

CITY OF DANVILLE, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2020



Prepared by:

The Department of Finance
City of Danville, Virginia



CITY OF DANVILLE, VIRGINIA

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INTRODUCTORY SECTION





City of Danville

December 9, 2020

To the Honorable Mayor, Members of the City Council, and the Citizens of the City of Danville:

State law requires all local governments to file, annually with the Auditor of Public Accounts, a detailed statement prepared according to the Auditor's specifications showing the amount of revenues, expenditures, and fund balances of the locality for the preceding fiscal year, accompanied by the locality's audited financial report. Pursuant to the requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Danville, Virginia, for the fiscal year ended June 30, 2020.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City of Danville. The financial reporting entity includes all of the funds of the City, as well as all of its component units for which the City is financially accountable. Management assumes full responsibility for the completeness and reliability of all the information presented in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Danville. All disclosures necessary to enable the reader to gain an understanding of the City of Danville's financial activities have been included.

Brown, Edwards & Company, LLP, licensed certified public accountants, has audited the City of Danville's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. Tests were made of the City's internal control structure and of its compliance with applicable laws and regulations.

Governmental Accounting Standards Board Statement No. 34 requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The purpose of the transmittal letter is to complement the MD&A and should be read in conjunction with it. The City's MD&A starts on page 4a of this report.

Profile of the Government

The City of Danville was founded in 1793, chartered in 1830, and is located on the Dan River in the southern part of the state. The City covers an area of approximately 44 square miles and has a population of approximately 40,590.

The City operates under the council-manager form of government. Policymaking and legislative authority is vested in the City Council, which consists of nine members including a mayor and vice-mayor. Council members are elected at large on a nonpartisan basis to serve four-year terms. The elections are held biennially with five members being elected in one biennium and four in the next. Members of the council elect the Mayor and Vice-Mayor from its membership. The City Council is responsible for passing ordinances, adopting the budget, appointing committee and board members, and hiring the City Manager and City Attorney. The City Manager is the chief executive and is responsible for carrying out the policies and ordinances of City Council, overseeing the day-to-day operations of the City, and appointing department heads.

The City provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition to the general government activities, the City provides mass transit, water and wastewater treatment, gas, fiber network, and electric services. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government and to differentiate their financial position and results of operations and cash flows from those of the primary government, including the Danville School Board and the Industrial Development Authority.

The City of Danville's annual budget serves as the foundation for financial planning and control. The object of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Departments are required to submit requests for appropriations to the Budget Director by mid-December of each year. The Budget Director uses these requests as a starting point for developing a work budget. The City Manager, in conjunction with the budget team, reviews departmental requests along with mandated costs and expected revenues. Once a complete budget is developed, it is presented as a recommended budget to the City Council by April 1 for review and deliberation. After City Council's approval, an introduction budget is released by April 30. The introduction budget contains all changes and amendments made by the City Council during its budget review. It is the introduction budget that is submitted for public hearing. City Council is required to adopt a final budget by June 30 each year.

Activities of the General Fund are included in the annual appropriations budget. Project-length budgets are adopted for management control for the Enterprise and Internal Service Funds. The City Manager has the authority to transfer appropriations within funds. Inter-fund transfers and appropriations from fund balance/net assets require City Council approval. The General Fund is the only governmental fund that has a legally adopted budget; therefore, a budget-to-actual comparison is provided.

Local Economy

While Danville has been relatively successful in revitalizing its economy in recent years, this growth has been throttled during the corona virus pandemic. In spite of the inevitable negative impacts from reduced overall activity, development has not ceased in the River District. Visible signs of ongoing construction and rehabilitation meet the eye of visitors to the District, and although some delays have occurred, the vitality of revitalization is still very apparent.

As have many other locations across the nation, Danville has dealt with the demise of several major retailers. It is noteworthy that, despite the loss, sales tax revenue for the City of Danville decreased only 0.86% from fiscal year 2019. Additionally, sales tax revenue received by the City for the first quarter of FY 2021 actually exceeded that for Q1 FY 2020. Consumer buying patterns continue to support established discount retailers and wholesale warehouse retailers. To provide more resources for consumer activity, Danville is encouraging its entrepreneurs to establish specialty retail shops. This strategy supports the renovation of older structures throughout the city while simultaneously providing an attraction for retail sales that is critically important to maintain and increase sales tax revenue.

Supporting the City's recruiting emphasis on higher paying, highly skilled jobs in the on-line retail sector, Averett University is in the process of establishing an Entrepreneurship and Innovation Department. This program is forecasted to be highly beneficial to the development of specialty businesses while providing internship opportunities for Averett students. Although brand new, the program is already working to place start-up operations in Danville that will provide novel data processing services for on-line retail.

The River District as a market rate residential district continues to perform well. Apartment development is continuing with rental rates consistent with rates in neighboring communities. Occupancy rates remain in the mid-to-upper ninety percent range with waiting lists the rule. Unfortunately, the food service establishments in the River District have been more negatively impacted by the pandemic. The City has worked cooperatively with restaurants to establish more outdoor dining capacity and enhanced marketing efforts, but that does not compensate entirely for the loss of indoor capacity for both food and cocktails.

With respect to redevelopment of property inside the City, the biggest news for 2020 is the announcement that Caesars Entertainment will pursue an opportunity to establish a casino, hotel, conference center, performance facility, and numerous bars and restaurants on the former Dan River Inc. manufacturing site in the district known locally as Schoolfield. The voters in Danville

overwhelmingly passed a referendum during the general election in November 2020 permitting the establishment of a casino within the legal boundaries of the City of Danville.

Once the development is fully built and Caesars has all the components in full operation, the total tax and fee revenue to the City is estimated to be almost forty million dollars annually. The written agreement between Caesars Virginia and the City of Danville commits Caesars to a minimum capital investment of four hundred million dollars to establish the resort complex on West Main Street in Schoolfield.

Both the City and Caesars have committed to use professional expertise to manage the redevelopment of the areas around the resort site. A vision to beautify the entrance to the City along West Main Street from the City Limits to the Schoolfield resort site will, we believe, have a major impact on the attractiveness of Danville to a myriad of prospects.

Although construction projects and expansion and retrofitting projects have slowed somewhat as a result of the pandemic, Danville continues to see an increased level of interest for new commercial and industrial projects. In the Airside Industrial Park, PRA is hiring staff for the Danville operation. The retrofitting of the structure from the previous tenant is complete and the company is pleased with the facility.

Litehouse Inc. is well along on its nearly twenty million dollar expansion of the former Sky Valley Foods site. This project benefitted from New Markets Tax Credits that were awarded to the Community Development Entity of Danville by the U. S. Department of the Treasury. Litehouse's packaging mix has adapted to the changing buying patterns resulting from the pandemic, and as restaurant and commercial demand has decreased, domestic consumption has grown. The development of the Danville site to include a large refrigerated storage facility will provide an opportunity for the company to respond quickly to changes in market demand for its products.

Danville's Institute for Advanced Learning and Research recently celebrated a ribbon cutting for a new GO TEC Lab built to support Region 3 of the Commonwealth's Go Virginia effort. This center will be used primarily to train teachers to begin instruction in middle school for students to learn precision welding, metalworking (cutting and milling), metrology, and cyber skills. The investment in this program comes from a combination of public and private funding. The region has experienced success with its secondary school/community college/capstone program, and the concept is to get both students and parents involved sooner in the decision making process for career choice. The availability of skilled tradesmen makes Danville especially attractive to potential employers.

Danville continues to watch the development of its advanced technology, entrepreneurial start-up businesses in the Dan River Development Center. Both Tyton Bioscience and eBIO have had very promising contacts with major companies. In this instance, like others, the pandemic has caused some delays in getting commercial efforts underway. Both entities, however, expect to have real commercialization progress during FY 2021. The chemical technology that these two businesses are incorporating in their work is novel and for many applications, it is game changing.

A target identified by the City Council of Danville is to grow the population of the City. This target is supported by two other targets of the Council: improved public education, and active economic development. Public education is the issue requiring the most immediate improvement to make

the economic growth strategy of the City come to fruition. There is work underway to address the problem of school accreditation and the relatively low four year graduation rate of secondary school students. To achieve the level of excellence that the City desires will require time, creativity, and capital funding. The development of an outstanding early childhood development program is well underway, and it is being funded with both public and private money. The local effort has been recognized across Virginia and will ultimately pay dividends in student performance and achievement

Despite the restrictions on travel that have been imposed by the pandemic, Danville continues to receive inquiries and visits from prospective businesses. There is strong evidence that cooperative economic development between an independent city and the surrounding county will yield superior results to a locale where there is rampant competition between the jurisdictions. With the continued support of public and private leadership from both the City of Danville and Pittsylvania County, the goal of growing a diversified employment base and attracting citizens and businesses who will become contributing members of the region will be realized.

Long Term Financial Planning

The City prepares a five-year Capital Improvements Plan (CIP), with the first year funding appropriated and the remaining four year for planning purposes only. Project appropriations for the coming year include: General Fund Capital Improvements of \$39,142,998; Sewer and Wastewater Capital Improvements of \$4,150,000; Water and Gas Capital Improvements of \$9,000,000 and Electric and Telecom Capital Improvements of \$6,800,000.

The Regional Industrial Facility Authority (RIFA) resulted from a regional effort between the City of Danville and Pittsylvania County. RIFA is responsible for creating a 330-acre technology park, known as the Cyber Park. The park has state-of-the-art infrastructure for unparalleled reliability including a High Reliability Electrical Distribution System. The Institute for Advanced Learning and Research (IALR) and the Regional Center for Applied Technology and Training (RCATT) anchor the Cyber Park. RIFA constructed the Research Addition, which is being leased to the IALR for private research and development.

Also part of the Cyber Park are CBN Secure Technologies, Inc.; Electronic Instrumentation and Technology, LLC (EIT); NextGen Aeronautics; Sustainable Energy Technology Center (SNETEC) and Kyocera SGC Tech Hub. CBN opened its high-security production facility in early 2009. This facility produces driver's licenses and identification cards for the Virginia Department of Motor Vehicles. CBN has completed two expansions: first in March 2011 including 25 new jobs and an investment of \$1.1 million and a second expansion in April 2013 that included 25 additional jobs and an investment of \$8.2 million. EIT opened its second facility in Danville and first in the Cyber Park with the construction of a 60,000-square-foot facility. The expansion, completed in May 2012, created 50 new jobs and a capital investment of \$5 million. EIT provides printed circuit boards for military, information technology, and electrical contractors. The EIT Cyber Park facility employs 35 people.

In May 2017, a groundbreaking ceremony was held for Kyocera SGS Tech Hub LLC for the construction of a 30,000 square-foot facility to research, develop and manufacture solid carbide

rotary cutting tools. In September 2018, the building construction was completed. Kyocera SGS has invested \$9.5 million in capital and has committed to bring 35 new jobs to the Cyber Park. BGF Industries, Inc., a leading U.S. manufacturer of high-performance technical fiber materials for global markets, announced its plans to relocate its corporate headquarters and R&D operation to the Cyber Park in October 2018. The company will invest at least \$7 million and create 65 jobs over three years.

In November 2018, Harlow Group Ltd., a British-based provider of precision engineered, fabricated, machined, and 3D printed additive components, announced its plan to locate its first U.S. precision sheet metal fabrication plant, Harlow Fastech, in the Cyber Park. The company will also establish a U.S. Training Center of Excellence, a new facility with a focus on additive manufacturing in the Cyber Park. Various incentives are being offered in exchange for up to \$8 million in investment by the company and the creation of 49 full-time jobs.

In July 2019, Gefertec LLC entered into an agreement to establish its first North American Application Center for 3D metal printing/additive manufacturing within the Institute for Advanced Learning and Research. The project is expected to create eight new jobs and includes \$1.9 million in capital investment. The Tobacco Region Revitalization Commission has committed a Tobacco Region Opportunity Fund (TROF) grant of \$45,000, which would be paid upon performance. Additionally, RIFA will cover the cost of two years of temporary space at the Institute for Advanced Learning and Research. The company will launch at IALR before moving to a permanent space in Danville/Pittsylvania County in the future.

In September 2017, Unison Ltd., a United Kingdom based manufacturer of electronically actuated pipe bending and automation machinery announced its plan to open its first U.S. manufacturing in Cane Creek Centre. The company plans a capital investment of \$5.2 million in equipment and facility and create 35 new jobs in the first three years and an additional 55 new jobs in five years.

In October 2019, Morgan Olson L.L.C., a maker of walk-in van bodies, announced its intention to purchase a building owned by IKEA Factory and locate a new assembly operation in that Cane Creek Centre site. Morgan Olson is a wholly owned subsidiary of J. B. Poindexter & Co, Inc., a diversified manufacturing company headquartered in Houston, Texas. The \$57.8 million investment is expected to generate 703 new jobs.

Just Greens, LLC (doing business as AeroFarms) announced in April 2020 that it will establish and operate a vegetable growing and processing facility in Cane Creek Centre. AeroFarms will invest \$42 million to build their largest, most sophisticated indoor vertical farm to date and create 92 new jobs.

