	214,311	549,178	763,489
Infrastructure	4,817,484	26,874,665	31,692,149
Construction in progress	42,245	2,001,584	2,043,829
Total	$ 19,132,715	$ 37,930,658	$ 57,063,373

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

$1,241,362 was expended during the year to purchase a public works facility. Money has been borrowed for the remodeling of the building.

$454,639 was expended during the year related to the Clarks Run sewer project. This project is still in Construction in Progress. $400,089 was expended during the year related to the KY 2168 line replacement. The project was completed during the current fiscal year at a total cost of $431,339.

During the current fiscal year, the City incurred preliminary design costs related to its new water treatment facility in the amount of $378,066. This project is in the early stages at June 30, 2013 and no construction costs have been incurred as of June 30, 2013. The project has been bid and construction should begin February 2014.

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	$ 9,274,832	$	$ 9,274,832
Ky. Bond Corporation-Lease	425,000	670,000	1,095,000
Series 2012 – Anticipation		200,000	200,000
Series 2008 Rural Dev. Bonds		1,432,900	1,432,900
Series 2006 (A&B) Revenue Bonds		4,200,000	4,200,000
Series 2003 Revenue Bonds		435,000	435,000
Series 2000 RUS Revenue Bonds		391,300	391,300
Series 2010 Build America Bond		592,000	592,000
Series 1995 RUS Revenue Bonds		408,000	408,000
KIA Loan C88-06		185,000	185,000
KIA Loan – Treatment Plant		3,603,979	3,603,979
Total	$ 9,699,832	$ 12,118,179	$ 21,818,011

The City's long term debt increased $1,040,420, net of refunding, during the fiscal year. The components of this net increase 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 $12,969,000 for the fiscal year ended June 30, 2014 related to this project. The latest engineering studies estimate the ultimate cost of this project to be approximately $29 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 planning phase of the Spears Creek Sewer Project. The City has budgeted $1,098,701 for the fiscal year ended June 30, 2014 related to this project. The latest projected costs for this project are approximately $3.5 million. At the present time, the primary funding for this project is expected to be provided by KIA grant and by the issuance of bonds.

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, 2014 related to these projects are $293,000. These expenditures are to be funded primarily by the City in the amount of $240,000 and grants in the amount of $53,000.

The City borrowed $700,000 to finance the necessary remodeling of the public works building. The City has budgeted in the June 30, 2014 budget to use funds to pave two trails, and to hold $500,000 of funds to purchase a fire truck in the fiscal year ending June 30, 2015. The Commission also voted to pave an access road to alleviate some traffic difficulties at the Boyle County Schools.

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.

Ray, Foley, Hensley & Company, PLLC

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1–6 and 44–48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Danville, Kentucky's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with ***Government Auditing Standards***, we have also issued our report dated January 14, 2014, on our consideration of the City of Danville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the City of Danville, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
January 14, 2014

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business-Type Activities	Total	2012 Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 4,668,915	$ 1,432,515	$ 6,101,430	$ 4,727,530
Receivables, net	929,898	911,630	1,841,528	1,806,015
Investments	1,117,347	374,194	1,491,541	1,234,456
Inventory, at cost	-	198,365	198,365	241,915
Internal balances	(98,753)	98,753	-	-
Prepaid expenses and other current assets	6,680	-	6,680	7,171
Total current assets	6,624,087	3,015,457	9,639,544	8,017,087
Non-current assets				
Restricted cash	1,009,844	1,395,710	2,405,554	1,544,499
Restricted investments	-	241,451	241,451	509,756
Capital assets, net	19,132,715	37,930,658	57,063,373	55,862,745
Total non-current assets	20,142,559	39,567,819	59,710,378	57,917,000
Total assets	$ 26,766,646	$ 42,583,276	$ 69,349,922	$ 65,934,087
LIABILITIES				
Current liabilities				
Accounts payable	$ 193,638	$ 573,711	$ 767,349	$ 506,193
Accrued wages	179,709	85,969	265,678	250,535
Payroll taxes & benefits payable	183,466	-	183,466	173,752
Deposits	11,187	40,350	51,537	59,707
Current portion of compensated absences	11,049	3,657	14,706	14,481
Accrued interest payable	-	85,578	85,578	93,344
Current portion of bonds and notes payable	341,366	1,173,375	1,514,741	1,292,755
Total current liabilities	920,415	1,962,640	2,883,055	2,390,767
Non-current liabilities				
Bonds and notes payable, net of current portion	9,431,717	10,744,115	20,175,832	19,357,398
Compensated absences, net of current portion	209,923	69,486	279,409	275,141
Total non-current liabilities	9,641,640	10,813,601	20,455,241	19,632,539
Total liabilities	10,562,055	12,776,241	23,338,296	22,023,306
NET POSITION				
Net invested in capital assets	9,359,632	26,013,168	35,372,800	35,212,592
Restricted	1,009,844	1,614,592	2,624,436	1,812,260
Unrestricted	5,835,115	2,179,275	8,014,390	6,885,929
Total net position	16,204,591	29,807,035	46,011,626	43,910,781
Total liabilities and net position	$ 26,766,646	$ 42,583,276	$ 69,349,922	$ 65,934,087

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013

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	2012 Total
Governmental activities								
General government	$ 1,743,264	$ -	$ 155,032	$ -	$ (1,588,232)	$ -	$ (1,588,232)	$ (1,605,406)
Public services	1,520,003	-	423,276	-	(1,096,727)	-	(1,096,727)	(960,812)
Public safety	6,353,427	-	335,090	-	(6,018,337)	-	(6,018,337)	(6,105,987)
Community services	1,221,458	-	-	-	(1,221,458)	-	(1,221,458)	(802,127)
Debt service	361,190	-	-	-	(361,190)	-	(361,190)	(282,566)
Total governmental activities	11,199,342	-	913,398	-	(10,285,944)	-	(10,285,944)	(9,756,898)
Business-type activities								
Utilities	6,632,346	7,583,826	-	402,585	-	1,354,065	1,354,065	1,158,298
Parking	330,797	253,425	-	-	-	(77,372)	(77,372)	(54,434)
Garbage	972,347	894,172	-	-	-	(78,175)	(78,175)	(55,199)
Cemetery	201,847	120,100	-	-	-	(81,747)	(81,747)	(80,574)
Museum	32,035	-	-	-	-	(32,035)	(32,035)	(28,285)
Storm water	327,810	589,864	-	115,375	-	377,429	377,429	264,702
Debt service	567,200	-	-	-	-	(567,200)	(567,200)	(607,435)
Total business-type activities	9,064,382	9,441,387	-	517,960	-	894,965	894,965	597,073
Total	20,263,724	9,441,387	913,398	517,960	(10,285,944)	894,965	(9,390,979)	(9,159,825)
		General revenues						
		Taxes			1,679,937	-	1,679,937	1,684,910
		Licenses and fees			8,141,770	-	8,141,770	7,992,216
		Fines and forfeitures			18,875	-	18,875	24,735
		Management fees			814,867	-	814,867	779,175
		Other			446,386	389,989	836,375	584,571
		Total general revenues			11,101,835	389,989	11,491,824	11,065,607
		Gain on sale of property			-	-	-	7,607
		Transfers			(379,760)	379,760	-	-
		Total general revenues and transfers			10,722,075	769,749	11,491,824	11,073,214
		Change in net position			436,131	1,664,714	2,100,845	1,913,389
		Net position, beginning of year			15,768,460	28,142,321	43,910,781	41,997,392
		NET POSITION, END OF YEAR			$ 16,204,591	$ 29,807,035	$ 46,011,626	$ 43,910,781

