

CITY OF DANVILLE
Danville, Kentucky

FINANCIAL STATEMENTS
June 30, 2011

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City of Danville, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2011

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, 2011. 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, 2011, the City's assets (page 9) exceeded liabilities by \$41,997,391. This amount includes \$36,292,624 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. \$5,704,767 of these resources is unrestricted and is available to fund the City's outstanding obligations and future programs.
- Unrestricted cash and investment balances (page 9) as of June 30, were \$5,644,466 and current liabilities payable from unrestricted resources (i.e. excluding principal and interest on long term debt) were \$2,144,404.
- Net assets increased by \$1,276,409 (page 10). Of this increase, \$1,650,942 is attributed to the net asset increase from business-type activities. The primary reason for the increase in net assets of business-type activities is due to various government grants received during the fiscal year to fund various construction projects in the utilities fund. Net assets of governmental activities decreased by \$374,533. The primary reason for the decrease in net assets of governmental activities is due to depreciation expense of \$723,189, a non-cash expense.
- Fund balances (a measure of current financial resources) in the governmental funds decreased \$255,878 to a total of \$4,257,699 (page 12). The primary reason for the decrease in fund balances in the governmental funds is due to operating transfers totaling \$454,160 made to the City's business-type funds. Other items contributing to the decrease were accruals recorded in the financial statements to reflect amounts paid to the City's firefighters for incentive back pay and severance pay to the City's former city manager subsequent to year end. Together these accruals amounted to \$339,326. Of the total fund balances in the governmental funds, \$4,089,234 (page 11) is unassigned and available for future programs.
- The General Fund unassigned fund balance (page 11), as of June 30, 2011, was \$3,465,007, or about 32% of total general fund expenditures.
- The City's long term debt increased \$663,403 during the year. The City borrowed \$495,000 in August 2010 to fund the purchase of a fire truck. In July 2010, the City issued Rural Development Build America Bonds in the amount of \$600,000 for the purpose of funding certain water system improvements. In August 2010, the City entered into a lease with the Kentucky Bond Corporation in the amount of \$775,000 to finance a project to improve the City's storm water sewer system. Scheduled debt payments amounted to \$1,217,344. Net amortization of discounts and issuance costs were \$9,110, and the long-term portion of compensated absences increased by a net of \$1,637.

Overview of Financial Statements

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

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

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

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

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

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

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

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

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

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

The larger funds are presented on pages 11 and 12 as major funds, while the other funds are presented in the combining statements for non-major funds on pages 47 and 48. 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 43.

Proprietary funds - The City's proprietary funds include six enterprise funds. The enterprise funds include operations for the water and sewer utility, garbage disposal, storm water, museum, cemetery operations, and the parking fund. The water and sewer fund and the parking 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 49 and 50.

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 41.

Other Information - The last section of this report includes two types of supplementary information. *Required supplementary Information* (pages 42 through 46) must be included to conform with generally accepted accounting principles, while *Other Supplementary Information* (pages 47 through 50) 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. Finally, the schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is located on page 54.

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,095	\$ 5,405	\$ 4,820	\$ 3,770	\$ 9,915	\$ 9,175
Capital assets	18,857	18,668	37,626	35,831	56,483	54,499
Total assets	23,952	24,073	42,446	39,601	66,398	63,674
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Long-term debt outstanding	8,136	7,824	13,760	13,410	21,896	21,234
Other liabilities	1,042	1,101	1,462	620	2,504	1,721
Total liabilities	9,178	8,925	15,222	14,030	24,400	22,955
Net assets:						
Invested in capital assets, net of related debt	10,721	10,844	23,866	22,421	34,587	33,265
Restricted	0	0	1,706	1,945	1,706	1,945
Unrestricted (deficit)	4,053	4,304	1,652	1,205	5,705	5,509
Total Net Assets	\$ 14,774	\$ 15,148	\$ 27,224	\$ 25,571	\$ 41,998	\$ 40,719

By far the largest portion of the City's net assets (82%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. \$1.7 million of the City's net assets (page 9) are restricted to comply with provisions of various laws, regulations, and contractual agreements. Restricted funds in the business-type activities reflect the reserves required by the water and sewer bond indentures.

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

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 8,095	\$ 7,965	\$ 8,095	\$ 7,965
Operating grants and contributions	615	616			615	616
Capital grants and contributions			1,741	130	1,741	130
General revenues:						
Property taxes	1,586	1,582			1,586	1,582
License fees and permits	7,600	7,005			7,600	7,005
Penalties and forfeits	27	23			27	23
Management fees	752	660			752	660
Other	305	352	50	69	355	421
Total Revenues	10,885	10,238	9,886	8,164	20,771	18,402

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Expenses:						
General Government	1,751	1,391			1,751	1,391
Public Safety	6,338	5,748			6,338	5,748
Public Services	1,470	1,368			1,470	1,368
Community Services	971	876			971	876
Debt Service	275	248	601	644	876	892
Utilities			6,324	6,156	6,324	6,156
Garbage operations			862	758	862	758
Cemetery operations			197	179	197	179
Museum operations			28	28	28	28
Parking operations			331	308	331	308
Storm water			344	255	344	255
Total Expenses	10,805	9,631	8,687	8,328	19,492	17,959
Excess (deficiency) before transfers and special items	80	607	1,199	(164)	1,279	443
Transfers	(454)	(591)	454	591		
Increase (decrease) in net assets	\$ (374)	\$ 16	\$ 1,653	\$ 427	\$ 1,279	\$ 443

\$9.19 million of the governmental services are financed with property taxes and license fees.

Governmental activities decreased the City's net assets by \$374,533. The primary reason for the decrease has already been addressed in this report.

Business-type activities increased the City's net assets by \$1,653,352. This increase is net of depreciation expense of \$1,271,979 (a non cash item). The water & sewer fund remains healthy as operating costs continue to be in line with operating revenues. Subsequent to the end of the fiscal year, water rates were increased by approximately 45% in order to provide partial funding for the construction of a new water plant.

Financial Analysis of the Government's Funds

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

Governmental funds - Financial information for the City's governmental funds is summarized on pages 11 and 12. Governmental fund balances decreased \$255,878. The reasons for this decrease 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 47 and 48.

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.

There were no budget amendments during the fiscal year ended June 30, 2011.

Capital Asset and Debt Administration

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

Capital Assets

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

	<u>City of Danville, Kentucky Capital Assets (net of depreciation)</u>		
	Governmental Activities	Business- Type Activities	Total
Land	\$ 2,552,556	\$ 1,261,796	\$ 3,814,352
Buildings	9,177,236	7,310,940	16,488,176
Improvements other than buildings	943,733	273,167	1,216,900
Vehicles	728,400	107,400	835,800
Equipment	124,543	650,949	775,492
Infrastructure	5,330,612	25,259,974	30,590,586
Construction in progress	-	2,762,324	2,762,324
Total	<u>\$ 18,857,080</u>	<u>\$ 37,626,550</u>	<u>\$ 56,483,630</u>

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

\$263,419 was expended during the year for the New City Hall/Police Station Project. This project was substantially complete as of June 30, 2010, and the costs incurred this year represented some final miscellaneous project wrap up costs. The total capitalized cost of this project (including the current year expenditures) was \$7,379,041.

\$296,667 was expended during the year related to various storm water sub-basin improvement projects. One project was completed during the current fiscal year at a total cost of \$445,788.

\$2,264,320 was expended during the year related to the Phylbin Village sewer project. This project was in progress as of June 30, 2011.

\$479,093 was expended during the year for a new fire truck.

Long-Term Debt

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

	Governmental Activities	Business- Type Activities	Total
KLC Funding Trust	\$ 7,810,672	\$	\$ 7,810,672
Ky. Bond Corporation-Lease	465,000	730,000	1,195,000
Series 2008 Rural Dev. Bonds		1,465,000	1,465,000
Series 2006 (A&B) Revenue Bonds		4,390,000	4,390,000
Series 2003 Revenue Bonds		1,270,000	1,270,000
Series 2000 RUS Revenue Bonds		405,200	405,200
Series 2010 Build America Bond		600,000	600,000
Series 1995 RUS Revenue Bonds		429,000	429,000
KIA Loan C88-06		340,000	340,000
KIA Loan A89-06		15,276	15,276
KIA Loan – Treatment Plant		4,405,209	4,405,209
Total	\$ <u>8,275,672</u>	\$ <u>14,049,685</u>	\$ <u>22,325,357</u>

The City's long term debt increased \$663,403 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 process of performing three major water and sewer system improvement projects: 1) Phylben Village, 2) Spears Creek watershed sanitary sewer system and 3) Clarks Run pump station project. The City has budgeted \$1,569,673 during the fiscal year ended June 30, 2012 related to these projects. Funding for these projects will be primarily provided by grants and loans from the Housing and Urban Development Agency (HUD), Appalachian Regional Commission (ARC), Kentucky Infrastructure Authority (KIA), and the Rural Development Agency (RD).

Additionally, the City is currently in the planning phase of constructing a new water treatment plant. The City has budgeted \$725,000 during the fiscal year ended June 30, 2012 related to this project. The latest engineering studies estimate the ultimate cost of this project to be approximately \$27 million once completed. At the present time, the primary funding for this project is expected to be provided by the issuance of bonds and other debt instruments.

The City is also in the process of performing sub-basin improvements in the storm-water fund. Budgeted expenditures for the fiscal year ended June 30, 2012 related to these projects are \$370,000. These expenditures are to be funded primarily by loan funds already received.