Another collaborative effort of RIFA is the creation of the Southern Virginia Megasite at Berry Hill, formerly known as Berry Hill Industrial Park, located west of Danville in the Berry Hill community of Pittsylvania County. RIFA regards this Tier 5 Certified Mega Site project to be the next stage in its economic development effort to transform the region and its work force. The park has approximately 3,500 acres, and is the largest site in Virginia and fifth largest on the East Coast. RIFA is working in connection with Eden and Rockingham County, North Carolina, to extend the sewer line to the state border where the City will continue this line to the site. This arrangement is a true partnership between localities in two states as residents of North Carolina will likely become employees of the future plants. RIFA received a \$6 million Tobacco Commission Mega Site grant in 2012 to grade approximately 400 acres on two sites, so clients

can be shown “shovel ready” sites. RIFA has now obtained the necessary permits from federal and state regulatory agencies and has begun grading of a large site.

Utility Financial Solutions is currently completing the comprehensive biennial rate study for fiscal years 2022/2023. The electric power cost adjustment factor changed monthly with the implementation of a seasonal rate from a low of \$.0005/kWh to a high of \$.025/Kwh during fiscal year 2020 while the purchase gas adjustment trended with the gas commodity cost.

Contractor crews completed construction of substation upgrade projects at Riverside and Schoolfield substations. The Riverside project was completed in May 2020 and the Schoolfield project will be completed in December 2020. Other projects include the interconnection to two behind-the-meter (12 MW) solar array projects in Ringgold (completed in November 2020) and one interconnection in Whitmell (10 MW completed in August 2020). Additionally, a multi-year replacement of existing streetlights with LED lights was completed in 2020.

In 2007, Danville Utilities entered into a rolling 20-year natural gas contract with MuniGas that has provided a discount on our wholesale gas purchases. This discount produced a cost savings of \$850,703 in 2020, which was in turn passed on to the customers.

During FY 2020, the Water & Gas Division installed new gas mains in part of two phases of a 23 phase multi-year project. City crews and contractors completed this work. New water mains or main segments were installed in conjunction with the gas mains in these two areas when deemed necessary.

Replacement of priority infrastructure equipment continues at the City's Northside Wastewater Treatment Plant (NSWWTP). Replacement equipment includes influent pumps and return activated sludge pumps. In addition, a purchase order for the conversion from gaseous chlorine to sodium hypochlorite has been issued to Inframark. The design drawings are nearly complete and project completion is expected during the later months of 2021 fiscal year. The NSWWTP has a rated capacity of 20 million gallons per day (MGD).

There have been no significant taste and odor issues with the drinking water within the last year. The process of refurbishing the filter gallery from hydraulic to electric actuators and installing environment controls began in late 2019 and concluded in September 2020. The use of the Dan River reservoir to be utilized as a secondary storage of raw water in the event of source water contamination or high turbidity has reached construction stage with bids currently in the evaluation stage. The water treatment plant capacity is 18 MGD and current production is an average of 4.67 MGD.

The nDanville fiber to the home expansion continued in FY2020 with 258 total homes connected and approximately 2138 homes passed. Future expansions will continue each year as funds allow until all Danville Utilities customers have access to fiber optic broadband. The nDanville network currently has two service providers and is continuing to grow as commercial and residential customers sign up for service. The two service providers are offering a combination of television, telephone, and high-speed internet at speeds higher than the competition, but at lower rates. More fiber to the home projects are being engineered and planned in this year's budget which will allow the region to remain competitive with the broadband capabilities of other metropolitan areas.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Danville for its comprehensive annual financial report, for the fiscal year ended June 30, 2019. This was the thirty-fourth consecutive year the City of Danville has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The timely preparation for this Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for their assistance and contributions in the preparation of this report. Credit must also be given to the leadership of the governing City Council and their support for maintaining sound financial management.

Respectfully submitted,



Kenneth F. Larking
City Manager



Michael L. Adkins
Director of Finance



Jennifer B. Holley
Deputy Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Danville
Virginia**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

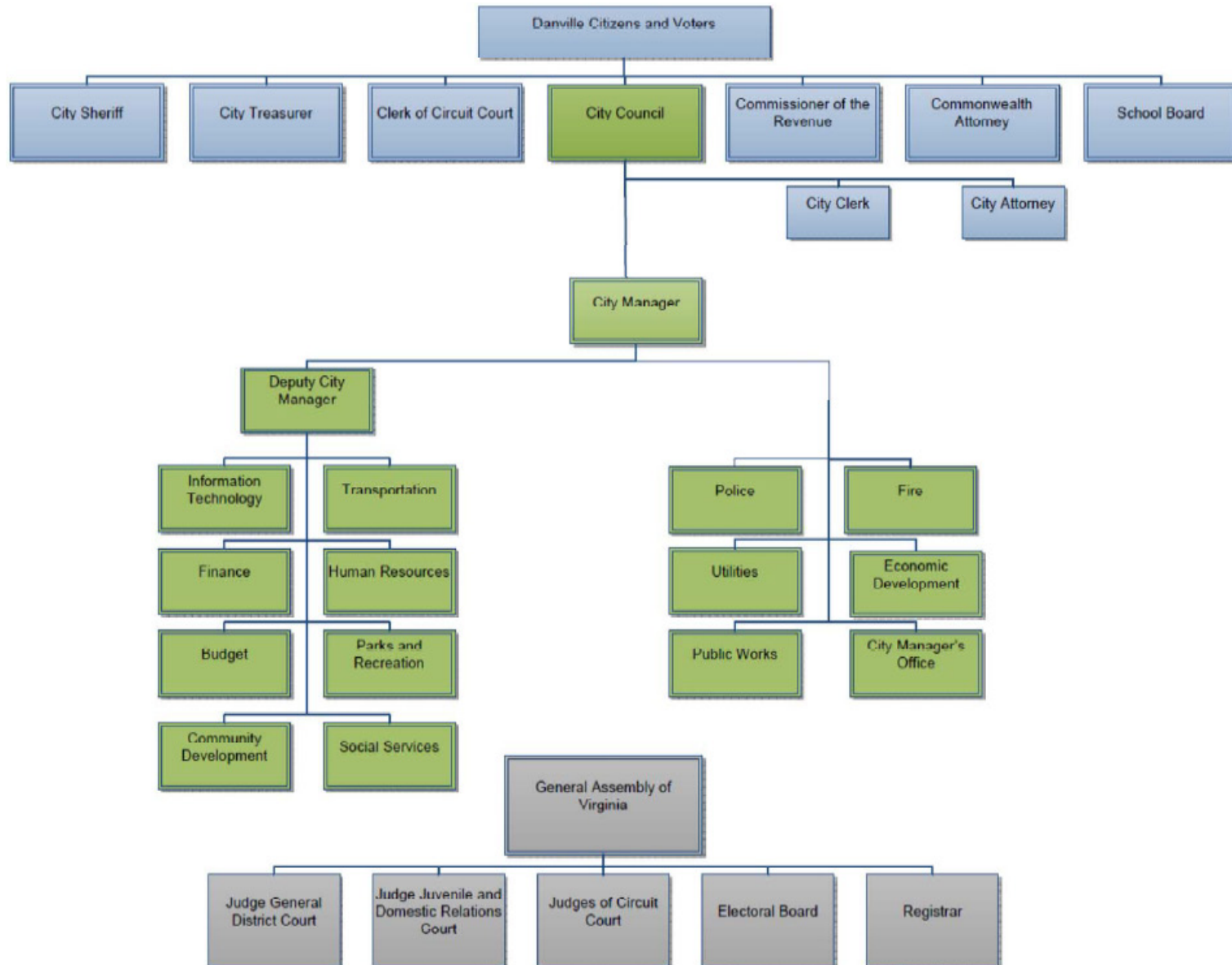
June 30, 2019

Christopher P. Morrell

Executive Director/CEO

CITY OF DANVILLE, VIRGINIA

ORGANIZATIONAL CHART



CITY OF DANVILLE, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

CITY COUNCIL

Alonzo L. Jones – Mayor
Lee J. Vogler – Vice Mayor

L.G. “Larry” Campbell, Jr.
Gary P. Miller, MD
Fred O. Shanks III

Sherman M. Saunders
Madison John Redd Whittle
James Buckner

LEGISLATIVE STAFF

W. Clarke Whitfield, Jr.City Attorney
Susan M. DeMasi City Clerk

ADMINISTRATIVE OFFICIALS

Kenneth F. Larking.....City Manager
Earl B. Reynolds..... Deputy City Manager
Cynthia L. Thomasson Budget Director
Marc D. Adelman Director of Transportation Services
Michael L. Adkins Director of Finance
Richard I. Drazenovich..... Director of Public Works
Kenneth C. Gillie.....Director of Community Development
Inez J. Rodenburg..... Director of Information Technology
David W. Coffey Fire Chief
Scott C. BoothChief of Police
Sara B. Weller Director of Human Resources
William O. SgriniaDirector of Parks, Recreation, and Tourism
Jason C. Grey Director of Utilities
Corrie T. Bobe.....Interim Director of Economic Development

CONSTITUTIONAL OFFICERS

Michael S. MondulCity Sheriff
Michael J. Newman Commonwealth Attorney
Gerald A. Gibson..... Clerk of Circuit Court
James M. Gillie..... Commissioner of the Revenue
Sheila A. Williamson-Branch.....City Treasurer

CITY OF DANVILLE, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
(Continued)

SCHOOL BOARD

Terri Hall – Chairwoman
O. Renee’ Hughes – Vice Chairwoman

Brandon Atkins
Crystal Cobbs
Elizabeth Leggett

Jeffrey Hubbard
Ty’Quan Graves

SCHOOL ADMINISTRATIVE OFFICIALS

Dr. Stanley B. Jones (Retired).....Superintendent
Dr. Kathy J. Osborne.....Chief Operations Officer
Lori Cassada (Retired).....Clerk of School Board
Dr. Juliet C. Jennings Chief Human Resources Officer
Dr. Cyndi Williams, Charlene Bowman..... Chief Academic Officer

EMPLOYEES’ RETIREMENT SYSTEM
BOARD OF TRUSTEES

City Employee Members

D. Joyce Obstler – Chairman – Assistant Director, Information Technology Department
Gina S. Craig – Division Director of Parks & Recreation Administration
Karen A. Black – Chief Engineer, Public Works Department

Citizen Members

Gus S. Dolianitis – Retired, First Citizens Bank
Lenard D. Lackey, Jr. – Retired, Danville/Pittsylvania County Service Board
E. Linwood Wright – Vice-Chairman – Retired, Dan River, Inc.

Ex-Officio Members

Sherman M. Saunders

Kenneth F. Larking

Michael L. Adkins

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of City Council
City of Danville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Danville, Virginia (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Danville, Virginia, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As described in Note 29 to the financial statements, in 2020 the City restated the beginning net position for unreported highway maintenance revenue earned in fiscal year 2019. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Matters (Continued)*Other Information (Continued)*

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brown, Edwards & Company, L.L.P." in a cursive script.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 14, 2020

Management's Discussion and Analysis

The City of Danville, Virginia's (the "City") management presents this discussion and analysis for the purpose of: (a) assisting the reader in understanding significant financial issues, (b) providing an overview of the City's financial activity, and (c) identifying changes in the City's financial position. We encourage readers to read the transmittal letter, the basic financial statements, and the notes to the financial statements along with this discussion and analysis.

In 2019, the City had a restatement of net position, resulting from an adjustment for deferred tax revenue. For 2020, beginning net position has been restated as discussed in Note 29

Financial Highlights

Government-wide Financial Statements

- At the close of the fiscal year, the assets of the City exceeded its liabilities by \$499,597,989 (total net position - government-wide). Of this amount, \$144,163,034 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The net position of the City's business-type activities, as of June 30, 2020, was \$353,564,783, a decrease of \$4,460,943 from the net position of \$358,025,726 at June 30, 2019. Of the net position, \$81,782,966 is reported as unrestricted, a \$4,576,211 decrease from the unrestricted net position existing at June 30, 2019.
- As of June 30, 2020, the City's governmental activities for government-wide statements reported a net position of \$146,033,206, an increase of \$3,307,439 from a beginning net position of \$142,725,767. A net position of \$62,380,068 at June 30, 2020, is reported as unrestricted and available to meet the government's obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$69,874,675, an increase of \$591,013 in comparison to the fund balance at June 30, 2019 of \$69,283,662. Forty-seven percent of the total fund balance at June 30, 2020, \$33,214,777, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was thirty-three percent of total fund expenditures.