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

CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Other Nonmajor Governmental Funds	2013 Total Governmental Funds	2012 Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 3,863,308	$ 805,607	$ 4,668,915	$ 3,782,004
Receivables, net of allowance for uncollectible accounts of $55,072	925,071	4,827	929,898	1,017,704
Investments	1,111,518	5,829	1,117,347	1,120,710
Restricted cash	1,009,844	-	1,009,844	117,060
Due from other funds	-	-	-	26,945
Prepaid expenses and other assets	6,680	-	6,680	7,171
Total assets	$ 6,916,421	$ 816,263	$ 7,732,684	$ 6,071,594
LIABILITIES				
Accounts payable	$ 189,638	$ 4,000	$ 193,638	$ 66,959
Accrued wages	179,334	375	179,709	173,145
Accrued payroll taxes & benefits payable	183,437	29	183,466	173,752
Due to other funds	98,753	-	98,753	-
Deposits	11,187	-	11,187	11,157
Compensated absences	11,049	-	11,049	10,805
	673,398	4,404	677,802	435,818
FUND BALANCE				
Fund balance, restricted	1,009,844	29,468	1,039,312	146,419
Fund balance, unassigned	5,233,179	782,391	6,015,570	5,489,356
Total fund balance	6,243,023	811,859	7,054,882	5,635,775
Total liabilities and fund balance	$ 6,916,421	$ 816,263	$ 7,732,684	$ 6,071,593
Amounts reported for governmental activities in the statement of net position are different because:				
Fund balances reported above			$ 7,054,882	$ 5,635,775
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $86,101,881 and $85,525,667 for the fiscal years ended June 30, 2013 and 2012, respectively.			19,132,715	18,234,429
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position:				
Loan and lease purchase agreements			(9,773,083)	(7,896,445)
Accrued compensated absences			(209,923)	(205,300)
Net position of governmental activities			$ 16,204,591	$ 15,768,459

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, 2013

	General Fund	Other Nonmajor Governmental Funds	2013 Total Governmental Funds	2012 Total Governmental Funds
REVENUES				
Taxes	$ 1,679,937	$ -	$ 1,679,937	$ 1,684,910
Licenses and fees	8,141,770	-	8,141,770	7,992,216
Intergovernmental revenue	490,122	423,276	913,398	758,366
Fines and fofeitures	16,337	2,538	18,875	24,735
Other revenues	1,242,259	18,993	1,261,252	1,298,240
Total revenues	11,570,425	444,807	12,015,232	11,758,467
EXPENDITURES				
Current operating				
General government	1,540,944	-	1,540,944	1,472,607
Public services	1,070,775	31,426	1,102,201	989,200
Public safety	6,000,851	214,782	6,215,633	6,230,626
Community services	1,195,894	25,564	1,221,458	802,127
Debt services	3,074,476	-	3,074,476	522,373
Capital outlay	1,648,046	3,533	1,651,579	115,168
Total expenditures	14,530,986	275,305	14,806,291	10,132,101
Excess of revenues over expenditures	(2,960,561)	169,502	(2,791,059)	1,626,366
Other financing sources (uses):				
Transfers (to) from other funds	(354,760)	(25,000)	(379,760)	(255,896)
Sale of property	-	-	-	7,607
Loan proceeds	4,589,925	-	4,589,925	-
Total other financing sources (uses)	4,235,165	(25,000)	4,210,165	(248,289)
Net change in fund balance	1,274,604	144,502	1,419,106	1,378,077
Fund balance, beginning of year	4,968,419	667,357	5,635,776	4,257,699
FUND BALANCE, END OF YEAR	$ 6,243,023	$ 811,859	$ 7,054,882	$ 5,635,776
Amounts reported for *govermental activities* in the Statement of Activities are different because:				
Net change in fund balance - total governmental funds, reported above			$ 1,419,106	$ 1,378,077
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the Statement of Activities and depreciated over their estimated economic lives.				
Increase in capital assets			1,651,579	115,168
Depreciation expense			(753,293)	(737,819)
Bond and note payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the Statement of Net Position.			2,713,286	239,807
Loan proceeds			(4,589,925)	-
Generally, expenditures recognized in the general fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred:				
Compensated absences			(4,622)	(319)
Change in net position of governmental activities			$ 436,131	$ 994,914