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

Contacting the City's Financial Management

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

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Jerry W. Hensley, CPA

INDEPENDENT AUDITORS' REPORT

J. Carroll Luby, CPA

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Danville, Kentucky, as of June 30, 2011, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Danville, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Danville, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated February 7, 2012, on our consideration of the City of Danville, Kentucky's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 6 and 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Danville, Kentucky's financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
February 7, 2012

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>2010 Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,077,407	\$ 1,380,456	\$ 4,457,863	\$ 3,653,148
Receivables, net	794,774	1,030,151	1,824,925	1,323,678
Investments	1,075,686	110,917	1,186,603	1,177,122
Inventory, at cost		211,412	211,412	215,550
Prepaid expenses and other current assets	<u>7,412</u>	<u>1,928</u>	<u>9,340</u>	<u>7,783</u>
Total current assets	4,955,279	2,734,864	7,690,143	6,377,281
Non-current assets				
Restricted cash	139,258	1,581,945	1,721,203	2,294,547
Restricted investments		503,051	503,051	503,097
Capital assets, net	<u>18,857,080</u>	<u>37,626,550</u>	<u>56,483,630</u>	<u>54,499,090</u>
Total non-current assets	<u>18,996,338</u>	<u>39,711,546</u>	<u>58,707,884</u>	<u>57,296,734</u>
Total assets	<u>\$ 23,951,617</u>	<u>\$ 42,446,410</u>	<u>\$ 66,398,027</u>	<u>\$ 63,674,015</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 612,168	\$ 1,181,408	\$ 1,793,576	\$ 928,835
Accrued wages	157,410	76,242	233,652	194,072
Payroll taxes & benefits payable	45,327		45,327	161,655
Deposits	11,144	46,450	57,594	63,846
Current portion of compensated absences	10,789	3,466	14,255	14,186
Accrued interest payable		89,003	89,003	88,720
Current portion of bonds and notes payable	<u>245,210</u>	<u>1,007,662</u>	<u>1,252,872</u>	<u>1,099,154</u>
Total current liabilities	1,082,048	2,404,231	3,486,279	2,550,468
Non-current liabilities				
Bonds and notes payable, net of current portion	7,891,042	12,752,467	20,643,509	20,135,461
Compensated absences, net of current portion	<u>204,981</u>	<u>65,867</u>	<u>270,848</u>	<u>269,514</u>
Total non-current liabilities	<u>8,096,023</u>	<u>12,818,334</u>	<u>20,914,357</u>	<u>20,404,975</u>
Total liabilities	<u>9,178,071</u>	<u>15,222,565</u>	<u>24,400,636</u>	<u>22,955,443</u>
NET ASSETS				
Investment in capital assets, net of related debt	10,720,828	23,866,421	34,587,249	33,264,475
Restricted		1,705,375	1,705,375	1,944,811
Unrestricted	<u>4,052,718</u>	<u>1,652,049</u>	<u>5,704,767</u>	<u>5,509,286</u>
Total net assets	<u>14,773,546</u>	<u>27,223,845</u>	<u>41,997,391</u>	<u>40,718,572</u>
Total liabilities and net assets	<u>\$ 23,951,617</u>	<u>\$ 42,446,410</u>	<u>\$ 66,398,027</u>	<u>\$ 63,674,015</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense)			2010 Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General government	\$ 1,751,092	\$ -	\$ 52,119	\$ -	\$ (1,698,973)	\$ -	\$ (1,698,973)	\$ (1,350,750)
Public services	1,469,525	-	350,732	-	(1,118,793)	-	(1,118,793)	(1,110,655)
Public safety	6,338,452	-	212,438	-	(6,126,014)	-	(6,126,014)	(5,430,592)
Community services	971,453	-	-	-	(971,453)	-	(971,453)	(875,563)
Debt service	275,086	-	-	-	(275,086)	-	(275,086)	(248,038)
Total governmental activities	10,805,608	-	615,289	-	(10,190,319)	-	(10,190,319)	(9,015,598)
Business-type activities								
Utilities	6,323,604	6,400,760	-	1,740,693	-	1,817,849	1,817,849	317,490
Parking	331,086	256,245	-	-	-	(74,841)	(74,841)	(29,325)
Garbage	861,942	758,743	-	-	-	(103,199)	(103,199)	(98,044)
Cemetery	196,624	102,763	-	-	-	(93,861)	(93,861)	(70,792)
Museum	28,082	-	-	-	-	(28,082)	(28,082)	(27,545)
Storm water	343,807	576,805	-	-	-	232,998	232,998	318,930
Debt service	601,382	-	-	-	-	(601,382)	(601,382)	(643,981)
Total business-type activities	8,686,527	8,095,316	-	1,740,693	-	1,149,482	1,149,482	(233,267)
Total	19,492,135	8,095,316	615,289	1,740,693	(10,190,319)	1,149,482	(9,040,837)	(9,248,865)
General revenues								
Taxes					1,586,278	-	1,586,278	1,581,613
Licenses and fees					7,599,867	-	7,599,867	7,005,393
Fines and forfeitures					27,102	-	27,102	22,653
Management fees					751,776	-	751,776	659,788
Other					304,923	49,710	354,633	421,655
Total general revenues					10,269,946	49,710	10,319,656	9,691,102
Transfers					(454,160)	454,160	-	-
Change in net assets					(374,533)	1,653,352	1,278,819	442,237
Net assets, beginning of year					15,148,079	25,570,493	40,718,572	40,276,335
NET ASSETS, END OF YEAR					\$ 14,773,546	\$ 27,223,845	\$ 41,997,391	\$ 40,718,572

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

**CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds	2010 Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,404,048	\$ 673,359	\$ 3,077,407	\$ 2,719,172
Receivables, net of allowance for uncollectible accounts of \$44,929	794,774	-	794,774	774,461
Investments	1,069,884	5,802	1,075,686	1,050,855
Restricted cash	139,258	-	139,258	852,833
Prepaid expenses and other assets	<u>7,412</u>	<u>-</u>	<u>7,412</u>	<u>7,783</u>
 Total assets	 <u>\$ 4,415,376</u>	 <u>\$ 679,161</u>	 <u>\$ 5,094,537</u>	 <u>\$ 5,405,104</u>
LIABILITIES				
Accounts payable	\$ 446,806	\$ 165,362	\$ 612,168	\$ 568,161
Accrued wages	157,212	198	157,410	139,555
Accrued payroll taxes & benefits payable	45,312	15	45,327	161,655
Deposits	11,144	-	11,144	11,133
Due to other funds	-	-	-	-
Compensated absences	<u>10,789</u>	<u>-</u>	<u>10,789</u>	<u>11,023</u>
	<u>671,263</u>	<u>165,575</u>	<u>836,838</u>	<u>891,527</u>
FUND BALANCE				
Fund balance, restricted	139,258	29,207	168,465	596,449
Fund balance, unassigned	<u>3,604,855</u>	<u>484,379</u>	<u>4,089,234</u>	<u>3,917,128</u>
 Total fund balance	 <u>3,744,113</u>	 <u>513,586</u>	 <u>4,257,699</u>	 <u>4,513,577</u>
 Total liabilities and fund balance	 <u>\$ 4,415,376</u>	 <u>\$ 679,161</u>	 <u>\$ 5,094,537</u>	 <u>\$ 5,405,104</u>
Amounts reported for governmental activities in the statement of net assets are different because:				
Fund balances reported above			\$ 4,257,699	\$ 4,513,577
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$84,787,848 and \$84,064,659 for the fiscal years ended June 30, 2011 and 2010, respectively.			18,857,080	18,668,336
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets:				
Loan and lease purchase agreements			(8,136,252)	(7,824,401)
Accrued compensated absences			<u>(204,981)</u>	<u>(209,433)</u>
 Net assets of governmental activities			 <u>\$ 14,773,546</u>	 <u>\$ 15,148,079</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2011

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2010 Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,586,278	\$ -	\$ 1,586,278	\$ 1,581,613
Licenses and fees	7,599,867	-	7,599,867	7,005,393
Intergovernmental revenue	264,557	350,732	615,289	615,588
Fines and forfeitures	15,729	11,373	27,102	22,653
Other revenues	<u>1,023,321</u>	<u>33,367</u>	<u>1,056,688</u>	<u>1,012,411</u>
Total revenues	<u>10,489,752</u>	<u>395,472</u>	<u>10,885,224</u>	<u>10,237,658</u>
EXPENDITURES				
Current operating				
General government	1,579,157	-	1,579,157	1,518,426
Public services	1,080,714	16,335	1,097,049	996,830
Public safety	5,900,303	282,389	6,182,692	5,564,936
Community services	943,725	27,728	971,453	875,563
Debt services	447,761	-	447,761	321,860
Capital outlay	<u>913,830</u>	<u>-</u>	<u>913,830</u>	<u>4,060,709</u>
Total expenditures	<u>10,865,490</u>	<u>326,452</u>	<u>11,191,942</u>	<u>13,338,324</u>
Excess of revenues over expenditures	(375,738)	69,020	(306,718)	(3,100,666)
Other financing sources (uses):				
Transfers (to) from other funds	(404,160)	(50,000)	(454,160)	(590,910)
Sale of property	10,000	-	10,000	-
Loan proceeds	<u>495,000</u>	<u>-</u>	<u>495,000</u>	<u>50,000</u>
Total other financing sources (uses)	<u>100,840</u>	<u>(50,000)</u>	<u>50,840</u>	<u>(540,910)</u>
Net change in fund balance	(274,898)	19,020	(255,878)	(3,641,576)
Fund balance, beginning of year	<u>4,019,011</u>	<u>494,566</u>	<u>4,513,577</u>	<u>8,155,153</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,744,113</u>	<u>\$ 513,586</u>	<u>\$ 4,257,699</u>	<u>\$ 4,513,577</u>