Governmental fund statements utilize the current financial resources measurement focus and modified accrual basis of accounting, which focuses on transactions and events that affect the financial resources available for current spending during the period and reflect near-term inflows or outflows of cash. Government-wide statements and proprietary fund statements use the economic resources measurement focus and accrual basis of accounting, which focuses on transactions and events that affect total economic resources; i.e., increase or decrease in net position during the period regardless of the timing of the related cash inflows or outflows. Governmental fund statements do not include capital or other long-term assets that are not available to finance current period expenditures nor do they include long-term liabilities that will not use current resources. These items must be added (assets) or deducted (liabilities) to/from the fund balances of governmental funds to obtain the net position of the governmental activities for government-wide reporting. In addition, the assets and liabilities of internal service funds are included in the governmental activities in the statement of activities, and the combined governmental fund balances from the fund financial statements must be adjusted accordingly. All of these factors add another \$76,158,531 to the combined balances of governmental funds when converting to net position of governmental activities. The reconciliation presented on pages 9 and 11 of this report offer summarized details of the conversion from governmental fund statements to government-wide statements for governmental activities.

The combined fund balances of the governmental funds report a total fund balance of \$69,874,675 and an unassigned fund balance of \$33,214,777. Government-wide net position for governmental activities report a total net position of \$146,033,206 and an unrestricted net position of \$62,380,068.

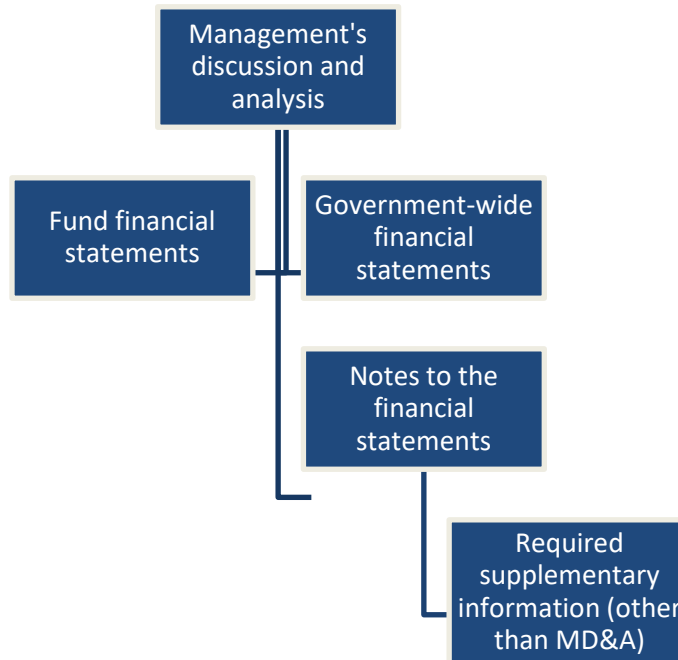
The conversion from fund balance, other than unassigned, to restricted net position can be shown as follows:

Non-spendable, restricted, committed, and assigned fund balance (fund statement)	\$ 36,659,898
Non-spendable inventory and prepaid items	(1,079,409)
Budget Stabilization, committed for fund statements	(3,000,000)
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(24,385,715)</u>
Restricted net position - governmental activities	<u>\$ 8,194,774</u>

The Statement of Net Position - Enterprise Funds does not require a conversion to the Statement of Net Position Government-wide reporting of Business-type Activities because enterprise funds already use the economic resource measurement focus and the accrual basis of accounting. From a management-reporting viewpoint, there are significant differences in the reporting of fund balance. These differences in reporting the composition of fund balance between the government-wide statements for business-type activities and the fund statements for enterprise funds are discussed in the Business-type Activities section of the Government-wide financial analysis discussion.

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (a) management's discussion and analysis (MD&A), (b) government-wide financial statements, (c) fund financial statements, and (d) notes to the basic financial statements.



Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances using the accrual basis of accounting, similar to the accounting found in private sector businesses. Government-wide financial reporting consists of two statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position

The Statement of Net Position presents information on all the City's assets and liabilities. The difference between assets and liabilities is reported as net position. Net position is presented in three categories: net investment in capital assets, restricted, and unrestricted. Over time, the increases or decreases in the City's net position can be an indicator as to whether the financial position of the City is improving or deteriorating. To accurately use changes in net position as an indicator of the City's overall health, the underlying factors contributing to the increase or decrease must be analyzed, as well as other nonfinancial factors (such as changes in the property tax base and the condition of infrastructure and other fixed assets).

The Statement of Activities

The Statement of Activities presents information showing how the net position changed during the year. As mentioned earlier, government-wide statements use the accrual basis of accounting. Therefore, changes in net position are recognized when an underlying event occurs regardless of the timing of the related cash flow. As a result, revenues and expenses are reported in this statement for some items that will not impact cash flows until future fiscal periods. In the Statement of Net Position and the Statement of Activities, the City of Danville is divided into three types of activities:

Governmental Activities - Most of the City's basic services are reported here: Police, Fire, Economic Development, Recreation, Social Services, Community Development, and General Administration. These activities are supported primarily by property taxes, other local taxes, state and federal grants, and contributions from the City's Utility Department (Wastewater, Water, Gas, Electric, and Telecommunications).

Business-Type Activities - The City has eight business-type activities: (1) Wastewater, (2) Water, (3) Gas, (4) Electric, (5) Telecommunications, (6) Transportation, (7) Sanitation, and (8) Cemetery Operations. The City charges a fee to customers to cover all or most of the cost associated with providing these services.

Component Units - The City of Danville has two component units: (1) the Danville Public School System and (2) the Industrial Development Authority. While these represent legally separate entities, the City of Danville is financially accountable for them. These component units are combined and presented in a separate column on the government-wide statements to emphasize that they are legally separate from the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Danville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal requirements. The City of Danville has three types of funds:

Governmental Funds

The Governmental Funds report essentially the same functions as the governmental activities in the government-wide financial statements. The governmental fund financial statements focus on the near-term cash inflows and outflows and the amount of spendable resources available at the end of the fiscal year. This information is useful when evaluating the City's near-term financing needs. Because the focus of the fund statements is narrower than that of the government-wide statements, it is useful to compare the information presented in both the fund and the government-wide statements. A reconciliation of the fund statements to the government-wide statements is provided to facilitate this comparison.

The City of Danville maintains seven individual governmental funds. Information is presented separately in the Balance Sheet-Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds for the General Fund, the Community Development Fund, and the Capital Projects Fund. These funds are considered major funds. The Virginia Department of Transportation (VDOT) Fund, Economic Development Fund, and the Cemetery Maintenance Fund are considered non major funds. The data for these three funds are combined in a single column for the Balance Sheet-Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds.

Proprietary Funds

The City of Danville maintains two types of proprietary funds: (a) utility enterprise funds and (b) internal service funds. Enterprise funds are used to report the same functions as the business-type activities in the government-wide financial statements. Wastewater, Water, Gas, and Electric are presented on the statements individually as major funds. Telecommunications, Transportation, Sanitation, and Cemetery Operations are combined as non-major funds. Enterprise funds are used to account for operations: (1) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the cost of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments on a cost reimbursement basis. The City of Danville has three internal service funds providing services to other City departments as follows:

1. Motorized Equipment – acquires and maintains all vehicles used by the various departments of the City. The Fire Department purchases and maintains large equipment independent of motorized equipment.
2. Central Services – provides office supplies and printing services for all of the City's departments.
3. Insurance – provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the government's own programs. The City of Danville maintains two fiduciary funds: a Pension Trust Fund; and an Agency fund, the Veterans Memorial Fund.

The Employees' Retirement System of the City of Danville functions as an investment and administrative agent for the City's retirement plan. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

The Veterans Memorial Fund accounts for money held in trust to complete a memorial to our local veterans. This activity is also excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to the financial statements

The notes to the financial statements are an integral part of the statements and should be read in conjunction with the basic financial statements, Management's Discussion and Analysis, and the other required supplementary information.

Government-wide Financial Analysis

City of Danville
Summary Statement of Net Position
June 30, 2020

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$108,156,562	\$115,762,933	\$101,405,723	\$113,895,237	\$209,562,285	\$229,658,170
Capital assets	111,460,427	104,399,536	320,319,629	313,017,156	431,780,056	417,416,692
Total assets	<u>\$219,616,989</u>	<u>\$220,162,469</u>	<u>\$421,725,352</u>	<u>\$426,912,393</u>	<u>\$641,342,341</u>	<u>\$647,074,862</u>
Deferred outflows	\$17,226,068	\$ 9,263,493	\$5,554,692	\$4,558,951	\$22,780,760	\$13,822,444
Long-term liabilities outstanding	\$62,596,642	\$60,312,184	\$57,195,216	\$53,025,450	\$119,791,858	\$113,337,634
Other liabilities	18,010,769	16,461,755	15,788,196	18,048,862	33,798,965	34,510,637
Total liabilities	<u>\$80,607,411</u>	<u>\$76,773,959</u>	<u>\$72,983,412</u>	<u>\$71,074,312</u>	<u>\$153,590,823</u>	<u>\$147,848,271</u>
Deferred inflows	\$10,202,440	\$9,926,236	\$731,849	\$2,371,306	\$10,934,289	\$12,297,542
Net position:						
Net investment in capital assets	\$65,948,718	\$63,575,867	\$271,781,817	\$271,666,549	\$337,730,535	\$335,242,416
Restricted for grants & contributions	5,305,627	2,611,656	-	-	5,305,627	2,611,656
Restricted for community development loans	-	-	-	-	-	-
Restricted for cemetery perpetual care	2,889,147	2,863,991	-	-	2,889,147	2,863,991
Net Pension Asset	9,509,646	-	-	-	9,509,646	-
Unrestricted	<u>62,380,068</u>	<u>73,674,253</u>	<u>81,782,966</u>	<u>86,359,177</u>	<u>144,163,034</u>	<u>160,033,430</u>
Total net position	<u>\$146,033,206</u>	<u>\$142,725,767</u>	<u>\$353,564,783</u>	<u>\$358,025,726</u>	<u>\$499,597,989</u>	<u>\$500,751,493</u>

(Continued)

The City's combined net position at June 30, 2020 of \$499,597,989 represents a decrease of \$1,153,504 from the combined net position at June 30, 2019. Twenty-nine percent of total net position (\$144,163,034) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Sixty-eight percent of total net position is invested in capital assets (land, buildings, machinery, and equipment); less any related outstanding debt used to acquire these assets. These assets are used in providing services to the citizens; consequently, these assets are not available for future spending. Although the City of Danville's investment in capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources. The net pension asset account for two percent of the total net position. The remaining one percent of net position (\$8,194,774) is restricted for other special projects (grants and the perpetual care of the municipal cemetery). The composition of net position at June 30, 2020 was as follows: Unrestricted net position –29%, Net investment in capital assets – 68%, Restricted for special projects (grants) and cemetery care – 1%. For the City as a whole, unrestricted net position decreased \$15,870,396.