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

ASSETS	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2013 Total	2012 Total
Current assets						
Cash and cash equivalents	$ 647,818	$ 117,575	$ 647,900	$ 19,222	$ 1,432,515	$ 945,526
Accounts receivable, net of allowance for uncollectible accounts of $634,725	744,560	24,090	88,026	54,954	911,630	788,311
Investments	258,676	-	-	115,518	374,194	113,746
Due from (to) other funds	-	-	-	98,753	98,753	(26,945)
Inventory, at cost	198,365	-	-	-	198,365	241,915
Total current assets	1,849,419	141,665	735,926	288,447	3,015,457	2,062,553
Non-current assets						
Restricted cash and cash equivalents	1,364,521	8,620	22,569	-	1,395,710	1,427,439
Restricted investments	241,451	-	-	-	241,451	509,756
Capital assets, net	28,544,385	7,532,590	1,432,497	421,186	37,930,658	37,628,316
Total non-current assets	30,150,357	7,541,210	1,455,066	421,186	39,567,819	39,565,511
Total assets	$ 31,999,776	$ 7,682,875	$ 2,190,992	$ 709,633	$ 42,583,276	$ 41,628,064
LIABILITIES						
Current liabilities						
Accounts payable	$ 405,952	$ 3,080	$ 80,754	$ 83,925	$ 573,711	$ 439,234
Accrued expenses	75,056	1,535	4,828	4,550	85,969	77,390
Deposits	40,350	-	-	-	40,350	48,550
Current portion of compensated absences	3,234	37	100	286	3,657	3,676
Accrued interest payable	58,090	15,632	11,856	-	85,578	93,344
Current portion of bonds and notes payable	1,050,548	94,070	28,757	-	1,173,375	1,036,222
Total current liabilities	1,633,230	114,354	126,295	88,761	1,962,640	1,698,416
Non-current liabilities						
Bonds and notes payable	6,160,367	3,963,626	620,122	-	10,744,115	11,717,486
Compensated absences,net of current portion	61,444	703	1,907	5,432	69,486	69,841
Total non-current liabilities	6,221,811	3,964,329	622,029	5,432	10,813,601	11,787,327
Total liabilities	7,855,041	4,078,683	748,324	94,193	12,776,241	13,485,743
NET POSITION						
Net invested in capital assets	21,333,470	3,474,894	783,618	421,186	26,013,168	24,874,608
Restricted	1,605,972	8,620	-	-	1,614,592	1,812,260
Unrestricted	1,205,293	120,678	659,050	194,254	2,179,275	1,455,453
Total net position	24,144,735	3,604,192	1,442,668	615,440	29,807,035	28,142,321
Total liabilities and net position	$ 31,999,776	$ 7,682,875	$ 2,190,992	$ 709,633	$ 42,583,276	$ 41,628,064

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2013

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2013 Total	2012 Total
Revenues						
Water sales	$ 4,043,057	$ -	$ -	$ -	$ 4,043,057	$ 3,842,335
Water surcharge	251,567	-	-	-	251,567	241,989
Sewer charges	2,943,633	-	-	-	2,943,633	2,845,056
Connection fees	57,541	-	-	-	57,541	56,882
Parking rental fees	-	253,425	-	-	253,425	255,866
Other fees for services	-	-	589,864	1,014,272	1,604,136	1,560,985
Other revenues	288,028	-	-	-	288,028	293,019
Total revenues	7,583,826	253,425	589,864	1,014,272	9,441,387	9,096,132
Operating expenses						
Water	2,873,974	-	-	-	2,873,974	2,700,847
Sewer	1,584,702	-	-	-	1,584,702	1,537,701
Perryville	142,312	-	-	-	142,312	136,257
Personnel	-	47,772	185,861	107,933	341,566	386,889
Contractual	-	85,181	94,017	1,068,091	1,247,289	1,165,320
Management fees	762,186	-	-	-	762,186	728,843
Depreciation	1,143,044	190,585	28,310	17,377	1,379,316	1,347,320
Other operating expenses	126,128	7,259	19,622	12,828	165,837	222,426
Total operating expenses	6,632,346	330,797	327,810	1,206,229	8,497,182	8,225,603
Operating income (loss)	951,480	(77,372)	262,054	(191,957)	944,205	870,529
Non-operating revenues (expenses)						
Grants	402,585	-	115,375	-	517,960	333,979
Interest expense	(347,549)	(195,150)	(24,501)	-	(567,200)	(607,435)
Other non-operating revenues	383,177	203	1,663	4,946	389,989	65,506
Non-operating revenues (expenses)	438,213	(194,947)	92,537	4,946	340,749	(207,950)
Income (loss) before other revenues expenses, gains, losses and transfers	1,389,693	(272,319)	354,591	(187,011)	1,284,954	662,579
Transfers from other funds	-	152,293	-	227,467	379,760	255,896
Change in net position	1,389,693	(120,026)	354,591	40,456	1,664,714	918,475
Net position, beginning of year	22,755,042	3,724,218	1,088,077	574,984	28,142,321	27,223,846
NET POSITION, END OF YEAR	$ 24,144,735	$ 3,604,192	$ 1,442,668	$ 615,440	$ 29,807,035	$ 28,142,321

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, 2013

	Utilities Fund	Parking Fund	Storm Water	Other Nonmajor Proprietary Funds	2013 Total	2012 Total
Cash flows from operating activities						
Receipts from customers	$ 7,434,033	$ 280,869	$ 585,465	$ 1,017,701	$ 9,318,068	$ 9,339,900
Payments to suppliers	(2,606,048)	(89,406)	(107,670)	(999,498)	(3,802,622)	(4,400,144)
Payments to employees	(2,022,312)	(48,024)	(190,812)	(105,676)	(2,366,824)	(2,504,110)
Payments to general fund for management services	(762,186)	-	-	-	(762,186)	(728,843)
Net cash provided by (used in) operating activities	2,043,487	143,439	286,983	(87,473)	2,386,436	1,706,803
Cash flows from noncapital financing activities						
Transfers (to) from other funds	-	152,293	-	227,467	379,760	255,896
Deposits, net	(8,200)	-	-	-	(8,200)	2,100
Due (to) from other funds	-	-	-	(125,698)	(125,698)	26,945
Other revenues	379,754	-	-	-	379,754	37,563
Net cash provided by (used in) noncapital financing activities	371,554	152,293	-	101,769	625,616	322,504
Cash flows from capital and related financing activities						
Purchases of capital assets	(1,465,180)	-	(216,478)	-	(1,681,658)	(1,349,087)
Principal paid on notes and bonds	(955,655)	(95,000)	(30,000)	-	(1,080,655)	(1,050,852)
Interest (paid) accrued on notes and bonds	(354,649)	(195,478)	(24,837)	-	(574,964)	(615,623)
Borrowings of notes and bonds	200,000	-	-	-	200,000	-
Bond issuance costs	-	5,929	1,240	-	7,169	7,171
Refunding of debt	37,264	-	-	-	37,264	37,260
Capital improvement grant proceeds	402,585	-	115,375	-	517,960	333,979
Net cash provided by (used) in capital and related financing activities	(2,135,635)	(284,549)	(154,700)	-	(2,574,884)	(2,637,152)
Cash flows from investing activities						
Net investment proceeds (purchases)	9,629	-	-	(1,772)	7,857	(9,534)
Interest and dividends	3,423	203	1,663	4,946	10,235	27,943
Net cash provided by investing activities	13,052	203	1,663	3,174	18,092	18,409
Net increase (decrease) in cash and cash equivalents and restricted cash	292,458	11,386	133,946	17,470	455,260	(589,436)
Cash and cash equivalents and restricted cash, beginning of year	1,719,881	114,809	536,523	1,752	2,372,965	2,962,401
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 2,012,339	$ 126,195	$ 670,469	$ 19,222	$ 2,828,225	$ 2,372,965
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	$ 951,480	$ (77,372)	$ 262,054	$ (191,957)	$ 944,205	$ 870,529
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,143,044	190,585	28,310	17,377	1,379,316	1,347,320
Provision for bad debt	63,059	334	-	18,327	81,720	114,590
Change in assets and liabilities:						
Accounts receivable	(212,850)	27,110	(4,399)	(14,898)	(205,037)	129,178
Inventory	43,550	-	-	-	43,550	(30,503)
Accounts payable	44,053	3,034	5,969	81,421	134,477	(742,174)
Accrued expenses	11,014	28	(1,421)	(1,042)	8,579	13,679
Compensated absences	137	(280)	(3,530)	3,299	(374)	4,184
Net cash provided by (used in) operating activities	$ 2,043,487	$ 143,439	$ 286,983	$ (87,473)	$ 2,386,436	$ 1,706,803