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Net change in fund balance - total governmental funds, reported above	\$ (255,878)	\$ (3,641,576)
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	911,931	4,177,756
Depreciation expense	(723,189)	(577,560)
Bond and note payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the Statement of Net Assets.		
Loan proceeds	172,675	63,000
Generally, expenditures recognized in the general fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred:	(495,000)	(50,000)
Accrued interest expense	10,476	10,822
Compensated absences	<u>4,452</u>	<u>33,120</u>
Change in net assets of governmental activities	<u>\$ (374,533)</u>	<u>\$ 15,562</u>

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

**CITY OF DANVILLE, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2011**

ASSETS	Utilities Fund	Parking Fund	Other Nonmajor Proprietary Funds	2011 Total	2010 Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 886,064	\$ 188,436	\$ 305,956	\$ 1,380,456	\$ 933,976
Accounts receivable, net of allowance for uncollectible accounts fo \$502,003	903,654	30,298	96,199	1,030,151	549,217
Investments	-	-	110,917	110,917	126,267
Due from (to) other funds	(23,465)	-	23,465	-	-
Prepaid expenses and other assets	-	-	1,928	1,928	-
Inventory, at cost	211,412	-	-	211,412	215,550
Total current assets	<u>1,977,665</u>	<u>218,734</u>	<u>538,465</u>	<u>2,734,864</u>	<u>1,825,010</u>
Non-current assets					
Restricted cash and cash equivalents	1,193,704	8,620	379,621	1,581,945	1,441,714
Restricted investments	503,051	-	-	503,051	503,097
Capital assets, net	<u>28,351,829</u>	<u>7,913,759</u>	<u>1,360,962</u>	<u>37,626,550</u>	<u>35,830,754</u>
Total non-current assets	<u>30,048,584</u>	<u>7,922,379</u>	<u>1,740,583</u>	<u>39,711,546</u>	<u>37,775,565</u>
Total assets	<u>\$ 32,026,249</u>	<u>\$ 8,141,113</u>	<u>\$ 2,279,048</u>	<u>\$ 42,446,410</u>	<u>\$ 39,600,575</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 1,048,208	\$ 9,286	\$ 123,914	\$ 1,181,408	\$ 360,674
Accrued expenses	54,940	1,140	20,162	76,242	54,517
Deposits	46,450	-	-	46,450	52,713
Current portion of compensated absences	3,171	38	257	3,466	3,163
Accrued interest payable	72,715	16,288	-	89,003	88,720
Current portion of bonds and notes payable	<u>888,592</u>	<u>89,070</u>	<u>30,000</u>	<u>1,007,662</u>	<u>956,479</u>
Total current liabilities	<u>2,114,076</u>	<u>115,822</u>	<u>174,333</u>	<u>2,404,231</u>	<u>1,516,266</u>
Non-current liabilities					
Bonds and notes payable	7,929,306	4,146,767	676,394	12,752,467	12,453,735
Compensated absences, net of current portion	<u>60,249</u>	<u>726</u>	<u>4,892</u>	<u>65,867</u>	<u>60,081</u>
Total non-current liabilities	<u>7,989,555</u>	<u>4,147,493</u>	<u>681,286</u>	<u>12,818,334</u>	<u>12,513,816</u>
Total liabilities	<u>10,103,631</u>	<u>4,263,315</u>	<u>855,619</u>	<u>15,222,565</u>	<u>14,030,082</u>
NET ASSETS					
Invested in capital assets, net of related debt					
Restricted	19,533,931	3,677,922	654,568	23,866,421	22,420,540
Unrestricted	1,696,755	8,620	-	1,705,375	1,944,811
	<u>691,932</u>	<u>191,256</u>	<u>768,861</u>	<u>1,652,049</u>	<u>1,205,142</u>
Total net assets	<u>21,922,618</u>	<u>3,877,798</u>	<u>1,423,429</u>	<u>27,223,845</u>	<u>25,570,493</u>
Total liabilities and net assets	<u>\$ 32,026,249</u>	<u>\$ 8,141,113</u>	<u>\$ 2,279,048</u>	<u>\$ 42,446,410</u>	<u>\$ 39,600,575</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	<u>Utilities Fund</u>	<u>Parking Fund</u>	<u>Other Nonmajor Proprietary Funds</u>	<u>Total</u>	<u>2010 Total</u>
Revenues					
Water sales	\$ 3,068,407	\$ -	\$ -	\$ 3,068,407	\$ 3,026,604
Water surcharge	215,465	-	-	215,465	190,300
Sewer charges	2,792,993	-	-	2,792,993	2,784,432
Connection fees	55,558	-	-	55,558	59,065
Parking rental fees	-	256,245	-	256,245	278,296
Other fees for services	-	-	1,417,193	1,417,193	1,310,326
Other revenues	268,337	-	21,118	289,455	315,678
	<u>6,400,760</u>	<u>256,245</u>	<u>1,438,311</u>	<u>8,095,316</u>	<u>7,964,701</u>
Operating expenses					
Water	2,835,003	-	-	2,835,003	2,673,013
Sewer	1,465,889	-	-	1,465,889	1,456,653
Perryville	132,856	-	-	132,856	134,613
Personnel	-	45,497	308,296	353,793	363,756
Contractual	-	75,322	1,041,624	1,116,946	931,972
Management fees	699,530	-	-	699,530	659,788
Depreciation	1,050,876	190,584	30,519	1,271,979	1,265,126
Other operating expenses	139,450	19,683	50,016	209,149	199,125
	<u>6,323,604</u>	<u>331,086</u>	<u>1,430,455</u>	<u>8,085,145</u>	<u>7,684,046</u>
Operating income (loss)	<u>77,156</u>	<u>(74,841)</u>	<u>7,856</u>	<u>10,171</u>	<u>280,655</u>
Non-operating revenues (expenses)					
Grants	1,740,693	-	-	1,740,693	130,059
Interest expense	(398,427)	(202,955)	-	(601,382)	(643,981)
Other non-operating revenues (expenses)	34,723	670	14,317	49,710	69,032
	<u>1,376,989</u>	<u>(202,285)</u>	<u>14,317</u>	<u>1,189,021</u>	<u>(444,890)</u>
Income (loss) before other revenues expenses, gains, losses and transfers	1,454,145	(277,126)	22,173	1,199,192	(164,235)
Transfers (to) from other funds	-	246,661	207,499	454,160	590,910
Change in net assets	1,454,145	(30,465)	229,672	1,653,352	426,675
Net assets, beginning of year	<u>20,468,473</u>	<u>3,908,263</u>	<u>1,193,757</u>	<u>25,570,493</u>	<u>25,143,818</u>
NET ASSETS, END OF YEAR	<u>\$ 21,922,618</u>	<u>\$ 3,877,798</u>	<u>\$ 1,423,429</u>	<u>\$ 27,223,845</u>	<u>\$ 25,570,493</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Utilities Fund	Parking Fund	Other Nonmajor Proprietary Funds	Total	2010 Total
Cash flows from operating activities					
Receipts from customers	\$ 5,933,067	\$ 245,833	\$ 1,435,482	\$ 7,614,382	\$ 8,406,482
Payments to suppliers	(1,719,359)	(88,103)	(1,078,562)	(2,886,024)	(3,102,867)
Payments to employees	(2,038,121)	(45,654)	(305,611)	(2,389,386)	(2,306,971)
Payments to general fund for management services	(699,530)	-	-	(699,530)	(659,788)
Net cash provided by (used in) operating activities	<u>1,476,057</u>	<u>112,076</u>	<u>51,309</u>	<u>1,639,442</u>	<u>2,336,856</u>
Cash flows from noncapital financing activities					
Transfers (to) from other funds	-	246,661	207,499	454,160	590,910
Deposits, net	(6,263)	-	-	(6,263)	1,086
Due (to) from other funds	73,486	-	(73,486)	-	(16,451)
Other revenues	13,524	-	1,929	15,453	9,946
Net cash provided by (used in) noncapital financing activities	<u>80,747</u>	<u>246,661</u>	<u>135,942</u>	<u>463,350</u>	<u>585,491</u>
Cash flows from capital and related financing activities					
Purchases of capital assets	(2,771,108)	-	(296,666)	(3,067,774)	(922,889)
Principal paid on notes and bonds	(909,669)	(90,000)	(45,000)	(1,044,669)	(1,453,179)
Interest (paid) accrued on notes and bonds	(397,831)	(203,268)	12,531	(588,568)	(648,065)
Borrowings of notes and bonds	600,000	-	775,000	1,375,000	-
Bond issuance costs	-	5,930	(23,606)	(17,676)	5,929
Refunding of debt	37,260	-	-	37,260	37,260
Capital improvement grant proceeds	1,740,693	-	-	1,740,693	130,059
Net cash provided by (used) in capital and related financing activities	<u>(1,700,655)</u>	<u>(287,338)</u>	<u>422,259</u>	<u>(1,565,734)</u>	<u>(2,850,885)</u>
Cash flows from investing activities					
Investments reduction increase	46	-	15,350	15,396	34,444
Interest and dividends	21,199	670	12,388	34,257	59,086
Net cash provided by investing activities	<u>21,245</u>	<u>670</u>	<u>27,738</u>	<u>49,653</u>	<u>93,530</u>
Net increase (decrease) in cash and cash equivalents and restricted cash					
	(122,606)	72,069	637,248	586,711	164,992
Cash and cash equivalents and restricted cash, beginning of year	<u>2,202,374</u>	<u>124,987</u>	<u>48,329</u>	<u>2,375,690</u>	<u>2,210,698</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 2,079,768</u>	<u>\$ 197,056</u>	<u>\$ 685,577</u>	<u>\$ 2,962,401</u>	<u>\$ 2,375,690</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 77,156	\$ (74,841)	\$ 7,856	\$ 10,171	\$ 280,655
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,050,876	190,584	30,519	1,271,979	1,265,126
Provision for bad debt	37,508	-	41,198	78,706	41,556
Change in assets and liabilities:					
Accounts receivable	(505,201)	(10,412)	(44,027)	(559,640)	400,225
Inventory	4,138	-	-	4,138	6,807
Prepaid expenses and other assets	-	-	(1,928)	(1,928)	221,488
Accounts payable	798,825	6,902	15,006	820,733	128,893
Accrued expenses	7,435	(169)	1,928	9,194	(84)
Compensated absences	5,320	12	757	6,089	(7,810)
Net cash provided by (used in) operating activities	<u>\$ 1,476,057</u>	<u>\$ 112,076</u>	<u>\$ 51,309</u>	<u>\$ 1,639,442</u>	<u>\$ 2,336,856</u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