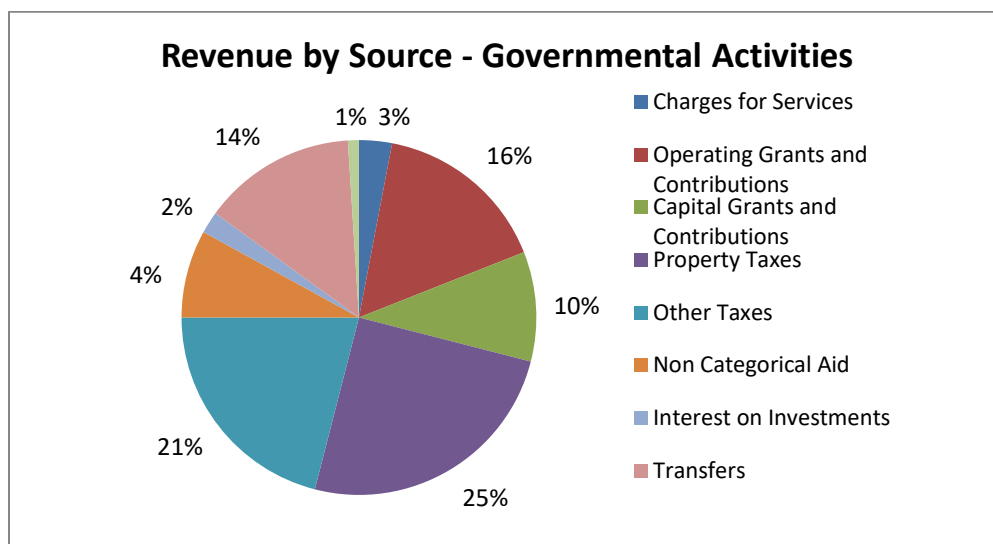
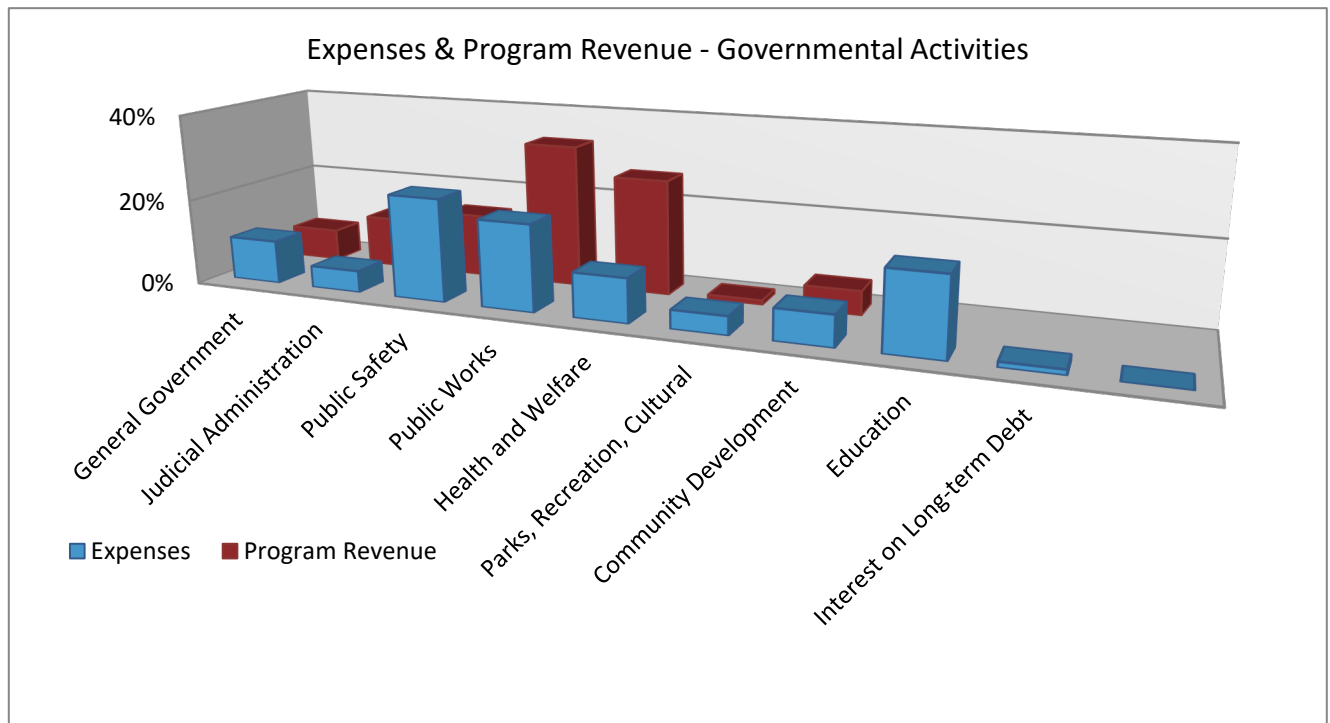
City of Danville
Changes in Net Position
Year Ended June 30, 2020

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,117,958	\$ 4,355,472	\$ 159,439,927	\$ 165,500,234	\$ 163,557,885	\$ 169,855,706
Operating Grants and Contributions	20,481,613	20,161,338	2,257,220	2,287,063	22,738,833	22,448,401
Capital Grants and Contributions	18,874,161	13,224,062	-	-	18,874,161	13,224,062
General Revenues:						
Real Estate and Personal Property	34,870,542	32,446,068	-	-	34,870,542	32,446,068
Other Taxes (See Exhibit 2 for detail)	26,925,721	26,977,073	-	-	26,925,721	26,977,073
Interest on Investments	1,325,447	1,921,725	1,885,307	2,546,152	3,210,754	4,467,877
Non-categorical state and federal aid	6,576,160	9,834,014	-	-	6,576,160	9,834,014
Miscellaneous	913,074	1,315,791	2,527,425	1,763,855	3,440,499	3,079,646
Total Revenues	\$ 114,084,676	\$ 110,235,543	\$ 166,109,879	\$ 172,097,304	\$ 280,194,555	\$ 282,332,847
Expenses:						
General Government	\$ 8,872,032	\$ 14,125,255	\$ -	\$ -	\$ 8,872,032	\$ 14,125,255
Judicial Administration	7,306,607	6,927,179	-	-	7,306,607	6,927,179
Public Safety	33,838,376	32,671,287	-	-	33,838,376	32,671,287
Public Works	24,663,507	27,341,027	-	-	24,663,507	27,341,027
Health and Welfare	13,829,605	13,918,408	-	-	13,829,605	13,918,408
Parks, Recreation, and Culture	4,980,594	5,908,886	-	-	4,980,594	5,908,886
Community Development	7,510,057	9,882,504	-	-	7,510,057	9,882,504
Education (payment to school district)	24,862,582	24,366,922	-	-	24,862,582	24,366,922
Interest on Long Term Debt	1,817,377	1,650,236	-	-	1,817,377	1,650,236
Wastewater	-	-	6,818,946	6,558,007	6,818,946	6,558,007
Water	-	-	6,282,189	5,470,700	6,282,189	5,470,700
Gas	-	-	17,523,404	19,231,970	17,523,404	19,231,970
Electric	-	-	114,687,535	115,840,740	114,687,535	115,840,740
Transportation	-	-	3,888,397	3,596,503	3,888,397	3,596,503
Telecommunication	-	-	1,031,982	841,226	1,031,982	841,226
Sanitation	-	-	4,221,395	3,570,076	4,221,395	3,570,076
Cemetery Operations	-	-	1,028,604	924,500	1,028,604	924,500
Total Expenses	\$ 127,680,737	\$ 136,791,704	\$ 155,482,52	\$ 156,033,722	\$ 283,163,189	\$ 292,825,426
Subtotal Revenue over Expenses	\$ (13,596,061)	\$ (26,556,161)	\$ 10,627,427	\$ 16,063,582	\$ (2,968,634)	\$ (10,492,579)
Transfers	15,088,370	17,565,100	(15,088,370)	(17,565,100)	-	-
Increase/(Decrease) in Net Position	1,492,309	(8,991,061)	(4,460,943)	(1,501,518)	(2,968,634)	(10,492,579)
Beginning Net Position	142,725,767	155,829,340	358,025,726	359,527,244	500,751,493	515,356,584
Effect of Restatement	1,815,130	(4,112,512)	-	-	1,815,130	(4,112,512)
Ending Net Position	\$ 146,033,206	\$ 142,725,767	\$ 353,564,783	\$ 358,025,726	\$ 499,597,989	\$ 500,751,493

(Continued)

Governmental Activities

Governmental activities increased the City of Danville's net position by \$1,492,309. Revenues (including transfers) from governmental activities totaled \$129,173,046 with Property Taxes 27%, Other Taxes 21%, Operating Grants and Contributions 16%, Capital Grants and Contributions 15%, and Transfers 12%, representing 91% of the City's revenues. Expenses for governmental activities totaled \$127,680,737, of which 38% was supported from program revenues and the remaining 62% from general revenues. Expenses for Public Safety 27%, Education 19%, Community Development 6%, Health & Welfare 11%, General Government 7%, and Public Works 19%, make up 89% of the total governmental expenses for the fiscal year.

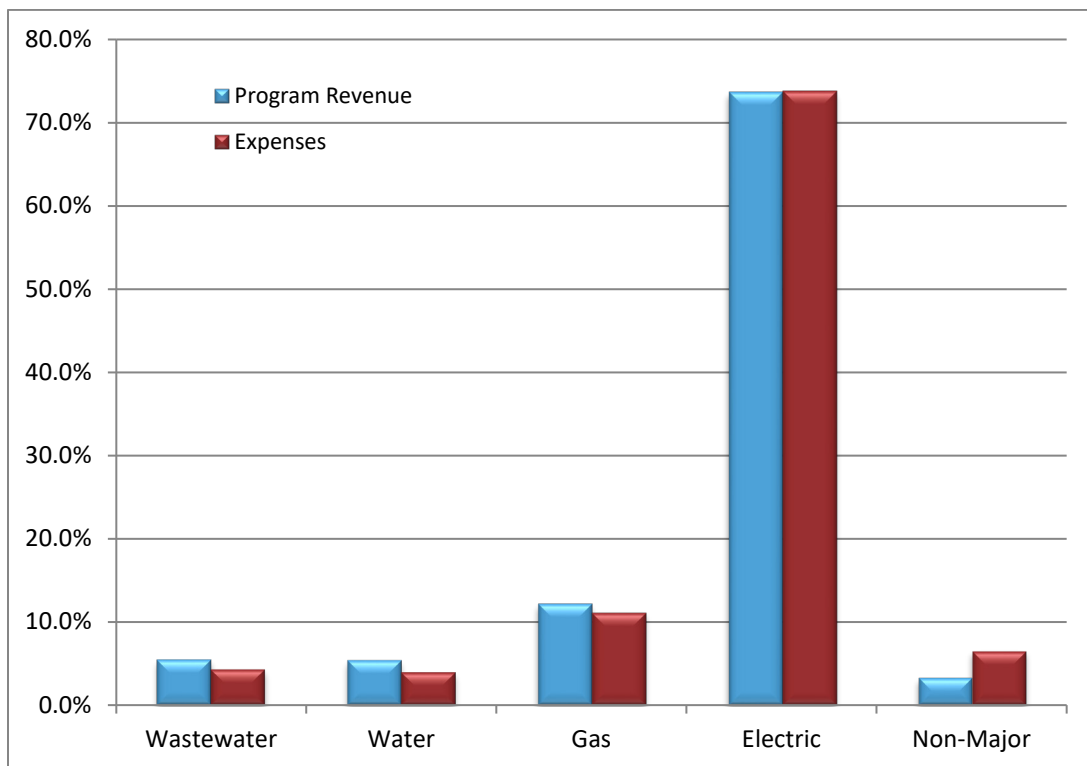


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Business-type Activities

Business-type activities decreased the City's net position by \$4,460,943 compared to last year's decrease in net position of \$1,545,299. At June 30, 2020, total net position was \$353,564,783 of which \$271,781,817 represented investments in capital assets and \$81,782,966 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). Revenues for business-type activities were \$166,109,879 of which 96% was from Charges for Services. For further examination of the enterprise funds, please refer to the Enterprise Funds section of the Financial Analysis of the Fund Financial Statements found on page 4m.

Expenses and Program Revenue – Business Type Activities



Financial Analysis of the Fund Financial Statements

Governmental Funds

Governmental funds reported a combined ending fund balance of \$69,874,675, an increase of \$591,013 when compared with the combined fund balance at June 30, 2019 of \$ 69,283,662. The fund balance in the Capital Projects Fund, also known as Construction In Progress (CIP), decreased \$5,464,112. Of the \$17,507,682 expended in the CIP fund, \$2,288,675 was expended on blight removal and improvements to public buildings and grounds. \$3,873,104 was expended for school improvements. Funds of \$5,206,404 were expended for streets, parking lot, and park improvements and construction within the City's developing River District. \$1,103,172 was expended for various equipment purchases and information technology upgrades, \$4,386,894 was expended for improvements at the municipal airport, and \$649,433 was expended for industrial park development.

(Continued)

Forty-seven percent (\$33,214,777) of the combined governmental funds balance is unassigned fund balance, which is available for spending at the government's discretion. Forty-seven percent (\$32,691,342) of the combined fund balance is not available for new spending, because it has already been restricted, committed, or assigned to specific future expenditures. The remaining six percent (\$3,968,556) of fund balance is not spendable as it represents inventories or prepaid expenses (\$1,079,409) and investments for the perpetual care of the municipal cemetery (\$2,889,147).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2020 of \$43,311,089. This is an increase of \$3,370,575 compared to last year's fund balance of \$39,940,514. The General Fund reported an unassigned fund balance of \$33,214,777, an increase of \$1,911,914 from the June 30, 2019 unassigned fund balance of \$31,302,863. The adopted budget for the General Fund included drawing \$2,050,000 from fund balance in FY 2020. The ability of the General Fund to generate cash on demand can be calculated by comparing both the unassigned fund balance and total fund balance to total funds expended. Unassigned fund balance represents 33% of total General Fund expenditures while total fund balance represents 43% of total fund expenditures. When transfers out of \$5,432,050 are added to expenditures, then unassigned fund balance is 31% percent of expenditures and transfers out. The following table represents General Fund support shown as transfers out:

Support of CIP Projects	\$2,674,930
Support of Regional Industrial Facility Authority	372,490
Support of Economic Development	700,000
Support of Grants	1,420,000
Support of Transportation	264,630
	<hr/>
	\$5,432,050

The increase in fund balance of \$3,370,575 was \$10,491,857 more than the final budgeted decrease of \$7,121,281. The difference resulted from \$6,633,024 unexpended budgeted expenditures, including transfers, and a surplus of \$3,858,832 in revenue realized above budget. Unexpended budget of \$1,913,119 was encumbered at June 30, 2020.

Some key factors of unexpended appropriations are as follows:

- City Support of Public Schools had an unexpended balance of \$38,381. Danville City Schools pulls local funding as needed and is allowed to carry unspent funding forward for future years. The unencumbered portion of this amount is reserved as a carryforward for fiscal 2021.
- Public Safety expenditures came in \$642,808 under budget primarily due to vacancies in the adult detention facility and in emergency communications, a decrease in the purchased services by adult and juvenile detention, police, fire and the jail.
- The \$1,599,044 positive budget variance in Non-departmental expenditures arose from decreased claims for the City's group health insurance offset by an increase in the incurred but not reported liability for FY 2020.