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	Police and Firemen's Pension Fund	2012 Total
ASSETS		
Cash and cash equivalents	$ 54,362	$ 64,037
Investments	742,531	666,461
Total assets	$ 796,893	$ 730,498
NET POSITION		
Net position held in trust for pension benefits	$ 796,893	$ 730,499
TOTAL NET POSITION	$ 796,893	$ 730,499

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
for the year ended June 30, 2013

	Police and Firemen's Pension Fund	2012 Total
Additions		
Employers contributions	$ 190,000	$ 190,000
Employee Contributions	-	1,516
Interest and dividends	26,803	22,946
Realized gains (loss) on investments	28,267	7,197
Unrealized gain (loss) on investments	57,565	4,261
Total additions	302,635	225,920
Deductions		
Benefit payements	230,609	203,960
Trustee fee	5,631	5,375
Total deductions	236,240	209,335
Change in net position	66,395	16,585
Net position, beginning of year	730,498	713,913
NET POSITION, END OF YEAR	$ 796,893	$ 730,498

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, 2013.

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 $20,000 for an operating grant to the DBCAB for the year ended June 30, 2013.

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, 2013.

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, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

E. Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are an exception, as they are considered available when eligible expenditures have occurred even though they may be collected for up to one year after the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when the liability has matured, with the exception of interest and principal which are recognized as expenditures when funds are transferred to the debt service fund to make payments due shortly after the fiscal year end.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Presentation, continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Presentation, continued

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

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

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

1. Cash Deposits and Investments

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

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

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

All investments are reported at fair value.

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

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

2. Receivables and Payables

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Inventories

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

4. Restricted Assets

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

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

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

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

5. Capital Assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Capital Assets, continued

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

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

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

6. Compensated Absences

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Long-term Obligations

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

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

8. Fund Balance

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

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

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

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

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

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

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

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

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

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

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

G. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 14, 2014, 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, 2013, have not been evaluated by the City.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

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

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

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

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgetary Information, continued

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

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

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

Property Taxes

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

For the year ended June 30, 2013, taxes were levied November 1, 2012 and were payable by December 31, 2012. A 10% penalty was imposed on all taxes delinquent as of January 1, 2013. In addition, an interest charge of 1/2% per month is levied on all delinquent taxes. As of May 1, 2013 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 15.65 cents per $100 on personal property for the fiscal year ended June 30, 2013, 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, 2013, 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	$ 198,774	$ 67,297	$ 53,051	$ 78,426	-	AAA
State and Municipal Bonds	80,863	-	-	80,863	-	
Corporate Bonds	398,354	30,178	138,301	205,312	24,563	BBB to AAA
Money Market Mutual Funds	23,171	23,171	-	-	-	AAA
Certificate of Deposits	416,185	416,185	-	-	-	N/A
Totals	$ 1,117,347	$ 536,831	$ 191,352	$ 364,801	$24,563	

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

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

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. The City has 18% in U.S. Agencies, 36% 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, 2013.

3. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2013, 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
Municipal Bonds	$ 29,187	$ -	$ 29,187	$ -	$ -	AAA
Corporate Bonds	26,253	-	26,253	-	-	BBB+
Money Market Mutual Funds	266,480	266,480	-	-	-	AAA
Foreign Equities	15,497	15,497	-	-	-	N/A
Domestic Equities	405,114	405,114	-	-	-	N/A
Totals	$ 742,531	$ 687,091	$ 55,440	$ -	$ -	

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

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

Concentration of credit risk. The pension fund places no limit on the amount the fund may invest in any one issuer. The pension fund has 55% of its investments invested in common stock of 20 companies. The remaining investments are concentrated as follows – 4% municipal bonds, 4% corporate bonds, 36% money market mutual funds, and 2% foreign equities. The pension fund has one investment that exceeded 5% of total investments, with Berkshire Hathaway B common stock.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 2,552,556	$ 15,000	$ -	$ 2,567,556
Construction in progress	10,232	32,013	-	42,245
Total	2,562,788	47,013	-	2,609,801
Capital assets being depreciated:				
Land improvements	1,370,334	-	-	1,370,334
Buildings	10,646,797	1,241,362	-	11,888,159
Vehicles	3,337,801	312,391	(177,079)	3,473,113
Equipment	1,486,334	50,813	-	1,537,147
Total	16,841,266	1,604,566	(177,079)	18,268,753
Total non-infrastructure assets	19,404,054	1,651,579	(177,079)	20,878,554
Infrastructure assets	84,356,042	-	-	84,356,042
Total capital assets	$103,760,096	$1,651,579	$ (177,079)	$105,234,596
Accumulated depreciation:				
Land improvements	462,209	35,609	-	497,818
Buildings	1,722,117	278,418	-	2,000,535
Vehicles	2,776,312	142,901	(177,079)	2,742,134
Equipment	1,281,981	40,855	-	1,322,836
Infrastructure	79,283,048	255,510	-	79,538,558
Total	85,525,667	753,293	(177,079)	86,101,881
Total capital assets, net	$ 18,234,429	$ 898,286	$ -	$ 19,132,715
Business-Type Activities				
Capital assets not being depreciated:				
Land	$ 1,309,568	$ -	$ -	$ 1,309,568
Construction in progress	1,013,895	1,633,298	(645,609)	2,001,584
Total	2,323,463	1,633,298	(645,609)	3,311,152
Capital assets being depreciation:				
Buildings	8,436,255	-	-	8,436,255
Improvements	366,268	-	-	366,268
Vehicles	817,719	-	-	817,719
Equipment	1,442,233	48,360	-	1,490,593
Infrastructure	47,837,431	645,609	-	48,483,040
Total	58,899,906	693,969	-	59,593,875
Total capital assets	61,223,369	2,327,267	(645,609)	62,905,027
Accumulated depreciation:				
Buildings	1,323,417	198,102	-	1,521,519
Improvements	107,452	14,352	-	121,804
Vehicles	746,124	35,132	-	781,256
Equipment	864,038	77,377	-	941,415
Infrastructure	20,554,022	1,054,353	-	21,608,375
Total	23,595,053	1,379,316	-	24,974,369
Total capital assets, net	$ 37,628,316	$ 947,951	$ (645,609)	$ 37,930,658