ASSETS	Police and Firemen's Pension Fund	2010 Total
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 32,725	\$ 18,874
Investments	<u>681,188</u>	<u>616,929</u>
Total assets	<u>\$ 713,913</u>	<u>\$ 635,803</u>
 NET ASSETS		
Net assets held in trust for pension benefits	<u>\$ 713,913</u>	<u>\$ 635,803</u>
 TOTAL NET ASSETS	<u><u>\$ 713,913</u></u>	<u><u>\$ 635,803</u></u>

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

CITY OF DANVILLE, KENTUCKY
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
for the year ended June 30, 2011

	<u>Police and Firemen's Pension Fund</u>	<u>2010 Total</u>
Additions		
Employers contributions	\$ 190,000	\$ 185,040
Employee Contributions	1,717	1,749
Interest and dividends	26,504	19,238
Realized gains (loss) on investments	4,591	(9,825)
Unrealized gain (loss) on investments	<u>74,205</u>	<u>65,176</u>
 Total additions	 <u>297,017</u>	 <u>261,378</u>
Deductions		
Benefit payements	213,800	208,054
Trustee fee	<u>5,107</u>	<u>6,168</u>
 Total deductions	 <u>218,907</u>	 <u>214,222</u>
 Change in net assets	 <u>78,110</u>	 <u>47,156</u>
 Net assets, beginning of year	 <u>635,803</u>	 <u>588,647</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 713,913</u></u>	 <u><u>\$ 635,803</u></u>

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 does 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, 2011.

The City, in conjunction with Boyle County, has created the Danville-Boyle County Airport Board (DBCAB). The DBCAB's board is comprised of three members from the City of Danville and three members from Boyle County. The City appropriated \$18,000 for an operating grant to the DBCAB for the year ended June 30, 2011.

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, 2011.

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, 2011.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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

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

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

E. Basis of Presentation

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

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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).

Additionally, the City reports the following fund types:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

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

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Presentation, continued

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 Assets or Fund Balance

1. Cash Deposits and Investments

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

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

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

All investments are reported at fair value.

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

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

2. Receivables and Payables

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Inventories

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

4. Restricted Assets

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

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

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

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

5. Capital Assets

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

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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

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

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

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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

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

8. Fund Balance

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

Nonspendable - amounts that must be maintained intact legally or contractually.

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

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

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

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

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

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Reconciliation of Government-Wide and Fund Financial Statements

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

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

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

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

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

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

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Property Taxes, continued

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

Property taxes

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

For the year ended June 30, 2011, taxes were levied November 1, 2010 and were payable by December 31, 2010. A 10% penalty was imposed on all taxes delinquent as of January 1, 2011. In addition, an interest charge of 1/2% per month is levied on all delinquent taxes. As of May 1, 2010 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 13.6 cents per \$100 on real property and 17.3 cents per \$100 on personal property for the fiscal year ended June 30, 2011, 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, 2011, the City had the following investments and maturities:

PRIMARY GOVERNMENT (EXCEPT FIDUCIARY FUNDS)

Investment type	Fair Value	Investment Maturities in years				Credit rating
		Less than 1	1-5	6-10	Over 10	
U.S. Agencies	\$ 263,274	\$ 31,142	\$ 129,890	\$ 102,242		AAA
State and Municipal Bonds	77,908			77,908		
Corporate Bonds	312,979	36,185	114,433	162,361		A to AAA
Money Market						AAA
Mutual Funds	9,792	9,792				
Certificate of Deposits	405,931	405,931				N/A
Totals	\$ 1,069,884	\$ 483,051	\$ 244,322	\$ 342,510	\$ -	

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

3. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Over 92% percent of the City's investments are in bank certificates of deposits (fully insured or collateralized), U.S. Corporate bonds (rated A 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 25% in U.S. Agencies, 29% in Corporate Bonds and 38% 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, 2011.

As of June 30, 2011, the Police/Fire Pension Fund had the following restricted investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities in years</u>				<u>Credit rating</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Agencies	\$ 15,826	\$ -	\$ 15,826	\$ -	\$ -	AAA
Corporate Bonds	56,194	-	31,071	25,123	-	A to BAA
Money Market						
Mutual Funds	146,269	146,269	-	-	-	AAA
Domestic Equities	<u>462,899</u>	<u>462,899</u>	-	-	-	N/A
Totals	<u>\$ 681,188</u>	<u>\$ 609,168</u>	<u>\$ 46,897</u>	<u>\$ 25,123</u>	<u>\$ -</u>	

Interest Rate Risk. The investment policies for the pension funds do not place limits on investment maturities. Eighty-nine percent of the pension fund investments mature in less than one year and seven percent matures in one to five years, with the remaining four percent maturing in six to ten 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 68% of its investments invested in common stock of 30 companies. The remaining investments are concentrated as follows – 2% U.S. Agencies, 8% Corporate Bonds, and 22% Mutual Funds. There are no investments in any one organization (other than U.S. Agencies) that exceed 5% of the total investments.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<u>Governmental Activities</u>				
Land	\$ 2,552,556	\$ -	\$ -	\$ 2,552,556
Land improvements	1,370,334	-	-	1,370,334
Buildings	10,383,378	263,419	-	10,646,797
Vehicles	2,724,566	613,235	-	3,337,801
Equipment	1,346,121	35,277	-	1,381,398
Construction in progress	-	263,419	(263,419)	-
Total	<u>15,824,399</u>	<u>1,175,350</u>	<u>(263,419)</u>	<u>16,736,330</u>
Total Non-Infrastructure Assets	<u>18,376,955</u>	<u>1,175,350</u>	<u>(263,419)</u>	<u>19,288,886</u>
Infrastructure assets	<u>84,356,042</u>	-	-	<u>84,356,042</u>
Total capital assets	<u>\$102,732,997</u>	<u>\$ 1,175,350</u>	<u>\$ (263,419)</u>	<u>\$103,644,928</u>
Accumulated Depreciation:				
Land improvements	390,992	35,609	-	426,601
Buildings	1,219,749	249,812	-	1,469,561
Vehicles	2,453,433	155,968	-	2,609,401
Equipment	1,232,673	24,182	-	1,256,855
Infrastructure	<u>78,767,812</u>	<u>257,618</u>	-	<u>79,025,430</u>
Total	<u>84,064,659</u>	<u>723,189</u>	-	<u>84,787,848</u>
Total capital assets, net	<u>\$18,668,336</u>	<u>\$ 452,161</u>	<u>\$(263,419)</u>	<u>\$18,857,080</u>
<u>Business-Type Activities</u>				
Land	\$ 1,261,796	\$ -	\$ -	\$ 1,261,796
Buildings	8,436,255	-	-	8,436,255
Improvements	366,268	-	-	366,268
Vehicles	798,849	18,870	-	817,719
Equipment	966,947	467,736	-	1,434,683
Infrastructure	44,349,450	445,788	-	44,795,238
Construction in progress	626,943	2,581,169	(445,788)	2,762,324
Total	<u>\$ 56,806,508</u>	<u>\$ 3,513,563</u>	<u>\$ (445,788)</u>	<u>\$59,874,283</u>
Accumulated Depreciation:				
Buildings	927,213	198,102	-	1,125,315
Improvements	78,748	14,353	-	93,101
Vehicles	678,288	32,031	-	710,319
Equipment	747,999	35,735	-	783,734
Infrastructure	<u>18,543,506</u>	<u>991,758</u>	-	<u>19,535,264</u>
Total	<u>20,975,754</u>	<u>1,271,979</u>	-	<u>22,247,733</u>
Total capital assets, net	<u>\$ 35,830,754</u>	<u>\$ 2,241,584</u>	<u>\$ (445,788)</u>	<u>\$37,626,550</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS (CONTINUED)

During the fiscal year ended June 30, 2011, the City began the Phylben Village project that provides new sewer service to approximately 175 households in the eastern Boyle County / northwest Lincoln County area. The project was estimated to cost approximately \$3,194,000, with financing for the project through revenues, charges, and taxes, along with a \$500,000 grant from the Appalachian Regional Commission (ARC), a \$474,000 grant from the United States Department of Agriculture Rural Development (RD), a \$1,300,000 grant from the United States Department of Housing and Urban Development, Community Development Block Grant (CDBG), a Kentucky Infrastructure Authority (KIA) grant of \$300,000, a City contribution of \$20,000, and a \$600,000 Rural Development Build America Bond loan. The cost of the project is being capitalized in the capital asset account of construction in progress.