- Savings in the Health and Welfare sector of \$1,372,724 reflect lower utilization of Social Service programs. A corresponding decrease in Intergovernmental Revenue is noted as well.
- Expenditures that were encumbered and remained unexpended at June 30, 2020 amounted to \$1.9 million.

Key factors of the unrealized revenue are as follows:

- The primary source of unrealized revenue resulted from lower than expected utilization of Social Service programs. This gave rise to unrealized revenue of \$841,855 in the Intergovernmental Revenue category. A corresponding variance can also be seen in expenditures for Health and Welfare.
- General Property Tax collections were \$487,870 over budget. The primary components of this variance exist in the following areas:

Real Estate	\$	170,930
Personal Property	\$	172,059
Regional Partnership	\$	76,191
Penalties & Interest	\$	68,690

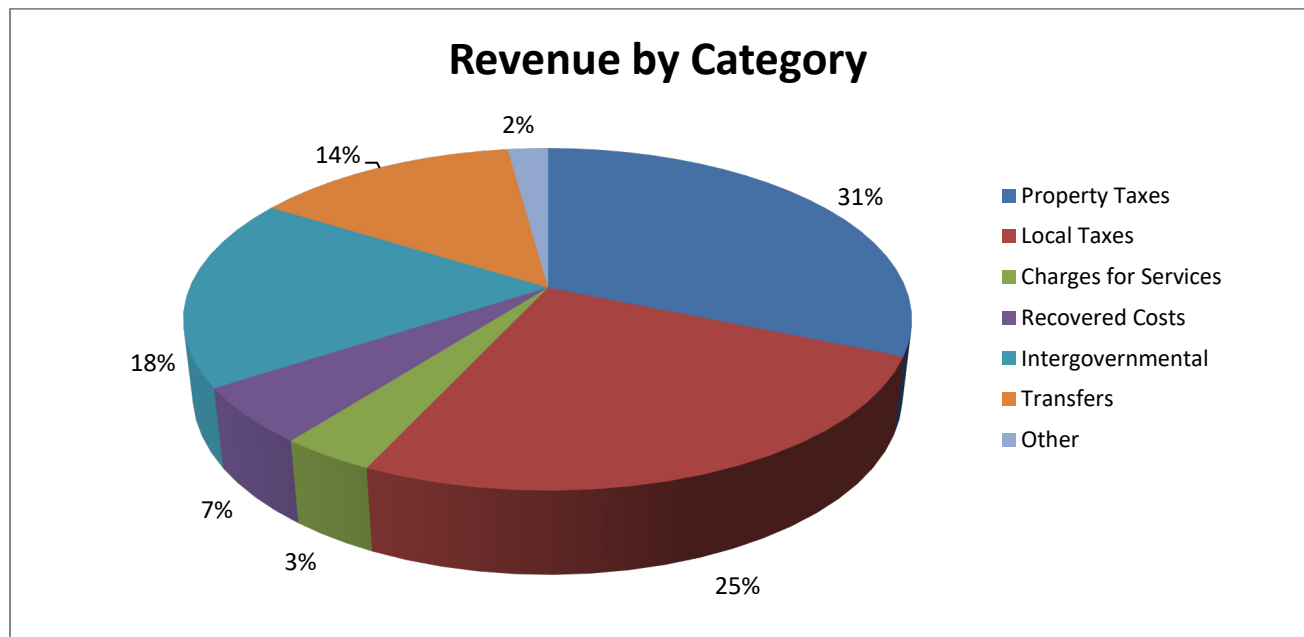
- Real Estate tax collections overall performed over budget in FY2020 due to the continued aggressive collection of delinquent taxes along with successful collection of current year taxes. Successful economic development recruiting has provided an increase in the tax revenue from Machinery and Tools as seen in the additional revenue from personal property. Economic development efforts in the City-County regional partnership has also provided additional shared tax revenues of more than \$76,000 over budget.
- Other Local Taxes were behind the final budget by \$566,734. Almost every category of local tax revenue fell short of budgeted expectations, while others were close to budgeted expectations. The primary components of this negative variance relate to local sales tax, prepared meals tax, and hotel tax. The loss of revenue is notable yet not severe and is attributed to sales lost due to restrictions imposed by the pandemic. Local Sales Taxes were collected at 97% of budget, Hotel Taxes were at 91% of budget, and Prepared Meals Tax collections also underperformed estimates at 96% of budget. Areas contributing to the budget variance include:

Prepared Meals Tax	\$	(333,182)
Sales Tax	\$	(298,055)
Hotel & Lodging Tax	\$	(134,930)
Recordation Tax	\$	69,264
Vehicle License Fees	\$	48,422
Bank Stock Tax	\$	41,431
Others	\$	40,317

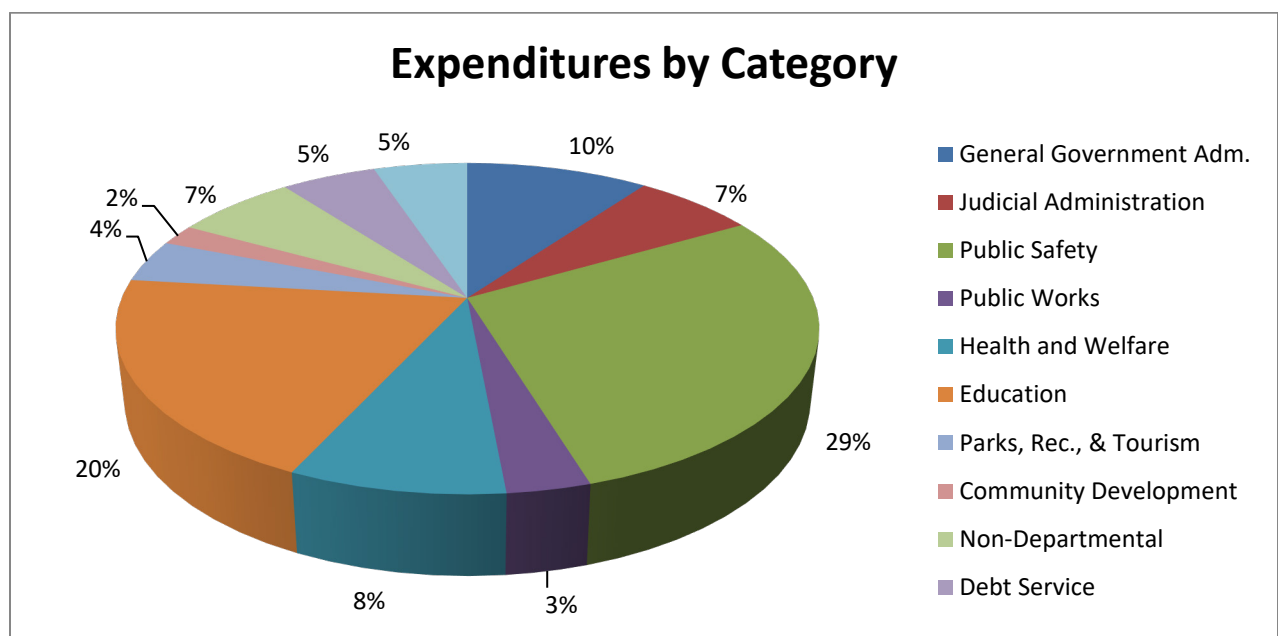
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- Revenue from the use of property and money over performed budget as rising interest rates created unrealized gains in bond investments once the investments were adjusted to market value at June 30. The under-realization in the Charges for Services category is a result of less utilization of the adult detention facility.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2020. Total revenues are \$108,817,810 including transfers in of \$15,353,000.



The next graph shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2020. Total expenditures are \$105,552,567, including transfers out of \$5,432,050.



(Continued)

Enterprise Funds

Enterprise funds reported a combined ending net position of \$353,564,783; a decrease of \$4,460,943 compared to a combined net position reported at June 30, 2019 of \$358,025,726. Each of the following enterprise funds contributed to the overall decrease with increases (decreases) as follows: Wastewater Fund, \$1,602,663; Water Fund, \$1,727,827; Gas Fund, \$46,631; Electric Fund, (\$6,224,973); Transportation Fund (\$553,665); Sanitation Fund, (\$501,055) Telecommunications Fund,(\$468,545); and the Cemetery Operations Fund, (\$89,826).

FY 2020 revenues from all sources combined, excluding contributed capital and transfers in, decreased \$5,318,244 when compared to the previous fiscal year ended June 30, 2019. The details of this net decrease in revenue result from the following:

Jobbing Income	\$ 584,633
Recovered Costs	\$ 531,401
Sales/rental/Gain on Disposal/In Kind	\$ 316,717
Grants	\$ (29,843)
Interest Income & Market Value Adjustment	\$ (660,845)
Charges for Services	\$ (6,060,307)

Charges for Services decreased in the Electric Fund by \$1,011,777 primarily due to the seasonal rate effect of the Power Cost Adjustment rate, combined with a 6.26% decrease in consumption deemed to be largely pandemic related. The prior year administrative change in the Power Cost Adjustment, which allows for the recording of a regulatory asset that represents purchased power costs that have not yet been billed to the customers, included establishing a separate rate for high load factor customers. Purchased power costs decreased 2.5% in FY 2020 due to a decrease of in metered energy purchased (52,916,000 kilowatt hours) for the year. Primarily due to a base rate change of \$.20/100 cubic feet between the Wastewater and Water Funds, the Wastewater Fund experienced a decrease of \$1,191,730 in Charges for Services while the Water Fund experienced an increase of \$810,367. A decrease of \$4,094,934 in gas revenue resulted from decreased consumption of 14% overall in the residential, commercial, industrial and municipal customer classes primarily as a result of the pandemic. Non-major Funds (Transportation, Sanitation, Cemetery, and Telecommunication) experienced a combined decrease in revenues of \$572,233.

The decrease in the interest income and market value adjustment category resulted from downward changes in the market value in the current fiscal year versus prior fiscal year. Income before contributions and transfers for all enterprise funds combined decreased 5,436,155 from the prior year, primarily due to the significant decrease in revenue associated with the pandemic within the major enterprise funds and the market value adjustment in investments.

The Utilities contributed \$15,353,000 in transfers to the General Fund for fiscal year ending June 30, 2020. Enterprise Funds' net position of \$353,564,783 includes \$81,782,966 unrestricted and \$271,781,817 net investment in capital assets.

(Continued)

General Budgetary Highlights

City of Danville
General Fund Budget
Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual
Revenues, Transfers, and Other Financial Sources			
Taxes	\$ 73,297,680	\$ 73,845,254	\$ 73,806,227
Intergovernmental	20,354,730	20,500,438	19,658,583
Transfers and Other	15,353,000	15,353,000	20,092,714
Total	109,005,410	109,698,692	113,557,524
Expenditures, Transfers, and Other Financial Uses			
Expenditures	103,749,048	106,449,205	99,567,565
Transfers and other	7,306,362	10,370,769	10,619,384
Total	111,055,410	116,819,974	110,186,949
Change in Fund Balance	<u>\$ (2,050,000)</u>	<u>\$ (7,121,282)</u>	<u>\$ 3,370,575</u>

Differences between the City's original operating budget for expenditures and transfers and the final amended budget resulted from carryforwards and prior year encumbrances of \$5,071,281 and additional appropriations totaling \$1,007,367; all of the additional appropriations had matching revenues represented as follows:

Appropriations with matching revenue:

Police, Sheriff, Fire and Recreation Extra Pay	\$ 428,419
Bond Premium	\$ 302,940
Customer Accounts Recoveries	\$ 157,927
Police and Commonwealth Attorney-Forfeited Funds	\$ 76,708
DMV Delinquent Personal Property Taxes	\$ 19,075
IT-Additional Revenue	\$ 17,372
Tobacco Repayment	\$ 3,000
Pittsylvania County Training Reimbursement	\$ 1,927
	\$1,007,367

As explained on pages 4k and 4l, intergovernmental revenues underperformed budget, resulting in a negative budget variance for FY 2020 revenues. The positive budget variance in expenditures resulted primarily from delayed transfers to the Danville City School System. The school funds have been encumbered and will be transferred during fiscal 2021 as needed. Budget savings were also realized through personnel vacancies, decreased utilization of group health insurance (\$1,300,000) and social service programs as well as pandemic related reduction in services.

(Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$431,780,056 (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. For further analysis of capital assets, please refer to note 11 in the notes to the financial statements.

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

- Improvements exceeding \$2.5 million were made to the infrastructure, such as streets, parking lots, and various public buildings, parks, trails, and facilities throughout the City. This amount was spent on improvements was spent for various public buildings, parks, trails, and facilities throughout the City. The City also spent \$260,000 on Airport improvements.
- Approximately \$1.2 million was spent to purchase public safety vehicles and equipment.