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

General Government	$ 197,697
Public Services	417,802
Public Safety	137,794
Total Depreciation Expense	$ 753,293

Depreciation expense was charged to proprietary functions as follows:

Utilities	$ 1,143,044
Cemetery	3,844
Museum	13,533
Parking	190,585
Storm water	28,310
Total Depreciation Expense	$ 1,379,316

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 2012-2013 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	$ 105,913
Interest on net pension obligation	(7,195)
Adjustment to annual required contributions	8,012
Annual pension cost	106,730
Contribution made	(190,000)
Decrease in net pension obligation	(83,270)
Net pension obligation at beginning of year	(102,790)
Net pension obligation at June 30, 2013	$ (186,060)

Three Year Trend Information	June 30, 2011	June 30, 2012	June 30, 2013
Annual pension cost (APC)	$ 155,712	$ 136,891	$ 106,730
Percentage of APC contributed	122%	139%	139%
Net pension obligation (liability)	(49,089)	(102,790)	(186,060)

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, 2013, 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, 2013, participating employers contributed 19.55%, of each employee's wages for non-hazardous job classifications and 37.60% 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
2013	$ 1,720,243	100%
2012	$ 1,622,397	100%
2011	$ 1,436,513	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%.

Series 2012 Water and Sewer Revenue Bond Anticipation Note

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

Water and Sewer Revenue Bonds and Notes outstanding at June 30, 2013 are as follows:

City of Danville Water & Sewer Revenue Bonds	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2013
Series 1995	$ 489,000	4.50%	2034	$ 408,000
Series 2000	449,500	4.75%	2040	391,300
Series 2003	3,540,000	2 - 3.38%	2014	435,000
Series 2008	1,480,000	4.38%	2049	1,432,900
Series 2010	600,000	3.00%	2050	592,000
				$ 3,259,200
Anticipation Note				
Series 2012	$ 250,000	1.90%	2017	$ 200,000
Total Bonds and Notes				$ 3,459,200

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, 2013, are as follows:

Year Ending June 30	Principal	Interest	Total
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	52,800	109,122	161,922
2019-23	300,700	509,859	810,559
2024-28	373,100	439,775	812,875
2029-33	463,700	352,434	816,134
2034-38	437,900	255,772	693,672
2039-43	421,700	165,686	587,386
2044-48	456,800	81,024	537,824
2049-50	128,700	5,697	134,397
	$ 3,259,200	$ 2,391,038	$ 5,650,238

Total Debt Service by Bond Series

	Principal	Interest	Total Payment
Series 1995 RUS Revenue Bonds			
Junction City Water System	$ 408,000	$ 224,775	$ 632,775
Series 2000 RUS Revenue Bonds			
Perryville Water System	391,300	311,101	702,401
Series 2003 Revenue Bonds	435,000	14,681	449,681
Series 2008 R.D. Bonds	1,432,900	1,438,046	2,870,946
Series 2010 R.D. Bonds	592,000	402,435	994,435
	$ 3,259,200	$ 2,391,038	$ 5,650,238

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, 2013, 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, 2013 are as follows:

Description of Issue	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2013
KIA Loan C88-06 Junction City Acquisition	945,224	2.25 to 5.25%	2014	$ 185,000
KIA Loan A98-08 Treatment Plant	7,615,106	3.8%	2021	3,603,979
				$ 3,788,979

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

Year Ending June 30,	Principal	Interest	Total Payment
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	492,682	67,466	560,148
2019-2021	1,315,984	80,050	1,396,034
	$ 3,788,979	$ 612,110	$ 4,401,088

6. LONG TERM DEBT (CONTINUED)

For the fiscal year ended June 30, 2013, 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, 2013 are as follows:

Year Ending June 30	Principal	Interest	Total
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	120,000	166,161	286,161
2019-23	685,000	774,291	1,434,291
2024-28	845,000	613,300	1,418,300
2029-33	1,070,000	411,583	1,431,583
2034-37	1,005,000	145,591	1,150,591
	$ 4,200,000	$ 2,665,043	$ 6,865,043

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
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	35,000	20,975	55,975
2019-23	185,000	88,338	273,338
2024-28	220,000	52,213	272,213
2029-30	100,000	7,275	107,275
	$ 670,000	$ 261,203	$ 931,203

For the fiscal year ended June 30, 2013, 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, 2013 is $391,000.

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

Year Ending June 30	Principal	Interest	Total
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	$ 391,000	$ 44,165	$ 435,165

Municipal Facility Construction Funded by Kentucky League of Cities

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

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

Year Ending June 30	Principal	Interest	Total
2014	$ 102,244	$ 188,711	$ 290,955
2015	106,661	184,221	290,882
2016	110,940	179,872	290,811
2017	116,301	174,421	290,722
2018	121,024	169,619	290,644
2019-23	687,926	763,921	1,451,847
2024-28	849,166	600,009	1,449,175
2029-33	1,048,799	397,067	1,445,865
2034-38	1,270,830	146,969	1,417,798
	$ 4,413,891	$ 2,804,809	$ 7,218,700

For the fiscal year ended June 30, 2013, 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
2014	$ 7,124	$ 1,140	$ 8,264
2015	7,360	905	8,265
2016	7,603	662	8,265
2017	7,854	367	8,221
Total	$ 29,941	$ 3,074	$ 33,015

For the fiscal year ended June 30, 2013, 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
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	20,000	12,881	32,881
2019-23	120,000	53,647	168,822
2024-28	140,000	29,649	168,100
2029-30	65,000	3,101	68,101
Total	$ 425,000	$ 156,041	$ 581,041

For the fiscal year ended June 30, 2013, the City is in substantial compliance with all covenants and provisions of the KLC agreement.