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 194,953
Public Services	372,476
Public Safety	<u>155,760</u>
Total Depreciation Expense	<u>\$ 723,189</u>

Depreciation expense was charged to proprietary functions as follows:

Utilities	\$ 1,050,876
Cemetery	3,843
Museum	13,535
Parking	190,584
Storm water	<u>13,141</u>
Total Depreciation Expense	<u>\$ 1,271,979</u>

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.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

1 - Plan Description and Provisions (continued)

Plan Members	
<u>Group</u>	<u>Active Employees</u>
Retirees	8
Beneficiaries	5
Fully vested	0
Non-vested	1

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.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

1 - Plan Description and Provisions (continued)

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.

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 2010-2011 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	\$ 155,834
Interest on net pension obligation	1,078
Adjustment to annual required contributions	<u>(1,200)</u>
Annual pension cost	155,712
Contribution made	<u>(190,000)</u>
Decrease in net pension obligation	(34,288)
Net pension obligation at beginning of year	<u>(14,801)</u>
Net pension obligation at June 30, 2011	<u>\$ (49,089)</u>

<u>Three Year Trend Information</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Annual pension cost (APC)	\$ 157,004	\$ 166,448	\$ 155,712
Percentage of APC contributed	118%	111%	122%
Net pension obligation (liability)	3,791	(14,801)	(49,089)

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's wages for non-hazardous job classifications and 33.25% 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:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 1,436,513	100%
2010	\$ 1,424,259	100%
2009	\$ 1,039,593	100%

Medical Insurance Plan

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 water 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 water system improvements. The loan requires annual principal payments starting in February 2013 until maturity in February 2050, with an interest rate of 3.00%.

Water and Sewer Revenue Bonds outstanding at June 30, 2011 are as follows:

<u>City of Danville Water & Sewer Revenue Bonds</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Maturity Date Fiscal Year</u>	<u>Debt Outstanding June 30, 2011</u>
Series 1995	\$ 489,000	4.50%	2034	\$ 429,000
Series 2000	449,500	4.75%	2040	405,200
Series 2003	3,540,000	2 to 3.375%	2014	1,270,000
Series 2008	1,480,000	4.375%	2049	1,465,000
Series 2010	600,000	3.00%	2050	600,000
				<u>\$ 4,169,200</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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, 2011, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 442,500	\$ 162,247	\$ 604,747
2013	467,500	147,645	615,145
2014	479,000	131,831	610,831
2015	46,100	115,277	161,377
2016	48,800	113,310	162,110
2017-21	275,100	533,852	808,952
2022-26	342,700	469,670	812,370
2027-31	424,400	389,703	814,103
2032-36	461,700	293,039	754,739
2037-41	437,600	201,589	639,189
2042-46	421,100	115,502	536,602
2047-50	<u>322,700</u>	<u>27,266</u>	<u>349,966</u>
	<u>\$ 4,169,200</u>	<u>\$ 2,700,930</u>	<u>\$ 6,870,130</u>

Total Debt Service by Bond Series

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
Series 1995 RUS Revenue Bonds Junction City Water System	\$ 429,000	\$ 262,463	\$ 691,463
Series 2000 RUS Revenue Bonds Perryville Water System	405,200	349,272	754,472
Series 2003 Revenue Bonds	1,270,000	85,214	1,355,214
Series 2008 Rural Dev. Bonds	1,465,000	1,565,547	3,030,547
Series 2010 Rural Dev. Bonds	<u>600,000</u>	<u>438,434</u>	<u>1,038,434</u>
	<u>\$ 4,169,200</u>	<u>\$ 2,700,930</u>	<u>\$ 6,870,130</u>

Bond Covenants and Provisions

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

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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, 2011, 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, 2011 are as follows:

<u>Description of Issue</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Maturity Date Fiscal Year</u>	<u>Debt Outstanding June 30, 2011</u>
KIA Loan A89-06				
Perryville Acquisition	\$ 418,055	4.2%	2012	\$ 15,276
KIA Loan C88-06				
Junction City Acquisition	945,224	2.25 to 5.25%	2014	340,000
KIA Loan A98-08				
Treatment Plant	7,615,106	3.8%	2021	4,405,209
				<u>\$ 4,760,485</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2012	\$ 483,352	\$ 190,993	\$ 674,345
2013	488,155	170,885	659,040
2014	608,812	150,043	758,855
2015	440,070	122,847	562,917
2016	456,951	105,077	562,028
2017-2021	<u>2,283,146</u>	<u>234,142</u>	<u>2,517,288</u>
	<u>\$ 4,760,485</u>	<u>\$ 973,988</u>	<u>\$ 5,734,473</u>

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

6. LONG TERM DEBT (CONTINUED)

For the fiscal year ended June 30, 2011, 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, 2011 are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 95,000	\$ 193,490	\$ 88,490
2013	95,000	189,548	284,548
2014	100,000	185,411	285,411
2015	105,000	180,940	285,940
2016	110,000	176,228	286,228
2017-21	630,000	802,649	1,432,649
2022-26	775,000	648,200	1,423,200
2027-31	975,000	498,263	1,473,263
2032-36	1,225,000	209,234	1,434,234
2037	280,000	6,385	286,385
	<u>\$ 4,390,000</u>	<u>\$ 3,090,348</u>	<u>\$ 7,480,348</u>

Storm Water Kentucky Bond Corporation 2010 First Series A Revenue Bond

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

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 30,000	\$ 25,513	\$ 55,513
2013	30,000	24,838	54,838
2014	30,000	24,163	54,163
2015	30,000	23,488	53,488
2016	35,000	22,813	57,813
2017-21	175,000	99,450	274,450
2022-26	205,000	68,450	273,450
2027-30	195,000	22,838	217,838
	<u>\$ 730,000</u>	<u>\$ 311,553</u>	<u>\$ 1,041,553</u>

For the fiscal year ended June 30, 2011, the City is in substantial compliance with all covenants and provisions of the 2010 First Series A Revenue Bond.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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, 2011 is \$525,000.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 65,000	\$ 20,696	\$ 85,696
2013	69,000	18,113	87,113
2014	72,000	15,257	87,257
2015	76,000	12,214	88,214
2016	74,000	9,074	83,074
2017-18	<u>169,000</u>	<u>7,621</u>	<u>176,621</u>
Total	<u>\$ 525,000</u>	<u>\$ 82,975</u>	<u>\$ 607,975</u>

Municipal Facility Construction Funded by Kentucky League of Cities

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

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 153,533	\$ 287,141	\$ 440,674
2013	160,636	280,022	440,658
2014	166,628	274,029	440,657
2015	173,344	267,307	440,651
2016	179,848	260,797	440,645
2017-21	1,016,540	1,186,503	2,203,043
2022-26	1,237,809	964,874	2,202,683
2027-31	1,508,297	693,844	2,202,141
2032-36	1,838,351	363,011	2,201,362
2037-38	<u>807,174</u>	<u>36,411</u>	<u>843,585</u>
Total	<u>\$ 7,242,160</u>	<u>\$ 4,613,939</u>	<u>\$ 11,856,099</u>

For the fiscal year ended June 30, 2011, the City is in substantial compliance with all covenants and provisions of the 2009 KLC agreement.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 6,673	\$ 1,591	\$ 8,264
2013	6,897	1,367	8,264
2014	7,124	1,140	8,264
2015	7,360	905	8,265
2016	7,603	662	8,265
2017	<u>7,855</u>	<u>367</u>	<u>8,222</u>
Total	<u>\$ 43,512</u>	<u>\$ 6,032</u>	<u>\$ 49,544</u>

For the fiscal year ended June 30, 2011, 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:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 20,000	\$ 15,794	\$ 35,794
2013	20,000	15,344	35,344
2014	20,000	14,894	34,894
2015	20,000	14,444	34,444
2016	20,000	13,973	33,973
2017-2021	110,000	60,988	170,988
2022-2026	130,000	40,355	170,355
2027-2030	<u>125,000</u>	<u>11,389</u>	<u>136,389</u>
Total	<u>\$ 465,000</u>	<u>\$ 187,181</u>	<u>\$ 652,181</u>

For the fiscal year ended June 30, 2011, the City is in substantial compliance with all covenants and provisions of the KLC agreement.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

6. LONG TERM DEBT (CONTINUED)

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2011, was as follows:

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

<u>Governmental activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 209,433	\$ -	\$ (4,452)	\$ 204,981	\$ 10,789
Loan obligations:					
Amount due KLC	7,953,347	-	(142,675)	7,810,672	225,206
Amount due to KBC	-	495,000	(30,000)	465,000	20,004
Less deferred amounts	<u>(128,946)</u>	<u>-</u>	<u>(10,474)</u>	<u>(139,420)</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 8,033,834</u>	<u>\$495,000</u>	<u>\$ (187,601)</u>	<u>\$ 8,341,233</u>	<u>\$ 255,999</u>
 <u>Business-type activities</u>					
Loan obligations:					
Bonds – Utility & Parking	\$ 8,475,700	\$ 600,000	\$ (516,500)	\$ 8,559,200	\$ 537,500
Less deferred amounts:					
Issuance discounts	(160,094)	-	5,929	(154,165)	(5,930)
Refunding	<u>(205,136)</u>	<u>-</u>	<u>51,283</u>	<u>(153,853)</u>	<u>(51,283)</u>
Total bonds	<u>8,110,470</u>	<u>600,000</u>	<u>(459,288)</u>	<u>8,251,182</u>	<u>480,287</u>
KBC bond - Stormwater	-	775,000	(45,000)	730,000	30,000
Less deferred amounts:					
Refunding	<u>-</u>	<u>-</u>	<u>(23,606)</u>	<u>(23,606)</u>	<u>-</u>
Total KBC bond	<u>-</u>	<u>775,000</u>	<u>(68,606)</u>	<u>706,394</u>	<u>30,000</u>
KIA loans - Utility	5,243,655	-	(483,169)	4,760,486	483,352
Less deferred amounts:					
Refunding	<u>56,089</u>	<u>-</u>	<u>(14,022)</u>	<u>42,067</u>	<u>14,023</u>
Total KIA loans	<u>5,299,744</u>	<u>-</u>	<u>(497,191)</u>	<u>4,802,553</u>	<u>497,375</u>
Compensated absences	<u>63,244</u>	<u>-</u>	<u>6,089</u>	<u>69,333</u>	<u>3,466</u>
Business-type activities	<u>\$ 13,473,458</u>	<u>\$1,375,000</u>	<u>\$(1,018,996)</u>	<u>\$13,829,462</u>	<u>\$ 1,011,128</u>