City of Danville
Capital Assets (net of depreciation)
June 30, 2020

	Governmental Activities	Business-type Activities	Total
Land	\$ 20,353,034	\$ 1,478,743	\$ 21,831,777
Building & Improvements	34,515,712	278,108,021	312,623,733
Machinery & Equipment	9,677,836	21,410,717	31,088,553
Infrastructure	33,427,353	-	33,427,353
Construction in Progress	13,486,492	19,322,148	32,808,640
Total	<u>\$ 111,460,427</u>	<u>\$ 320,319,629</u>	<u>\$ 431,780,056</u>

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation debt of \$95,594,144 and no revenue bonded debt.

City of Danville's Outstanding Debt
Bonds and Related Loans

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds	\$ 45,896,814	\$ 45,384,496	\$ 49,697,330	\$ 47,359,689	\$ 95,594,144	\$ 92,744,185
Revenue Bonds	-	-	-	-	-	-
Total	<u>\$ 45,896,814</u>	<u>\$ 45,384,496</u>	<u>\$ 49,697,330</u>	<u>\$ 47,359,689</u>	<u>\$ 95,594,144</u>	<u>\$ 92,744,185</u>

(Continued)

During fiscal year 2020, the City of Danville issued \$11,595,000 in General Obligation Public Improvement Series 2019A, and \$8,950,000 in Refunding Bonds, Series 2019B. The Series 2019 was issued to use proceeds of \$4,445,000 to finance capital expenditures for general governmental projects, such as capital expenditures for improvements to various public buildings and grounds, and \$7,150,000 to finance the cost of electric substation and transformer upgrades. Series 2019B refunded the 2009A and 2010B bond issues in the amounts of \$1,478,590 and \$8,316,650, respectively.

The City of Danville's debt management policy states that debt supported by General Fund tax revenue will not exceed 3.0% of total taxable assessed value of property within City limits. For the purposes of calculating this ratio, assessed value includes real property and personal property. At June 30, 2020, debt to assessed value was 1.62%.

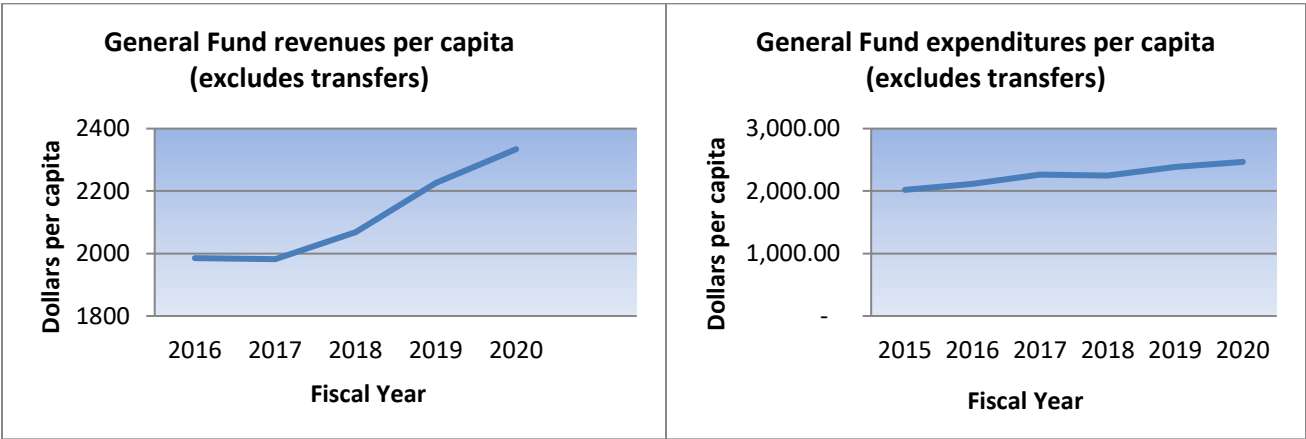
Additional information on the City of Danville's long-term debt can be found in note 12 of the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

- As of September 30, 2020, the average unemployment rate for the City of Danville was 7.7%, which is an increase from a rate of 4.9% at September 30, 2019. This compares to the Commonwealth's average unemployment rate of 5.3% and the national average rate of 7.9% at September 30, 2020.
- Danville continues to make economic development a priority in its effort to reduce unemployment. In FY 2019, Danville's Community Development Entity was awarded \$35 million of New Market Tax Credits. In 2014, the City was awarded \$20 million and dedicated this to the up fit of the River District tower. This project has opened its doors to several medical practices and most recently to a dining establishment that features outdoor deck seating overlooking the Dan River. Successful deployment of the tax credits will potentially lead to additional allocations of credits for future projects.
- During fiscal year 2020, management continued its goal to stabilize and lower utility rates for electric services charged to its consumers despite congestion charges incurred during past winters. The Power Cost Adjustment utilized by Danville Utilities will allow these costs, along with increasing operating costs, to be recovered through gradual, small rate increases over the next few years.
- Danville has an estimated population of 40,590, based on the 2010 census. The most recent data shows per capita income of \$36,301 for the Danville Metropolitan Area, a decrease of \$752 from FY 2019 and \$59,657 for the Commonwealth of Virginia.
- Danville is located in the southern region of the United States. According to the consumer price index, Danville and the southern region have a lower cost of living compared to other regions in the United States.

Primary revenue sources for the City’s General Fund are property taxes, sales taxes, business and occupational licenses, meals taxes, state revenues, and contributions from the City’s Utility Departments. In establishing the budget, historical and trend data are analyzed. In addition to analyzing historical data, economic indicators and the impact the economy will have on the historical data is taken into consideration. Throughout the year, management monitors revenues and economic indicators to determine if they are on target with the analysis used to develop the budget.

Other Financial Indicators



General Fund revenues and expenditures per capita have both trended upward over the last five years despite the economic downturn over previous years. Although the overall increase in revenue per capita is partially attributable to a declining population, revenues have increased 10.7% over the five year period. Expenditures increased from 2020 to 2019, primarily in the areas of public safety, an area identified as priority by City Council and general government to include Customer Accounts, a division formerly reported within the enterprise funds. Danville’s population has shown decreases over the past years, but has begun to stabilize. It is anticipated that through the economic development efforts, and downtown revitalization, the City will see population increases in the near future.

Requests for Information

This financial report is designed to provide a general overview of the City of Danville’s finances. Separately issued audited financial statements are available for the City’s component units. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Danville, Director of Finance, 427 Patton Street, Danville, Virginia 24541.

BASIC FINANCIAL STATEMENTS

CITY OF DANVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2020

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Danville Public Schools	Industrial Development Authority
ASSETS					
Cash and investments (Note 2)					
Unrestricted	\$ 47,743,065	\$ 62,099,668	\$ 109,842,733	\$ 1,758,254	\$ 761,140
Restricted	14,360,589	9,545,128	23,905,717	-	103,022
Cash and investments – held by fiscal agents/escrow	85,000	-	85,000	-	-
Receivables, net (Note 4)	19,256,178	18,437,399	37,693,577	290,436	71,250
Due from primary government (Note 9)	-	-	-	2,292,983	763,435
Due from other governments (Note 5)	14,940,976	696,782	15,637,758	4,833,354	-
Prepays and other	757,539	-	757,539	166,528	-
Inventories	437,338	2,887,207	3,324,545	139,370	-
Loans receivable, net (Note 7)	963,674	-	963,674	-	3,480,269
Energy cost adjustment (Note 6)	-	5,129,469	5,129,469	-	-
Net pension asset (Note 16)	9,509,646	2,610,070	12,119,716	71,290	-
Due from primary government, long-term (Note 9)	-	-	-	-	4,039,000
Net investment in sales-type leases (Note 10)	-	-	-	-	296,773
Property held for sale	102,557	-	102,557	-	1,292,430
Capital assets: (Note 11)					
Non-depreciable	33,839,526	20,800,891	54,640,417	2,176,690	10,434,379
Depreciable, net	77,620,901	299,518,738	377,139,639	16,860,940	22,657,885
Total assets	219,616,989	421,725,352	641,342,341	28,589,845	43,899,583
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions (Note 16)	15,555,055	3,964,039	19,519,094	15,568,438	-
Deferred outflows related to other postemployment benefits (Notes 21 and 22)	922,569	-	922,569	1,885,034	-
Deferred loss on refunding	748,444	1,590,653	2,339,097	-	-
Total deferred outflows of resources	17,226,068	5,554,692	22,780,760	17,453,472	-
LIABILITIES					
Accounts payable	5,500,264	11,262,936	16,763,200	1,214,308	432,099
Accrued payroll and related liabilities	1,200,084	-	1,200,084	3,001,243	-
Accrued interest	557,378	706,167	1,263,545	67,335	39,580
Due to component unit (Note 9)	7,095,418	-	7,095,418	-	-
Due to other governments	512,678	-	512,678	-	-
Refundable deposits	201,406	3,819,093	4,020,499	-	-
Unearned grants	2,943,541	-	2,943,541	96,880	17,780
Long-term liabilities:					
Due within one year (Note 12)	7,310,358	5,041,534	12,351,892	1,229,334	1,834,583
Due in more than one year:					
Net pension liability (Note 16)	2,236,533	-	2,236,533	55,684,997	-
Net other postemployment benefit liability (Notes 21 and 22)	6,514,340	-	6,514,340	8,755,000	-
Other long-term liabilities (Note 12)	46,535,411	52,153,682	98,689,093	4,552,148	13,449,155
Total liabilities	80,607,411	72,983,412	153,590,823	74,601,245	15,773,197
DEFERRED INFLOWS OF RESOURCES					
Taxes and business licenses (Note 14)	5,380,510	-	5,380,510	-	-
Deferred inflows of resources related to pensions (Note 16)	3,127,039	731,849	3,858,888	7,643,521	-
Deferred inflows related to other postemployment benefits (Note 22)	1,694,891	-	1,694,891	597,000	-
Total deferred inflows of resources	10,202,440	731,849	10,934,289	8,240,521	-
NET POSITION					
Net investment in capital assets	65,948,718	271,781,817	337,730,535	15,125,630	18,030,688
Restricted for:					
Scholarship	-	-	-	130,507	-
Net pension asset	9,509,646	-	9,509,646	71,290	-
Revolving loan fund	-	-	-	-	3,000,000
Nonexpendable:					
Cemetery perpetual care	2,889,147	-	2,889,147	-	-
Expendable:					
Debt service	-	-	-	-	55,269
Grants and forfeiture funds	5,305,627	-	5,305,627	-	-
Unrestricted	62,380,068	81,782,966	144,163,034	(52,125,876)	7,040,429
Total net position	\$ 146,033,206	\$ 353,564,783	\$ 499,597,989	\$ (36,798,449)	\$ 28,126,386

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 2

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2020**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Danville Public Schools	Industrial Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 8,872,032	\$ 78,209	\$ 1,967,941	\$ 696,879	\$ (6,129,003)		\$ (6,129,003)		
Judicial administration	7,306,607	3,725,332	573,671	-	(3,007,604)		(3,007,604)		
Public safety	33,838,376	3,095	5,808,227	-	(28,027,054)		(28,027,054)		
Public works	24,663,507	-	-	18,177,282	(6,486,225)		(6,486,225)		
Health and welfare	13,829,605	-	10,156,111	-	(3,673,494)		(3,673,494)		
Parks, recreation, and cultural	4,980,594	311,322	7,498	-	(4,661,774)		(4,661,774)		
Community development	7,510,057	-	1,968,165	-	(5,541,892)		(5,541,892)		
Education	24,862,582	-	-	-	(24,862,582)		(24,862,582)		
Interest and issuance costs on long-term debt	1,817,377	-	-	-	(1,817,377)		(1,817,377)		
Total governmental activities	127,680,737	4,117,958	20,481,613	18,874,161	(84,207,005)		(84,207,005)		
Business-type activities:									
Wastewater	6,818,946	8,764,608	-	-		\$ 1,945,662	1,945,662		
Water	6,282,189	8,624,922	-	-		2,342,733	2,342,733		
Gas	17,523,404	19,435,941	-	-		1,912,537	1,912,537		
Electric	114,687,535	117,349,139	-	-		2,661,604	2,661,604		
Transportation	3,888,397	305,355	2,257,220	-		(1,325,822)	(1,325,822)		
Telecommunications	1,031,982	613,227	-	-		(418,755)	(418,755)		
Sanitation	4,221,395	3,595,074	-	-		(626,321)	(626,321)		
Cemetery operations	1,028,604	751,661	-	-		(276,943)	(276,943)		
Total business-type activities	155,482,452	159,439,927	2,257,220	-		6,214,695	6,214,695		
Total primary government	\$ 283,163,189	\$ 163,557,885	\$ 22,738,833	\$ 18,874,161	(84,207,005)	6,214,695	(77,992,310)		
Component units:									
Danville Public Schools	\$ 79,804,119	\$ 271,544	\$ 32,416,945	\$ -	-	-	-	\$ (47,115,630)	\$ -
Industrial Development Authority	3,568,562	1,100,257	-	-	-	-	-	-	(2,468,305)
Total component units	\$ 83,372,681	\$ 1,371,801	\$ 32,416,945	\$ -	-	-	-	(47,115,630)	(2,468,305)
General revenues:									
Real estate and personal property taxes					34,870,542	-	34,870,542	-	-
Other taxes:									
Sales and use					8,851,945	-	8,851,945	-	-
Business and other licenses					5,271,255	-	5,271,255	-	-
Utility					936,355	-	936,355	-	-
Hotel and meals					9,459,346	-	9,459,346	-	-
Recordation and bank stock					1,205,695	-	1,205,695	-	-
Auto license and recordation					1,201,125	-	1,201,125	-	-
Contributions from City					-	-	-	24,849,631	3,811,969
Noncategorical state and federal aid					6,576,160	-	6,576,160	24,316,489	75,000
Investment income					1,325,447	1,885,307	3,210,754	100,877	101,435
Gain on sale of assets					78,319	-	78,319	-	-
Miscellaneous					834,755	2,527,425	3,362,180	705,797	179,424
Transfers					15,088,370	(15,088,370)	-	-	-
Total general revenues and transfers					85,699,314	(10,675,638)	75,023,676	49,972,794	4,167,828
Change in net position					1,492,309	(4,460,943)	(2,968,634)	2,857,164	1,699,523
Net position – beginning, as restated (Note 29)					144,540,897	358,025,726	502,566,623	(39,655,613)	26,426,863
Net position – ending					\$ 146,033,206	\$ 353,564,783	\$ 499,597,989	\$ (36,798,449)	\$ 28,126,386