6. LONG TERM DEBT (CONTINUED)

Series 2012 General Obligation Refunding and Improvement Bonds

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

Year Ending June 30	Principal	Interest	Total
2014	$ 140,000	$ 105,350	$ 245,350
2015	140,000	103,950	243,950
2016	140,000	102,550	242,550
2017	140,000	100,450	240,450
2018	150,000	97,550	247,550
2019-23	775,000	442,100	1,217,100
2024-28	865,000	360,200	1,225,200
2029-33	965,000	256,219	1,221,219
2034-38	1,125,000	93,679	1,218,679
	$ 4,440,000	$ 1,662,048	$ 6,102,048

6. LONG TERM DEBT (CONTINUED)

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2013, 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	$ 216,105	$ 4,867	$ -	$ 220,972	$ 11,049
Loan obligations:					
Amount due KLC	7,585,466	-	(2,750,634)	4,834,832	181,366
Amount due KLC	-	4,440,000	-	4,440,000	140,000
Amount due KBC	445,000	-	(20,000)	425,000	20,000
Less deferred amounts	(134,021)	-	207,272	73,251	-
Governmental activity long-term liabilities	$ 8,112,550	$ 4,444,867	$(2,563,362)	$ 9,994,055	$ 352,415
Business-type activities					
Loan obligations:					
Bonds – Utility	$ 3,726,700	$ 200,000	$ (467,500)	$ 3,459,200	$ 479,000
Bonds – Parking	4,295,000	-	(95,000)	4,200,000	100,000
Less deferred amounts:					
Issuance discounts	(148,234)	-	5,929	(142,305)	(5,930)
Refunding	(102,572)	-	51,286	(51,286)	(51,286)
Total bonds	7,770,894	200,000	(505,285)	7,465,609	521,784
KBC bond – Storm Water	700,000	-	(30,000)	670,000	30,000
Less deferred amounts:					
Refunding	(22,364)	-	1,243	(21,121)	(1,243)
Total KBC bond	677,636	-	(28,757)	648,879	28,757
KIA loans - Utility	4,277,133	-	(488,155)	3,788,978	608,812
Less deferred amounts:					
Deferred gain	28,045	-	(14,021)	14,022	14,023
Total KIA loans	4,305,178	-	(502,176)	3,803,000	622,834
Compensated absences	73,517	-	(374)	73,143	3,657
Business-type activities	$ 12,827,225	$ 200,000	$(1,036,592)	$11,990,633	$ 1,177,032

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

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, 2013**:**

Type	From fund	To fund	Purpose		Amount
Operating	Municipal Aid	General	Street repairs	$	25,000
Operating	Municipal Aid	Streetscape	Operating expense		189,000
Operating	General	Museum	Operating expense		35,099
Operating	General	Cemetery	Operating expense		95,631
Operating	General	Garbage	Operating expense		96,737
Operating	General	Parking	Operating expense		152,293
				$	593,760

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

Financial Reporting for Pension Plans

In June 2012 the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

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

12. SUBSEQUENT EVENTS (CONTINUED)

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

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Danville's unfunded liability would be approximately $14,000,000 based on the 2011 actuarial analysis. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

Water Plant Expansion

On October 14, 2013, the water plan expansion project was awarded at $23,789,000.

Insurance Premium Tax

On October 28, 2013, the City adopted Ordinance #1829 which increased the insurance premium tax from 6% to 8%.

Bond Issuance

On November 12, 2013, the City adopted Ordinance #1826 authorizing the issuance of $8,600,000 of water and sewer revenue bonds, series 2015A and $5,000,000 of water and sewer revenue bonds, series 2015B. The City also expects to receive a RUS grant not to exceed $1,400,000. Principal and interest payments are expected to begin upon the year of issuance.

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
DEFINED BENEFIT RETIREMENT PLAN
for the year ended June 30, 2013

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%
6/30/2013	$ 796,894	$ 2,554,636	$ 1,757,742	31%	$ -	0%

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Police and Fire Pension Fund

Fiscal Year	Annual Required Contributions	Percentage Contributed
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	122%
2012	$ 105,913	138%
2013	$ 130,496	146%

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

	Police and Fire Pension Fund
Valuation date	July 1, 2013
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	6.5%
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, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes	$ 1,637,000	$ 1,637,000	$ 1,679,937	$ 42,937
Licenses and fees	7,407,400	7,407,400	8,141,770	734,370
Intergovernmental revenue	1,201,315	1,201,315	490,122	(711,193)
Penalties and forfeitures	14,000	14,000	16,337	2,337
Other revenue	1,273,332	1,273,332	1,242,259	(31,073)
Total revenues	11,533,047	11,533,047	11,570,425	37,378
Expenditures				
Current operating				
General government	1,657,184	1,657,184	1,540,944	116,240
Public services	1,128,750	1,128,750	1,070,775	57,975
Public safety	6,720,087	6,720,087	6,000,851	719,236
Community services	1,563,891	1,563,891	1,195,894	367,997
Debt service	3,268,241	3,268,241	3,074,476	193,765
Capital outlay	3,032,885	3,032,885	1,648,046	1,384,839
Total expenditures	17,371,038	17,371,038	14,530,986	2,840,052
Excess (deficiency) of revenues over expenditures	(5,837,991)	(5,837,991)	(2,960,561)	2,877,430
Other financing sources (uses)				
Transfers (to) from other funds, net	(299,760)	(299,760)	(354,760)	(55,000)
Sale of property	-	-	-	-
Loan proceeds	4,576,412	4,576,412	4,589,925	13,513
Total other financing sources (uses)	4,276,652	4,276,652	4,235,165	(41,487)
Excess (deficiency) of revenues over expenditures and transfers	(1,561,339)	(1,561,339)	1,274,604	2,835,943
Fund balance, beginning of year	2,685,414	2,685,414	4,968,419	2,283,005
FUND BALANCE, END OF YEAR	$ 1,124,075	$ 1,124,075	$ 6,243,023	$ 5,118,948