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

7. CONDUIT DEBT OBLIGATIONS

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

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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, 2011:

<u>Type</u>	<u>From fund</u>	<u>To fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Municipal Aid	General	Street repairs	\$ 50,000
Operating	General	Museum	Operating expense	14,275
Operating	General	Cemetery	Operating expense	75,058
Operating	General	Garbage	Operating expense	118,166
Operating	General	Parking	Operating expense	246,661
				<u>\$ 504,160</u>

11. INCENTIVE PAY TO FIRE FIGHTERS

In 1980, the Kentucky General Assembly established the Professional Firefighters Foundation Program Fund with the stated purpose of upgrading the educational and training standards of local firefighters by offering pay incentives to firefighters whose departments participated in the program. The Professional Firefighters Foundation Program Fund was to be administered by the Commission on Fire Protection Personnel Standards and Education (Fire Commission). Local governments, including cities and counties with fire departments meeting certain criteria, were invited to participate by entering into a formal agreement with the Fire Commission. Under the agreements, local governments obligated themselves to comply with the requirements of KRS Chapter 95A and administrative regulations, including those that governed the receipt and allocation of the firefighter incentive pay.

For more than two decades prior to 2008, the Kentucky Labor Cabinet, using its interpretation of the applicable statutes (mainly KRS 337.285), issued regulations to inform the Fire Commission how to calculate the overtime pay owed to firefighters receiving the training incentive money. The Fire Commission instructed the participating local governments to pay the firefighters in accordance with the Labor Cabinet regulations. The City complied and paid their firefighters accordingly.

CITY OF DANVILLE, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

11. INCENTIVE PAY TO FIRE FIGHTERS, continued

In 2007, the Court of Appeals rendered a decision in *Commonwealth, Labor Cabinet v. Hasken*, in which it disagreed with the Kentucky Labor Cabinet's established formula for calculating firefighters' overtime pay. Based upon its interpretation of the applicable statutes, the Court of Appeals compelled a revision of the method for calculating the overtime pay for firefighters receiving the incentive training money. The calculation approved in *Hasken* is more generous to firefighters than the formula it replaced. As a result, local governments, including the City, that had followed the Labor Cabinet regulations had apparently underpaid their firefighters.

To comply with *Hasken*, the Labor Cabinet revised its regulation for calculating overtime pay for firefighters receiving incentive training pay. It also initiated administrative actions against the City and other municipalities on behalf of the firefighters to collect the unpaid portion of overtime pay, using the *Hasken* formula. The City and other municipalities sought to block that effort by filing the action underlying this appeal in the Franklin Circuit Court.

In August 2011 the Supreme Court of Kentucky ruled that the Kentucky Labor Cabinet was authorized to proceed with its administrative action against the City and the other municipalities across the state of Kentucky for overtime wages on incentive pay to fire fighters by ruling that the City and the other municipal governments were subject to Kentucky's wages and hours law and were not immune from lawsuits brought by the Kentucky Labor Cabinet.

The City has estimated such cost of this ruling will be approximately \$238,344, including wages, retirement, and social security. This amount has been recorded in the City's general fund financial statements as of and for the year ended June 30, 2011 in accounts payable and public safety expenditures.

12. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications primarily are the result of the adoption of GASB 54 and had no effect on net income. Fund balances remain the same; however, the breakdown between components of fund balance have been adjusted per GASB 54.

13. SUBSEQUENT EVENTS

In November 2011, the City received a letter from the Federal Emergency Management Agency (FEMA) stating that one of the projects that the City submitted to FEMA during the ice storm was approved for grant monies in the amount of \$371,914 with a required non-federal match amount of \$123,971. The project is a designated storm shelter/tornado safe room in the basement of City Hall that would need to be completed by 2013.

Subsequent to June 30, 2011, the City Commissioners approved Ordinance #1792 to increase water and sewer rates by approximately 45% due to the new water plant expansion.

The City has evaluated and considered the need to recognize or disclose subsequent events through February 7, 2012, 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, 2011, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
DEFINED BENEFIT RETIREMENT PLAN
for the year ended June 30, 2011**

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)
6/30/1999	\$ 1,287,137	\$ 2,707,399	\$ 1,420,262	48%	\$ 26,104	5441%
6/30/2000	\$ 1,153,312	\$ 2,771,517	\$ 1,618,205	42%	\$ 27,518	5881%
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%

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Police and Fire Pension Fund		
Fiscal Year	Annual Required Contributions	Percentage Contributed
1999	\$ 122,902	90%
2000	\$ 121,146	99%
2001	\$ 136,536	89%
2002	\$ 137,014	88%
2003	\$ 147,840	83%
2004	\$ 156,352	79%
2005	\$ 146,174	87%
2006	\$ 153,398	86%
2007	\$ 161,384	81%
2008	\$ 163,201	110%
2009	\$ 157,004	118%
2010	\$ 166,417	111%
2011	\$ 155,834	122%

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

	Police and Fire Pension Fund
Valuation date	July 1, 2010
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period	30 years closed
Actuarial asset valuation method	Fair market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	3.0%
Post retirement benefit increases	2.8%
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, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ 1,584,000	\$ 1,584,000	\$ 1,586,278	\$ 2,278
Licenses and fees	6,803,000	6,803,000	7,599,867	796,867
Intergovernmental revenue	507,205	507,205	264,557	(242,648)
Penalties and forfeitures	16,500	16,500	15,729	(771)
Other revenue	<u>1,007,065</u>	<u>1,007,065</u>	<u>1,023,321</u>	<u>16,256</u>
Total revenues	<u>9,917,770</u>	<u>9,917,770</u>	<u>10,489,752</u>	<u>571,982</u>
Expenditures				
Current operating				
General government	1,658,636	1,658,636	1,579,157	79,479
Public services	990,786	990,786	1,080,714	(89,928)
Public safety	6,411,739	6,411,739	5,900,303	511,436
Community services	1,000,541	1,000,541	943,725	56,816
Debt service	509,528	509,528	447,761	61,767
Capital outlay	<u>1,556,566</u>	<u>1,556,566</u>	<u>913,830</u>	<u>642,736</u>
Total expenditures	<u>12,127,796</u>	<u>12,127,796</u>	<u>10,865,490</u>	<u>1,262,306</u>
Excess (deficiency) of revenues over expenditures	(2,210,026)	(2,210,026)	(375,738)	1,834,288
Other financing sources (uses)				
Transfers (to) from other funds, net	(404,160)	(404,160)	(404,160)	-
Sale of property	-	-	10,000	10,000
Loan proceeds	<u>580,000</u>	<u>580,000</u>	<u>495,000</u>	<u>(85,000)</u>
Total other financing sources (uses)	175,840	175,840	100,840	(75,000)
Excess (deficiency) of revenues over expenditures and transfers	(2,034,186)	(2,034,186)	(274,898)	1,759,288
Fund balance, beginning of year	<u>4,080,789</u>	<u>4,080,789</u>	<u>4,019,001</u>	<u>(61,788)</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,046,603</u></u>	<u><u>\$ 2,046,603</u></u>	<u><u>\$ 3,744,103</u></u>	<u><u>\$ 1,697,500</u></u>

CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES - BUDGET AND ACTUAL
for the year ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Real and personal property	\$ 1,324,000	\$ 1,324,000	\$ 1,302,703	\$ (21,297)
Tangible property	230,000	230,000	241,328	11,328
PILOT - Housing Authority	<u>30,000</u>	<u>30,000</u>	<u>42,247</u>	<u>12,247</u>
Total taxes	<u>1,584,000</u>	<u>1,584,000</u>	<u>1,586,278</u>	<u>2,278</u>
Licenses and fees				
Payroll licenses	4,000	4,000	10,512	6,512
Insurance licenses	1,300,000	1,300,000	1,168,103	(131,897)
Occupational licenses	4,177,750	4,177,750	4,737,872	560,122
Net profits	370,750	370,750	516,169	145,419
Liquor licenses	288,000	288,000	432,110	144,110
Franchise fees-Rural Electric Cooperative Corporation	18,500	18,500	22,583	4,083
Franchise fees-Kentucky Utilities	435,000	435,000	502,152	67,152
Franchise fees-Comcast	110,000	110,000	109,952	(48)
Franchise fees-Bank	93,000	93,000	99,914	6,914
Other licenses and fees	<u>6,000</u>	<u>6,000</u>	<u>500</u>	<u>(5,500)</u>
Total licenses and fees	<u>6,803,000</u>	<u>6,803,000</u>	<u>7,599,867</u>	<u>796,867</u>
Intergovernmental revenue				
Firefighters' grant	239,605	239,605	523	(239,082)
Police grant	19,350	19,350	283	(19,067)
Firefighters' incentive	99,250	99,250	98,395	(855)
Law enforcement incentive	122,000	122,000	113,237	(8,763)
BASE court	27,000	27,000	26,107	(893)
Other intergovernmental revenue	<u>-</u>	<u>-</u>	<u>26,012</u>	<u>26,012</u>
Total intergovernmental revenue	<u>507,205</u>	<u>507,205</u>	<u>264,557</u>	<u>(242,648)</u>
Fines and forfeitures				
Arrest fees	<u>16,500</u>	<u>16,500</u>	<u>15,729</u>	<u>(771)</u>
Total fines and forfeitures	<u>16,500</u>	<u>16,500</u>	<u>15,729</u>	<u>(771)</u>
Loan proceeds				
Loan for dump truck	80,000	80,000	-	(80,000)
Loan for fire truck	<u>500,000</u>	<u>500,000</u>	<u>495,000</u>	<u>(5,000)</u>
Total loan proceeds	<u>580,000</u>	<u>580,000</u>	<u>495,000</u>	<u>(85,000)</u>
Other revenue				
Community tower rental	84,150	84,150	76,788	(7,362)
Fire protection	22,000	22,000	22,691	691
Community contracts	42,400	42,400	42,229	(171)
Management fees	772,115	772,115	751,776	(20,339)
Building rental	200	200	51	(149)
Change in fair value of investments	-	-	(4,179)	(4,179)
Interest	20,000	20,000	46,709	26,709
Tobacco crop	1,200	1,200	1,327	127
Boyle County cost sharing	60,000	60,000	60,174	174
Insurance proceeds	-	-	14,535	14,535
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>11,220</u>	<u>6,220</u>
Total other revenue	<u>1,007,065</u>	<u>1,007,065</u>	<u>1,023,321</u>	<u>16,256</u>
Total revenue	<u>\$ 10,497,770</u>	<u>\$ 10,497,770</u>	<u>\$ 10,984,752</u>	<u>\$ 486,982</u>