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2020**

	General	Community Development	Capital Projects	Special Revenue	Nonmajor Governmental Funds	Total
ASSETS						
Cash and investments	\$ 32,521,568	\$ 6,052	\$ 3,687,655	\$ -	\$ 7,279,395	\$ 43,494,670
Cash and investments – restricted	264,087	-	6,165,815	2,045,961	5,884,726	14,360,589
Cash and investments – held by fiscal agents	35,000	-	-	-	-	35,000
Receivables, net						
Taxes	13,367,779	-	-	-	-	13,367,779
Accounts	2,394,889	-	-	-	-	2,394,889
Other	3,473,030	-	9,750	-	-	3,482,780
Due from other funds	4,994,554	-	-	-	-	4,994,554
Due from other governments	3,120,967	47,721	4,497,266	7,275,022	-	14,940,976
Prepays	757,539	-	-	-	-	757,539
Inventories	321,870	-	-	-	-	321,870
Loans receivable, net	-	963,674	-	-	-	963,674
Total assets	\$ 61,251,283	\$ 1,017,447	\$ 14,360,486	\$ 9,320,983	\$ 13,164,121	\$ 99,114,320
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,009,246	\$ 39,918	\$ 2,908,389	\$ 861,408	\$ 561,063	\$ 5,380,024
Accrued payroll and related liabilities	1,200,084	-	-	-	-	1,200,084
Due to other funds	-	16,353	-	3,314,207	-	3,330,560
Due to component unit	2,243,170	-	49,813	-	260,435	2,553,418
Due to other governments	179,519	-	333,159	-	-	512,678
Unearned revenue	-	-	-	2,943,541	-	2,943,541
Refundable deposits	201,406	-	-	-	-	201,406
Total liabilities	4,833,425	56,271	3,291,361	7,119,156	821,498	16,121,711
Deferred inflows of resources:						
Unavailable revenue	13,106,769	11,165	-	-	-	13,117,934
Fund balances:						
Nonspendable	1,079,409	-	-	-	2,889,147	3,968,556
Restricted	264,087	-	6,165,815	2,045,961	2,995,579	11,471,442
Committed	6,814,993	-	1,965,511	-	-	8,780,504
Assigned	1,937,823	950,011	2,937,799	155,866	6,457,897	12,439,396
Unassigned	33,214,777	-	-	-	-	33,214,777
Total fund balances	43,311,089	950,011	11,069,125	2,201,827	12,342,623	69,874,675
Total liabilities, deferred inflows of resources, and fund balances	\$ 61,251,283	\$ 1,017,447	\$ 14,360,486	\$ 9,320,983	\$ 13,164,121	\$ 99,114,320

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2020**

Total fund balances – governmental funds		\$ 69,874,675
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets at historical cost	\$ 217,162,644	
Property held for sale	102,557	
Accumulated depreciation	<u>(105,702,217)</u>	
		111,562,984
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Net pension asset	9,509,646	
Deferred outflows of resources related to pensions	15,555,055	
Deferred inflows of resources related to pensions	(3,127,039)	
Net pension liability	<u>(2,236,533)</u>	
		19,701,129
Financial statement elements related to other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Net other postemployment benefit liability	(6,514,340)	
Net other postemployment deferred outflows	922,569	
Net other postemployment deferred inflows	<u>(1,694,891)</u>	
		(7,286,662)
Certain other assets are also not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.		
Deferred taxes	6,575,925	
Other receivables	<u>1,161,499</u>	
		7,737,424
The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position.		
Internal service fund net position – Exhibit 8	5,676,195	
Less: internal service fund capital assets	(2,704,452)	
Less: internal service fund net pension asset	(207,590)	
Less: internal service fund deferred outflows related to pension	(315,277)	
Add: internal service fund deferred inflows related to pension	58,207	
Add: internal service fund accrued interest	48	
Add: internal service fund long-term liabilities	<u>133,228</u>	
		2,640,359
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Long-term liabilities	(53,845,769)	
Due to component unit – IDA	(4,542,000)	
Accrued interest	(557,378)	
Deferred loss on refunding	<u>748,444</u>	
		(58,196,703)
Total net position – governmental activities		<u><u>\$ 146,033,206</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2020**

	<u>General</u>	<u>Community Development</u>	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
REVENUES						
Property taxes	\$ 34,153,100	\$ -	\$ -	\$ -	\$ -	\$ 34,153,100
Other local taxes	27,164,991	-	-	-	-	27,164,991
Fines and forfeitures	312,163	-	-	-	-	312,163
Permits, privilege fees, and regulatory licenses	225,428	-	-	-	-	225,428
Revenue from use of money and property	1,138,935	-	48,275	-	49,523	1,236,733
Charges for services	3,614,031	-	-	-	-	3,614,031
Miscellaneous	71,956	310,618	29,751	259,239	45,019	716,583
Contributions	-	-	9,501	696,878	-	706,379
Recovered costs	7,125,623	-	129,647	11,378	178,708	7,445,356
Intergovernmental	19,658,583	765,014	5,153,819	7,410,243	12,237,896	45,225,555
Total revenues	93,464,810	1,075,632	5,370,993	8,377,738	12,511,146	120,800,319
EXPENDITURES						
Current:						
General government	10,583,130	-	1,187,595	640,642	109,257	12,520,624
Judicial administration	7,071,957	-	-	217,478	-	7,289,435
Public safety	30,116,548	-	858,022	476,425	-	31,450,995
Public works	3,439,511	-	9,780,208	2,363,109	10,795,888	26,378,716
Health and welfare	8,883,604	-	-	4,774,433	-	13,658,037
Education	20,989,478	-	3,873,104	-	-	24,862,582
Parks, recreation, and cultural	4,369,398	-	875,200	423,296	-	5,667,894
Community development	2,131,242	1,121,760	842,499	192,927	3,716,308	8,004,736
Nondepartmental	7,031,629	-	-	-	-	7,031,629
Debt service:						
Principal	3,673,417	-	-	-	94,898	3,768,315
Interest	1,578,585	-	-	-	-	1,578,585
Bond issuance costs	252,018	-	91,054	-	-	343,072
Total expenditures	100,120,517	1,121,760	17,507,682	9,088,310	14,716,351	142,554,620
Excess (deficiency) of revenues over (under) expenditures	(6,655,707)	(46,128)	(12,136,689)	(710,572)	(2,205,205)	(21,754,301)
OTHER FINANCING SOURCES (USES)						
Bond issuance	4,739,714	-	4,450,879	-	-	9,190,593
Premium on bonds	552,952	-	624,278	-	-	1,177,230
Bonds refunded	(5,187,334)	-	-	-	-	(5,187,334)
Proceeds from capital lease	-	-	-	-	261,325	261,325
Transfers in	15,353,000	-	1,597,420	1,420,000	2,150,000	20,520,420
Transfers out	(5,432,050)	-	-	-	-	(5,432,050)
Total other financing sources	10,026,282	-	6,672,577	1,420,000	2,411,325	20,530,184
Net change in fund balances	3,370,575	(46,128)	(5,464,112)	709,428	206,120	(1,224,117)
FUND BALANCES – Beginning, as restated (Note 29)	39,940,514	996,139	16,533,237	1,492,399	12,136,503	71,098,792
FUND BALANCES – Ending	\$ 43,311,089	\$ 950,011	\$ 11,069,125	\$ 2,201,827	\$ 12,342,623	\$ 69,874,675

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020**

Net change in fund balances – total governmental funds \$ (1,224,117)

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

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. The components of capital outlay, depreciation expense, and other various transactions involving capital assets are as follows:

Outlays for capital assets	\$	13,506,418	
Book value of capital assets disposed		(4,734)	
Depreciation		(6,422,806)	
			7,078,878

Transactions involving debt principal and cash flows relating to other long-term items are expenditures in the governmental funds, however these transactions increase or decrease long-term items in the Statement of Net Position.

Principal payments on long-term debt and capital leases		3,768,315	
Bonds refunded		5,187,334	
Bond proceeds		(9,190,593)	
Capital lease issued		(261,325)	
Premium on new bonds issued		(1,177,230)	
Amortization of premium		144,478	
Amortization of deferred loss		(39,589)	
Change in accrued interest		(360)	
			(1,568,970)

Governmental funds report pension contributions as expenditures. However, in the Statement of Activities the cost of pension benefits earned net of employee contributions is reported as pension expense.

Change in pension related assets, liabilities, and deferred inflows/outflows.			(2,026,961)
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Governmental funds report other postemployment benefits contributions as expenditures. However, in the Statement of Activities the cost of other postemployment benefits earned net of employee contributions is reported as other postemployment benefits expense.

Change in other postemployment benefits related assets, liabilities, and deferred inflows/outflows.			(81,599)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in obligation to IDA		486,000	
Change in Tobacco Commission obligation payable		(112,000)	
Change in workers' compensation		124,942	
Change in compensated absences		(1,254,142)	
			(755,200)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

444,446

The net of internal service funds is reported with governmental activities.

(374,168)

Total change in net position – governmental activities	\$		1,492,309
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The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2020**

	Budgeted Amounts			Variances with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 33,665,230	\$ 33,665,230	\$ 34,153,100	\$ 487,870
Other local taxes	27,712,650	27,731,725	27,164,991	(566,734)
Fines and forfeitures	344,050	344,050	312,163	(31,887)
Permits, privilege fees, and regulatory licenses	219,240	219,240	225,428	6,188
Revenue from use of money and property	872,760	872,760	1,138,935	266,175
Charges for services	3,987,680	3,991,040	3,614,031	(377,009)
Miscellaneous	135,350	75,350	71,956	(3,394)
Recovered costs	6,360,720	6,945,859	7,125,623	179,764
Intergovernmental	20,354,730	20,500,438	19,658,583	(841,855)
Total revenues	93,652,410	94,345,692	93,464,810	(880,882)
EXPENDITURES				
Current:				
General government	11,194,330	11,558,170	10,583,130	975,040
Judicial administration	7,127,060	7,440,995	7,071,957	369,038
Public safety	30,416,380	30,759,356	30,116,548	642,808
Public works	3,695,020	3,726,607	3,439,511	287,096
Health and welfare	10,416,190	10,256,328	8,883,604	1,372,724
Education	20,898,968	21,027,859	20,989,478	38,381
Parks, recreation, and cultural	5,194,560	5,161,654	4,369,398	792,256
Community development	2,075,890	2,329,863	2,131,242	198,621
Nondepartmental	7,579,610	8,630,673	7,031,629	1,599,044
Debt service:				
Principal	5,151,040	5,557,700	3,673,417	1,884,283
Interest	-	-	1,578,585	(1,578,585)
Bond issuance costs	-	-	252,018	(252,018)
Total expenditures	103,749,048	106,449,205	100,120,517	6,328,688
Deficiency of revenues under expenditures	(10,096,638)	(12,103,513)	(6,655,707)	5,447,806
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	-	4,739,714	4,739,714
Premium on bonds	-	302,940	552,952	250,012
Bonds refunded	-	-	(5,187,334)	(5,187,334)
Transfers in	15,353,000	15,353,000	15,353,000	-
Transfers out	(7,306,362)	(10,673,709)	(5,432,050)	5,241,659
Total other financing sources	8,046,638	4,982,231	10,026,282	5,044,051
Net change in fund balance	\$ (2,050,000)	\$ (7,121,282)	\$ 3,370,575	\$ 10,491,857