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES - BUDGET AND ACTUAL
for the year ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Real and personal property	$ 1,333,000	$ 1,333,000	$ 1,362,215	$ 29,215
Tangible property	269,000	269,000	293,057	24,057
PILOT - Housing Authority	35,000	35,000	24,665	(10,335)
Total taxes	1,637,000	1,637,000	1,679,937	42,937
Licenses and fees				
Payroll licenses	9,500	9,500	11,611	2,111
Insurance licenses	1,220,000	1,220,000	1,285,060	65,060
Occupational licenses	4,550,000	4,550,000	4,941,739	391,739
Net profits	422,400	422,400	600,958	178,558
Liquor licenses	506,000	506,000	584,649	78,649
Franchise fees-Rural Electric Cooperative Corporation	22,500	22,500	24,698	2,198
Franchise fees-Kentucky Utilities	470,000	470,000	484,329	14,329
Franchise fees-Comcast	107,000	107,000	107,113	113
Franchise fees-Bank	100,000	100,000	101,413	1,413
Other licenses and fees	-	-	200	200
Total licenses and fees	7,407,400	7,407,400	8,141,770	734,370
Intergovernmental revenue				
Firefighters' grant	237,250	237,250	(8,250)	(245,500)
Police grant	-	-	30,029	30,029
Firefighters' incentive	101,000	101,000	97,278	(3,722)
Law enforcement incentive	121,000	121,000	137,473	16,473
FEMA grant	546,565	546,565	78,560	(468,005)
BASE court	27,000	27,000	27,045	45
Other intergovernmental revenue	168,500	168,500	127,987	(40,513)
Total intergovernmental revenue	1,201,315	1,201,315	490,122	(711,193)
Fines and forfeitures				
Arrest fees	10,000	10,000	16,337	6,337
Other penalties	4,000	-	-	-
Total fines and forfeitures	14,000	10,000	16,337	6,337
Loan proceeds				
Loan for buildings	4,576,412	4,576,412	4,589,925	13,513
Total loan proceeds	4,576,412	4,576,412	4,589,925	13,513
Other revenue				
Community tower rental	85,000	85,000	96,013	11,013
Fire protection	23,000	23,000	24,285	1,285
Community contracts	150,760	150,760	144,798	(5,962)
Management fees	842,607	842,607	814,867	(27,740)
Building rental	-	-	50	50
Change in fair value of investments	-	-	(28,197)	(28,197)
Interest	20,000	20,000	39,304	19,304
Tobacco crop	1,200	1,200	1,203	3
Boyle County cost sharing	90,000	90,000	90,000	-
Insurance proceeds	0	-	0	-
School officer	45,765	45,765	45,783	18
Miscellaneous	15,000	15,000	14,153	(847)
Total other revenue	1,273,332	1,273,332	1,242,259	(31,073)
Total revenue	$ 16,109,459	$ 16,105,459	$ 16,160,350	$ 54,891

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General government				
Legislative and executive				
Personnel	$ 540,843	$ 540,843	$ 494,340	$ 46,503
Contractual	189,234	189,234	184,048	5,186
Other	65,400	65,400	86,137	(20,737)
Total legislative and executive	795,477	795,477	764,525	30,952
Finance and administration				
Personnel	304,187	304,187	240,666	63,521
Contractual	370,986	370,986	382,166	(11,180)
Other	18,850	18,850	12,163	6,687
Total finance and administration	694,023	694,023	634,995	59,028
Information technology				
Personnel	113,284	113,284	102,959	10,325
Contractual	31,150	31,150	18,316	12,834
Other	23,250	23,250	20,149	3,101
Total information technology	167,684	167,684	141,424	26,260
Total general government	1,657,184	1,657,184	1,540,944	116,240
Public services				
Personnel	315,259	315,259	256,215	59,044
Contractual	627,441	627,441	617,526	9,915
Other	186,050	186,050	197,034	(10,984)
Total public services	1,128,750	1,128,750	1,070,775	57,975
Total public services	1,128,750	1,128,750	1,070,775	57,975
Public safety				
Police department				
Personnel	2,810,125	2,810,125	2,503,334	306,791
Contractual	154,225	154,225	145,172	9,053
Other	249,050	249,050	351,860	(102,810)
Total police department	3,213,400	3,213,400	3,000,366	213,034
Communications and administration services				
Personnel	620,473	620,473	531,100	89,373
Contractual	42,952	42,952	40,251	2,701
Other	22,800	22,800	10,581	12,219
Total communications and administration services	686,225	686,225	581,932	104,293

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL, CONTINUED
for the year ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Public safety, continued				
Code enforcement				
Personnel	$ 195,132	$ 195,132	$ 184,955	$ 10,177
Contractual	8,900	8,900	(1,456)	10,356
Other	8,150	8,150	4,318	3,832
Total code enforcement	212,182	212,182	187,817	24,365
Fire and emergency services				
Personnel	2,142,841	2,142,841	1,975,035	167,806
Contractual	248,889	248,889	125,005	123,884
Other	216,550	216,550	130,696	85,854
Total fire and emergency services	2,608,280	2,608,280	2,230,736	377,544
Total public safety	6,720,087	6,720,087	6,000,851	719,236
Community services				
Community agencies				
Grants	137,800	137,800	133,300	4,500
Non-departmental				
Grants	553,754	553,754	338,953	214,801
Police and fire retirement	190,000	190,000	190,000	-
Economic development initiative	432,500	432,500	432,500	-
Contingency - general fund	148,125	148,125	4,715	143,410
Loan costs	50,000	50,000	91,233	(41,233)
Insurance/judgement/claims	18,712	18,712	19,104	(392)
Workers' comp audit	13,000	13,000	(13,911)	26,911
Bird eradication	20,000	20,000	-	20,000
Total non-departmental	1,426,091	1,426,091	1,062,594	363,497
Total community services	1,563,891	1,563,891	1,195,894	367,997
Debt service				
CERS	87,113	87,113	87,113	-
City Hall	3,181,128	3,181,128	2,987,363	193,765
Total debt service	3,268,241	3,268,241	3,074,476	193,765
Capital outlay				
Fire department	36,000	36,000	38,110	(2,110)
Public services	2,287,000	2,287,000	1,379,158	907,842
Police department	189,000	189,000	179,965	9,035
Communications	25,000	-	50,813	(50,813)
Other	-	-	-	-
Total capital outlay	3,032,885	3,007,885	1,648,046	1,359,839
Total expenditures	$ 17,371,038	$ 17,346,038	$ 14,530,986	$ 2,815,052