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
for the year ended June 30, 2011**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General government				
Legislative and executive				
Personnel	\$ 500,739	\$ 500,739	\$ 498,347	\$ 2,392
Contractual	194,450	194,450	243,431	(48,981)
Other	<u>51,000</u>	<u>51,000</u>	<u>43,803</u>	<u>7,197</u>
Total legislative and executive	<u>746,189</u>	<u>746,189</u>	<u>785,581</u>	<u>(39,392)</u>
Finance and administration				
Personnel	282,656	282,656	247,879	34,777
Contractual	373,850	373,850	350,013	23,837
Other	<u>29,200</u>	<u>29,200</u>	<u>14,192</u>	<u>15,008</u>
Total finance and administration	<u>685,706</u>	<u>685,706</u>	<u>612,084</u>	<u>73,622</u>
Information technology				
Personnel	117,821	117,821	83,514	34,307
Contractual	19,650	19,650	20,250	(600)
Other	<u>28,900</u>	<u>28,900</u>	<u>19,138</u>	<u>9,762</u>
Total information technology	<u>166,371</u>	<u>166,371</u>	<u>122,902</u>	<u>43,469</u>
Geographical information systems				
Personnel	45,670	45,670	48,066	(2,396)
Contractual	3,700	3,700	3,674	26
Other	<u>11,000</u>	<u>11,000</u>	<u>6,850</u>	<u>4,150</u>
Total geographical information systems	<u>60,370</u>	<u>60,370</u>	<u>58,590</u>	<u>1,780</u>
Total general government	<u>1,658,636</u>	<u>1,658,636</u>	<u>1,579,157</u>	<u>79,479</u>
Public services				
Personnel	284,536	284,536	283,072	1,464
Contractual	574,750	574,750	610,958	(36,208)
Other	<u>131,500</u>	<u>131,500</u>	<u>186,684</u>	<u>(55,184)</u>
Total public services	<u>990,786</u>	<u>990,786</u>	<u>1,080,714</u>	<u>(89,928)</u>
Total public services	<u>990,786</u>	<u>990,786</u>	<u>1,080,714</u>	<u>(89,928)</u>
Public safety				
Police department				
Personnel	2,563,513	2,563,513	2,379,757	183,756
Contractual	186,400	186,400	139,198	47,202
Other	<u>190,250</u>	<u>190,250</u>	<u>172,062</u>	<u>18,188</u>
Total police department	<u>2,940,163</u>	<u>2,940,163</u>	<u>2,691,017</u>	<u>249,146</u>
Communications and administration services				
Personnel	531,091	531,091	503,489	27,602
Contractual	32,250	32,250	35,716	(3,466)
Other	<u>12,250</u>	<u>12,250</u>	<u>9,535</u>	<u>2,715</u>
Total communications and administration services	<u>575,591</u>	<u>575,591</u>	<u>548,740</u>	<u>26,851</u>

**CITY OF DANVILLE, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL, CONTINUED
for the year ended June 30, 2011**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public safety, continued				
Code enforcement				
Personnel	\$ 189,513	\$ 189,513	\$ 179,012	\$ 10,501
Contractual	6,000	6,000	(12,329)	18,329
Other	12,050	12,050	4,827	7,223
Total code enforcement	<u>207,563</u>	<u>207,563</u>	<u>171,510</u>	<u>36,053</u>
Fire and emergency services				
Personnel	2,412,797	2,412,797	2,203,362	209,435
Contractual	171,375	171,375	176,004	(4,629)
Other	104,250	104,250	109,670	(5,420)
Total fire and emergency services	<u>2,688,422</u>	<u>2,688,422</u>	<u>2,489,036</u>	<u>199,386</u>
Total public safety	<u>6,411,739</u>	<u>6,411,739</u>	<u>5,900,303</u>	<u>511,436</u>
Community services				
Community agencies				
Grants	126,700	126,700	126,700	-
Non-departmental				
Grants	334,556	334,556	304,565	29,991
Police and fire retirement	190,000	190,000	190,000	-
Economic development initiative	120,000	120,000	295,000	(175,000)
Contingency - general fund	150,285	150,285	2,023	148,262
Loan costs	20,000	20,000	15,873	4,127
Insurance/judgement/claims	19,000	19,000	22,372	(3,372)
Workers' comp audit	20,000	20,000	(12,808)	32,808
Bird eradication	20,000	20,000	-	20,000
Total non-departmental	<u>873,841</u>	<u>873,841</u>	<u>817,025</u>	<u>56,816</u>
Total community services	<u>1,000,541</u>	<u>1,000,541</u>	<u>943,725</u>	<u>56,816</u>
Debt service				
CERS	83,951	83,951	83,951	-
City Hall	366,921	366,921	363,810	3,111
Fire truck	37,154	37,154	-	37,154
Park	8,269	8,269	-	8,269
Dump truck	13,233	13,233	-	13,233
Total debt service	<u>509,528</u>	<u>509,528</u>	<u>447,761</u>	<u>61,767</u>
Capital outlay				
Facilities	500,000	500,000	265,217	234,783
Fire department	767,216	767,216	514,470	252,746
Public services	80,000	80,000	-	80,000
Police department	209,350	209,350	134,143	75,207
Other	-	-	-	-
Total capital outlay	<u>1,556,566</u>	<u>1,556,566</u>	<u>913,830</u>	<u>642,736</u>
Total expenditures	<u>\$ 12,127,796</u>	<u>\$ 12,127,796</u>	<u>\$ 10,865,490</u>	<u>\$ 1,262,306</u>

**CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011**

	<u>Municipal Road Aid Fund</u>	<u>Police Safety Fund</u>	<u>Drug Forfeiture Fund</u>	<u>Hazard Mitigation Fund</u>	<u>Renaissance Fund</u>	<u>Streetscape Fund</u>	<u>Toys For Tots Fund</u>	<u>Other Expendable Trust Fund</u>	<u>Park Nonexpendable Trust Funds</u>	<u>Cemetery Nonexpendable Trust Fund</u>	<u>Total</u>	<u>2010 Total</u>
ASSETS												
Cash and cash equivalents	\$ 453,285	\$ -	\$ 36,353	\$ 25,610	\$ 51,516	\$ 40,160	\$ 10,746	\$ 26,482	\$ 4,920	\$ 24,287	\$ 673,359	\$ 490,679
Investments	-	-	-	-	-	-	-	5,802	-	-	5,802	5,727
Total assets	<u>\$ 453,285</u>	<u>\$ -</u>	<u>\$ 36,353</u>	<u>\$ 25,610</u>	<u>\$ 51,516</u>	<u>\$ 40,160</u>	<u>\$ 10,746</u>	<u>\$ 32,284</u>	<u>\$ 4,920</u>	<u>\$ 24,287</u>	<u>\$ 679,161</u>	<u>\$ 496,406</u>
LIABILITIES AND FUND BALANCE												
Accounts payable	\$ 163,216	\$ 2,146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,362	\$ 1,840
Accrued wages	-	198	-	-	-	-	-	-	-	-	198	-
Accrued payroll taxes & benefits payable	-	15	-	-	-	-	-	-	-	-	15	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>163,216</u>	<u>2,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,575</u>	<u>1,840</u>
Fund balance, restricted	-	-	-	-	-	-	-	-	4,920	24,287	29,207	29,011
Fund balance, unassigned	<u>290,069</u>	<u>(2,359)</u>	<u>36,353</u>	<u>25,610</u>	<u>51,516</u>	<u>40,160</u>	<u>10,746</u>	<u>32,284</u>	<u>-</u>	<u>-</u>	<u>484,379</u>	<u>465,555</u>
Total fund balance	<u>290,069</u>	<u>(2,359)</u>	<u>36,353</u>	<u>25,610</u>	<u>51,516</u>	<u>40,160</u>	<u>10,746</u>	<u>32,284</u>	<u>4,920</u>	<u>24,287</u>	<u>513,586</u>	<u>494,566</u>
Total liabilities and fund balance	<u>\$ 453,285</u>	<u>\$ -</u>	<u>\$ 36,353</u>	<u>\$ 25,610</u>	<u>\$ 51,516</u>	<u>\$ 40,160</u>	<u>\$ 10,746</u>	<u>\$ 32,284</u>	<u>\$ 4,920</u>	<u>\$ 24,287</u>	<u>\$ 679,161</u>	<u>\$ 496,406</u>