SUPPLEMENTAL INFORMATION

CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	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	2013 Total	2012 Total
ASSETS												
Cash and cash equivalents	$ 373,662	$ 6,118	$ 25,028	$ 25,839	$ 51,978	$ 262,078	$ 4,715	$ 26,721	$ 4,964	$ 24,504	$ 805,607	$ 660,377
Receivables	-	1,407	-	-	-	3,420	-	-	-	-	4,827	5,737
Investments	-	-	-	-	-	-	-	5,829	-	-	5,829	5,822
Total assets	$ 373,662	$ 7,525	$ 25,028	$ 25,839	$ 51,978	$ 265,498	$ 4,715	$ 32,550	$ 4,964	$ 24,504	$ 816,263	$ 671,936
LIABILITIES AND FUND BALANCE												
Accounts payable	$ -	$ -	$ -	$ -	$ 4,000	$ -	$ -	$ -	$ -	$ -	$ 4,000	$ 4,477
Accrued wages	-	375	-	-	-	-	-	-	-	-	375	95
Accrued payroll taxes & benefits payable	-	29	-	-	-	-	-	-	-	-	29	7
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	404	-	-	4,000	-	-	-	-	-	4,404	4,579
Fund balance, restricted	-	-	-	-	-	-	-	-	4,964	24,504	29,468	29,359
Fund balance, unassigned	373,662	7,121	25,028	25,839	47,978	265,498	4,715	32,550	-	-	782,391	637,998
Total fund balance	373,662	7,121	25,028	25,839	47,978	265,498	4,715	32,550	4,964	24,504	811,859	667,357
Total liabilities and fund balance	$ 373,662	$ 7,525	$ 25,028	$ 25,839	$ 51,978	$ 265,498	$ 4,715	$ 32,550	$ 4,964	$ 24,504	$ 816,263	$ 671,936

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	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	2013 Total	2012 Total
REVENUES												
Intergovernmental	$ 395,796	$ 21,060	$ -	$ -	$ 3,000	$ 3,420	$ -	$ -	$ -	$ -	$ 423,276	$ 401,671
Penalties and forfeitures	-	-	2,538	-	-	-	-	-	-	-	2,538	1,705
Other revenues	1,354	13	129	95	193	608	16,385	107	19	90	18,993	18,229
Total revenues	397,150	21,073	2,667	95	3,193	4,028	16,385	107	19	90	444,807	421,605
EXPENDITURES												
Public safety	-	19,429	11,997	-	-	-	-	-	-	-	31,426	15,691
Public services	214,782	-	-	-	-	-	-	-	-	-	214,782	195,457
Community services	-	-	-	-	7,000	-	18,564	-	-	-	25,564	21,454
Capital outlay	-	-	-	-	-	3,533	-	-	-	-	3,533	10,232
Total expenditures	214,782	19,429	11,997	-	7,000	3,533	18,564	-	-	-	275,305	242,834
Excess (deficiency) of revenues over expenditures	182,368	1,644	(9,330)	95	(3,807)	495	(2,179)	107	19	90	169,502	178,771
Transfers (to) from other funds	(214,000)	-	-	-	-	189,000	-	-	-	-	(25,000)	(25,000)
Excess (deficiency) of revenues over expenditures and transfers	(31,632)	1,644	(9,330)	95	(3,807)	189,495	(2,179)	107	19	90	144,502	153,771
Fund balance, beginning of year	405,294	5,477	34,358	25,744	51,785	76,003	6,894	32,443	4,945	24,414	667,357	513,585
Fund balance, end of year	$ 373,662	$ 7,121	$ 25,028	$ 25,839	$ 47,978	$ 265,498	$ 4,715	$ 32,550	$ 4,964	$ 24,504	$ 811,859	$ 667,356

CITY OF DANVILLE, KENTUCKY
COMBINING STATMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
June 30, 2013

	Garbage Fund	Cemetery Fund	Museum Fund	2013 Total	2012 Total
ASSETS					
Current assets					
Cash and cash equivalents	$ -	$ -	$ 19,222	$ 19,222	$ 1,752
Accounts receivable, net of allowance for uncollectible accounts of $117,558	51,946	3,008	-	54,954	58,383
Investments	-	115,518	-	115,518	113,746
Due from (to) other funds	72,071	26,682	-	98,753	(26,945)
Total current assets	124,017	145,208	19,222	288,447	146,936
Noncurrent assets					
Restricted cash and cash equivalents	-	-	-	-	-
Capital assets, net	-	77,044	344,142	421,186	438,563
Total noncurrent assets	-	77,044	344,142	421,186	438,563
Total assets	$ 124,017	$ 222,252	$ 363,364	$ 709,633	$ 585,499
LIABILITIES					
Current liabilities					
Accounts payable	$ 79,768	$ 3,292	$ 865	$ 83,925	$ 2,504
Accrued expenses	-	4,550	-	4,550	5,592
Current portion of compensated absences	-	286	-	286	121
Current portion of bonds and notes payable	-	-	-	-	-
Total current liabilities	79,768	8,128	865	88,761	8,217
Non-current liabilities					
Bonds and notes payables	-	-	-	-	-
Compensated absences, net of current portion	-	5,432	-	5,432	2,298
Total non-current liabilities	-	5,432	-	5,432	2,298
Total liabilities	79,768	13,560	865	94,193	10,515
NET POSITION					
Net invested in capital assets	-	77,044	344,142	421,186	438,563
Net position, restricted	-	-	-	-	-
Net position, unrestricted	44,249	131,648	18,357	194,254	136,421
Total net position	44,249	208,692	362,499	615,440	574,984
Total liabilities and net position	$ 124,017	$ 222,252	$ 363,364	$ 709,633	$ 585,499

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Danville, Kentucky's basic financial statements and have issued our report thereon dated January 14, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Purpose of this Report

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 14, 2014

CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
for the year ended June 30, 2013

	Garbage Fund	Cemetery Fund	Museum Fund	2013 Total	2012 Total
Revenues					
Fees for services	$ 894,172	$ 120,100	$ -	$ 1,014,272	$ 980,030
Other revenues	-	-	-	-	-
Total revenues	894,172	120,100	-	1,014,272	980,030
Operating Expenses					
Personnel	-	107,933	-	107,933	111,950
Contractual	972,347	77,243	18,501	1,068,091	997,458
Depreciation	-	3,843	13,534	17,377	17,377
Other expenses	-	12,828	-	12,828	17,303
Total operating expenses	972,347	201,847	32,035	1,206,229	1,144,088
Operating income (loss)	(78,175)	(81,747)	(32,035)	(191,957)	(164,058)
Nonoperating revenues (expenses)					
Investment earnings	170	4,734	42	4,946	6,041
Other revenues (expense)	-	-	-	-	-
Total nonoperating revenues (expenses)	170	4,734	42	4,946	6,041
Income (loss) before other revenues, expenses, gains, losses and transfers	(78,005)	(77,013)	(31,993)	(187,011)	(158,017)
Transfers from other funds	96,737	95,631	35,099	227,467	156,423
Change in net position	18,732	18,618	3,106	40,456	(1,594)
Net position, beginning of year	25,517	190,074	359,393	574,984	576,578
Net position, end of year	$ 44,249	$ 208,692	$ 362,499	$ 615,440	$ 574,984