**CITY OF DANVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2011**

	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	Total	2010 Total
REVENUES												
Intergovernmental	\$ 342,319	\$ 8,413	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350,732	\$ 317,458
Penalties and forfeitures	-	-	11,373	-	-	-	-	-	-	-	11,373	5,905
Other revenues	<u>2,502</u>	<u>5</u>	<u>206</u>	<u>173</u>	<u>349</u>	<u>278</u>	<u>29,404</u>	<u>254</u>	<u>33</u>	<u>163</u>	<u>33,367</u>	<u>32,449</u>
Total revenues	344,821	8,418	11,579	173	349	278	29,404	254	33	163	395,472	355,812
EXPENDITURES												
Public safety	-	11,913	4,422	-	-	-	-	-	-	-	16,335	17,126
Public services	280,386	-	-	-	-	2,003	-	-	-	-	282,389	130,319
Community services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,275</u>	<u>-</u>	<u>25,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,728</u>	<u>40,573</u>
Total expenditures	280,386	11,913	4,422	-	2,275	2,003	25,453	-	-	-	326,452	188,018
Excess (deficiency) of revenues over expenditures	64,435	(3,495)	7,157	173	(1,926)	(1,725)	3,951	254	33	163	69,020	167,794
Transfers (to) from other funds	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>(151,036)</u>
Excess (deficiency) of revenues over expenditures and transfers	14,435	(3,495)	7,157	173	(1,926)	(1,725)	3,951	254	33	163	19,020	16,758
Fund balance, beginning of year	<u>275,634</u>	<u>1,136</u>	<u>29,196</u>	<u>25,437</u>	<u>53,442</u>	<u>41,885</u>	<u>6,795</u>	<u>32,030</u>	<u>4,887</u>	<u>24,124</u>	<u>494,566</u>	<u>477,808</u>
Fund balance, end of year	<u>\$ 290,069</u>	<u>\$ (2,359)</u>	<u>\$ 36,353</u>	<u>\$ 25,610</u>	<u>\$ 51,516</u>	<u>\$ 40,160</u>	<u>\$ 10,746</u>	<u>\$ 32,284</u>	<u>\$ 4,920</u>	<u>\$ 24,287</u>	<u>\$ 513,586</u>	<u>\$ 494,566</u>

**CITY OF DANVILLE, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR PROPRIETARY FUNDS
June 30, 2011**

	<u>Garbage Fund</u>	<u>Cemetery Fund</u>	<u>Museum Fund</u>	<u>Storm Water</u>	<u>2011 Total</u>	<u>2010 Total</u>
ASSETS						
Current assets						
Cash and cash equivalents	\$ -	\$ -	\$ 1,982	\$ 303,974	\$ 305,956	\$ 48,329
Accounts receivable, net of allowance for uncollectible accounts of \$126,065	44,275	14,126	-	37,798	96,199	93,370
Investments	-	110,917	-	-	110,917	126,267
Due from (to) other funds	36,149	(10,159)	-	(2,525)	23,465	(50,021)
Prepaid expenses and other assets	-	-	-	1,928	1,928	-
Total current assets	<u>80,424</u>	<u>114,884</u>	<u>1,982</u>	<u>341,175</u>	<u>538,465</u>	<u>217,945</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	-	-	379,621	379,621	-
Capital assets, net	-	84,730	371,210	905,022	1,360,962	1,094,814
Total noncurrent assets	<u>-</u>	<u>84,730</u>	<u>371,210</u>	<u>1,284,643</u>	<u>1,740,583</u>	<u>1,094,814</u>
Total assets	<u>\$ 80,424</u>	<u>\$ 199,614</u>	<u>\$ 373,192</u>	<u>\$ 1,625,818</u>	<u>\$ 2,279,048</u>	<u>\$ 1,312,759</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 70,446	\$ 2,326	\$ -	\$ 51,142	\$ 123,914	\$ 108,907
Accrued expenses	-	2,316	-	17,846	20,162	5,703
Current portion of compensated absences	-	78	-	179	257	220
Current portion of bonds and notes payable	-	-	-	30,000	30,000	-
Total current liabilities	<u>70,446</u>	<u>4,720</u>	<u>-</u>	<u>99,167</u>	<u>174,333</u>	<u>114,830</u>
Non-current liabilities						
Bonds and notes payables	-	-	-	676,394	676,394	-
Compensated absences, net of current portion	-	1,486	-	3,406	4,892	4,172
Total non-current liabilities	<u>-</u>	<u>1,486</u>	<u>-</u>	<u>679,800</u>	<u>681,286</u>	<u>4,172</u>
Total liabilities	<u>70,446</u>	<u>6,206</u>	<u>-</u>	<u>778,967</u>	<u>855,619</u>	<u>119,002</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	84,730	371,210	198,628	654,568	1,094,814
Net assets, restricted	-	-	-	-	-	-
Net assets, unrestricted	<u>9,978</u>	<u>108,678</u>	<u>1,982</u>	<u>648,223</u>	<u>768,861</u>	<u>98,943</u>
Total net assets	<u>9,978</u>	<u>193,408</u>	<u>373,192</u>	<u>846,851</u>	<u>1,423,429</u>	<u>1,193,757</u>
Total liabilities and net assets	<u>\$ 80,424</u>	<u>\$ 199,614</u>	<u>\$ 373,192</u>	<u>\$ 1,625,818</u>	<u>\$ 2,279,048</u>	<u>\$ 1,312,759</u>

**CITY OF DANVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
for the year ended June 30, 2011**

	Garbage Fund	Cemetery Fund	Museum Fund	Storm Water	2011 Total	2010 Total
Revenues						
Fees for services	\$ 737,625	\$ 102,763	\$ -	\$ 576,805	\$ 1,417,193	\$ 1,310,326
Other revenues	<u>21,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,118</u>	<u>32,417</u>
Total revenues	758,743	102,763	-	576,805	1,438,311	1,342,743
Operating Expenses						
Personnel	-	79,141	-	229,155	308,296	319,065
Contractual	861,942	81,062	14,546	84,074	1,041,624	869,467
Depreciation	-	3,843	13,536	13,140	30,519	21,892
Other expenses	<u>-</u>	<u>32,578</u>	<u>-</u>	<u>17,438</u>	<u>50,016</u>	<u>9,770</u>
Total operating expenses	861,942	196,624	28,082	343,807	1,430,455	1,220,194
Operating income (loss)	<u>(103,199)</u>	<u>(93,861)</u>	<u>(28,082)</u>	<u>232,998</u>	<u>7,856</u>	<u>122,549</u>
Nonoperating revenues (expenses)						
Investment earnings	114	10,894	20	1,360	12,388	16,842
Other revenues (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,929</u>	<u>1,929</u>	<u>-</u>
Total nonoperating revenues (expenses)	114	10,894	20	3,289	14,317	<u>16,842</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(103,085)	(82,967)	(28,062)	236,287	22,173	139,391
Transfers from other funds	<u>118,166</u>	<u>75,058</u>	<u>14,275</u>	<u>-</u>	<u>207,499</u>	<u>122,000</u>
Change in net assets	15,081	(7,909)	(13,787)	236,287	229,672	261,391
Net assets, beginning of year	<u>(5,103)</u>	<u>201,317</u>	<u>386,979</u>	<u>610,564</u>	<u>1,193,757</u>	<u>932,366</u>
Net assets, end of year	<u>\$ 9,978</u>	<u>\$ 193,408</u>	<u>\$ 373,192</u>	<u>\$ 846,851</u>	<u>\$ 1,423,429</u>	<u>\$ 1,193,757</u>

**CITY OF DANVILLE, KENTUCKY
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor and Board of Commissioners
City of Danville
Danville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Danville (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
February 7, 2012

**CITY OF DANVILLE, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Danville, Kentucky's compliance with the types of compliance requirements described in the **U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that could have a direct and material effect on each of the City of Danville's major federal programs for the year ended June 30, 2011. The City of Danville, Kentucky's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Danville, Kentucky's management. Our responsibility is to express an opinion on City of Danville, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Danville, Kentucky's compliance with those requirements and performing such other procedures, as we considered necessary in these circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Danville, Kentucky's compliance with those requirements.

In our opinion, the City of Danville, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

**CITY OF DANVILLE, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

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

This report is intended solely for the information of management, Commission, and appropriate federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
February 7, 2012

CITY OF DANVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Award Amount	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through Kentucky Department for Local Government Community Development Block Grant/State's Program (State-Administered Small Cities Program)					
	14.228	08-027	07/20/2009 -12/31/2011	\$ 1,300,000	\$ 1,164,831
U.S. DEPARTMENT OF AGRICULTURE					
Appalachian Regional Development	23.001			500,000	110,846
Water and Waste Disposal Systems for Rural Communities	10.781			<u>474,000</u>	<u>343,088</u>
Total				<u>\$ 2,274,000</u>	<u>\$ 1,618,765</u> *

***Denotes Major Program**

Basis of Presentation

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

**CITY OF DANVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2011**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNo

Non-compliance material to financial statements noted __Yes XNo

Federal Awards:

Internal control over major programs:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNone reported

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

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133? __Yes XNo

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	U.S. Department of Housing and Urban Development Passed through Kentucky Department for Local Government Community Development Block Grant/State's Program (State-Administered Small Cities Program)
10.781	U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as a low-risk auditee? __Yes XNo