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2020

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
ASSETS							
CURRENT ASSETS							
Cash and investments	\$ 11,855,851	\$ 11,378,372	\$ 13,606,073	\$ 21,909,780	\$ 3,349,592	\$ 62,099,668	\$ 4,248,395
Cash and investments – held by fiscal agents	-	-	-	-	-	-	50,000
Receivables, net	1,036,889	401,498	2,124,465	14,755,673	118,874	18,437,399	10,730
Due from other governments	-	-	-	-	696,782	696,782	-
Inventories	-	571,636	616,946	1,518,530	180,095	2,887,207	115,468
Total current assets	12,892,740	12,351,506	16,347,484	38,183,983	4,345,343	84,121,056	4,424,593
NONCURRENT ASSETS							
Cash and investments – restricted	-	-	-	9,545,128	-	9,545,128	-
Energy cost adjustment	-	-	21,246	5,108,223	-	5,129,469	-
Net pension asset	165,573	333,715	287,208	1,158,908	664,666	2,610,070	207,590
Capital assets:							
Non-depreciable	1,245,537	1,822,831	14,944	17,208,347	509,232	20,800,891	-
Depreciable, net	50,199,651	34,762,457	41,156,922	160,635,519	12,764,189	299,518,738	2,704,452
Total noncurrent assets	51,610,761	36,919,003	41,480,320	193,656,125	13,938,087	337,604,296	2,912,042
Total assets	64,503,501	49,270,509	57,827,804	231,840,108	18,283,430	421,725,352	7,336,635
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows related to pensions	251,463	506,830	436,196	1,760,090	1,009,460	3,964,039	315,277
Deferred loss on refunding	129,803	123,763	69,312	1,267,775	-	1,590,653	-
Total deferred outflows of resources	381,266	630,593	505,508	3,027,865	1,009,460	5,554,692	315,277

(Continued)

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2020

	Enterprise Funds					Nonmajor Enterprise Funds	Internal Service Funds
	Wastewater	Water	Gas	Electric		Total	
LIABILITIES							
CURRENT LIABILITIES							
Accounts payable	\$ 442,951	\$ 244,558	\$ 1,010,677	\$ 9,350,055	\$ 214,695	\$ 11,262,936	\$ 120,240
Accrued interest	34,532	33,632	17,611	620,361	31	706,167	48
Due to other funds	-	-	-	-	-	-	1,663,994
Refundable deposits	-	-	-	3,799,093	20,000	3,819,093	-
Long-term liabilities – due within one year	333,333	466,285	181,582	3,659,451	400,883	5,041,534	88,677
Total current liabilities	810,816	744,475	1,209,870	17,428,960	635,609	20,829,730	1,872,959
NONCURRENT LIABILITIES							
Long-term liabilities – due in more than one year	1,870,950	1,818,543	977,319	46,425,585	1,061,285	52,153,682	44,551
Total noncurrent liabilities	1,870,950	1,818,543	977,319	46,425,585	1,061,285	52,153,682	44,551
Total liabilities	2,681,766	2,563,018	2,187,189	63,854,545	1,696,894	72,983,412	1,917,510
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows related to pension plans	46,426	93,572	80,531	324,951	186,369	731,849	58,207
Total deferred inflows of resources	46,426	93,572	80,531	324,951	186,369	731,849	58,207
NET POSITION							
Net investment in capital assets	49,370,709	34,542,651	40,147,202	134,687,467	13,033,788	271,781,817	2,627,884
Unrestricted	12,785,866	12,701,861	15,918,390	36,001,010	4,375,839	81,782,966	3,048,311
	\$ 62,156,575	\$ 47,244,512	\$ 56,065,592	\$ 170,688,477	\$ 17,409,627	\$ 353,564,783	\$ 5,676,195

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2020

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES							
Charges for services	\$ 8,764,608	\$ 8,624,922	\$ 19,435,941	\$ 117,349,139	\$ 5,265,317	\$ 159,439,927	\$ 5,663,156
OPERATING EXPENSES							
Purchased power and gas	-	-	12,151,295	89,954,446	-	102,105,741	-
Production	-	-	-	666,796	-	666,796	-
Transmission	2,901,144	1,689,769	-	1,521,949	-	6,112,862	-
Engineering	-	177,533	312,062	793,035	-	1,282,630	-
Distribution	1,198,500	537,927	644,869	4,866,867	-	7,248,163	-
Services	14,637	62,592	35,352	-	8,918,588	9,031,169	-
Depreciation	1,957,499	1,584,464	1,546,538	8,286,175	1,243,367	14,618,043	786,772
Meters/regulators	-	74,414	107,404	332,147	-	513,965	-
General and administrative	642,971	2,049,029	2,679,323	6,733,490	-	12,104,813	5,535,508
Total operating expenses	6,714,751	6,175,728	17,476,843	113,154,905	10,161,955	153,684,182	6,322,280
Operating income (loss)	2,049,857	2,449,194	1,959,098	4,194,234	(4,896,638)	5,755,745	(659,124)
NONOPERATING REVENUES (EXPENSES)							
Sales income	-	-	80,912	-	120,000	200,912	-
Jobbing income, net	29,751	40,359	-	1,029,278	-	1,099,388	-
Recovered costs	7,896	10,552	915,649	1,482	68,410	1,003,989	118,172
Gain (loss) on disposal of capital assets	-	8,525	-	28,803	(21,714)	15,614	78,319
Other income (expense)	-	-	-	(369,364)	53,340	(316,024)	-
Federal and state grants	-	-	-	-	2,257,220	2,257,220	-
Other contributions	51,566	-	-	-	471,980	523,546	-
Net change in the fair value of investments	63,142	60,616	74,110	170,663	34,277	402,808	20,350
Interest income	210,406	215,342	249,753	682,171	124,827	1,482,499	68,364
Interest expense	(104,195)	(106,461)	(46,561)	(1,532,630)	(8,423)	(1,798,270)	(249)
Total nonoperating revenues (expenses)	258,566	228,933	1,273,863	10,403	3,099,917	4,871,682	284,956
Income (loss) before transfers	2,308,423	2,678,127	3,232,961	4,204,637	(1,796,721)	10,627,427	(374,168)
Transfers in	-	-	-	-	264,630	264,630	-
Transfers out	(705,760)	(950,300)	(3,186,330)	(10,429,610)	(81,000)	(15,353,000)	-
Total	(705,760)	(950,300)	(3,186,330)	(10,429,610)	183,630	(15,088,370)	-
Change in net position	1,602,663	1,727,827	46,631	(6,224,973)	(1,613,091)	(4,460,943)	(374,168)
TOTAL NET POSITION – Beginning	60,553,912	45,516,685	56,018,961	176,913,450	19,022,718	358,025,726	6,050,363
TOTAL NET POSITION – Ending	\$ 62,156,575	\$ 47,244,512	\$ 56,065,592	\$ 170,688,477	\$ 17,409,627	\$ 353,564,783	\$ 5,676,195

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2020**

	Enterprise Funds		
	Wastewater	Water	Gas
OPERATING ACTIVITIES			
Received from customers	\$ 8,783,705	\$ 8,696,122	\$ 17,800,619
Received from interfund services	-	-	-
Payments to suppliers for goods and services	(3,722,257)	(3,726,429)	(14,917,841)
Payments to employees for services	(506,670)	(556,521)	(714,705)
Payments to internal service fund for interfund services	(257,807)	(28,888)	(75,094)
Nonoperating revenue (expense)	<u>37,647</u>	<u>50,911</u>	<u>996,561</u>
Net cash provided by (used in) operating activities	<u>4,334,618</u>	<u>4,435,195</u>	<u>3,089,540</u>
NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	-	-
Transfers to other funds	(705,760)	(950,300)	(3,186,330)
Operating grants received	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>(705,760)</u>	<u>(950,300)</u>	<u>(3,186,330)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(1,562,828)	(2,907,687)	(1,472,294)
Principal payments on long-term debt (including capital lease)	(964,297)	(1,106,255)	(266,409)
Proceeds from bond issuance	307,674	369,904	58,444
Interest payments on long-term debt	(94,702)	(90,666)	(51,937)
Cash proceeds from disposal of capital assets	12,872	8,525	-
Proceeds from capital lease	-	-	-
Other contributions	<u>51,566</u>	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(2,249,715)</u>	<u>(3,726,179)</u>	<u>(1,732,196)</u>
INVESTING ACTIVITIES			
Interest on investments	210,406	215,342	249,753
Net activity in investment securities	<u>63,142</u>	<u>57,622</u>	<u>79,161</u>
Net cash provided by investing activities	<u>273,548</u>	<u>272,964</u>	<u>328,914</u>
Net increase (decrease) in cash and investments	1,652,691	31,680	(1,500,072)
CASH AND CASH EQUIVALENTS			
Beginning	<u>10,203,160</u>	<u>11,346,692</u>	<u>15,106,145</u>
Ending	<u><u>\$ 11,855,851</u></u>	<u><u>\$ 11,378,372</u></u>	<u><u>\$ 13,606,073</u></u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 10

Enterprise Funds			Internal Service Funds
Electric	Nonmajor Enterprise Funds	Total	
\$ 116,915,506	\$ 5,332,160	\$ 157,528,112	\$ -
-	-	-	6,563,197
(100,776,533)	(5,539,832)	(128,682,892)	(5,366,936)
(3,045,049)	(2,250,630)	(7,073,575)	(592,947)
(283,590)	(754,820)	(1,400,199)	(277,038)
661,396	126,550	1,873,065	118,172
13,471,730	(3,086,572)	22,244,511	444,448
-	264,630	264,630	-
(10,429,610)	(81,000)	(15,353,000)	236,338
-	2,719,285	2,719,285	-
(10,429,610)	2,902,915	(12,369,085)	236,338
(15,060,041)	(997,203)	(22,000,053)	(837,555)
(6,822,940)	(142,579)	(9,302,480)	(38,835)
10,618,385	-	11,354,407	-
(991,209)	(8,315)	(1,236,829)	(321)
30,846	42,910	95,153	147,088
727,416	202,775	930,191	-
-	471,980	523,546	-
(11,497,543)	(430,432)	(19,636,065)	(729,623)
682,171	124,827	1,482,499	68,364
784,801	34,277	1,019,003	20,345
1,466,972	159,104	2,501,502	88,709
(6,988,451)	(454,985)	(7,259,137)	39,872
38,443,359	3,804,577	78,903,933	4,258,523
\$ 31,454,908	\$ 3,349,592	\$ 71,644,796	\$ 4,298,395

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2020**

	Enterprise Funds		
	Wastewater	Water	Gas
RECONCILIATION TO EXHIBIT 8			
Cash and investments	\$ 11,855,851	\$ 11,378,372	\$ 13,606,073
Cash and investments – held by fiscal agents	-	-	-
Cash and investments – restricted	-	-	-
	<u>\$ 11,855,851</u>	<u>\$ 11,378,372</u>	<u>\$ 13,606,073</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 2,049,857	\$ 2,449,194	\$ 1,959,098
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation charged to operations	1,957,499	1,584,464	1,546,538
Pension expense net of employer contributions	82,436	471,550	453,027
Recoveries, rebates, and other	-	-	915,649
Nonoperating revenue, net	37,647	50,911	80,912
Change in noncash employee benefits charged to operations	-	29,282	8,836
Change in operating assets and liabilities	-	-	-
Change in receivables	19,097	71,200	(1,635,322)
Change in reserve for uncollectibles	36,775	31,827	53,789
Change in inventories	-	18,469	30,054
Change in prepaids	-	-	-
Change in accounts payable	151,307	(271,702)	(323,041)
Change in refundable deposits	-	-	-
	<u>\$ 4,334,618</u>	<u>\$ 4,435,195</u>	<u>\$ 3,089,540</u>
Net cash provided by (used in) operating activities			

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 10

Enterprise Funds			Internal Service Funds
Electric	Nonmajor Enterprise Funds	Total	
\$ 21,909,780	\$ 3,349,592	\$ 62,099,668	\$ 4,248,395
-	-	-	50,000
9,545,128	-	9,545,128	-
<u>\$ 31,454,908</u>	<u>\$ 3,349,592</u>	<u>\$ 71,644,796</u>	<u>\$ 4,298,395</u>
\$ 4,194,234	\$ (4,896,638)	\$ 5,755,745	\$ (659,124)
8,286,175	1,243,367	14,618,043	786,772
1,652,796	830,212	3,490,021	290,204
-	-	915,649	-
661,396	126,550	957,416	118,172
(39,663)	-	(1,545)	-
-	84,787	84,787	16,722
(521,558)	66,843	(1,999,740)	41
402,981	(341)	525,031	-
161,145	20,100	229,768	(2,835)
-	43,781	43,781	-
(1,413,701)	(515,233)	(2,372,370)	(105,504)
87,925	(90,000)	(2,075)	-
<u>\$ 13,471,730</u>	<u>\$ (3,086,572)</u>	<u>\$ 22,244,511</u>	<u>\$ 444,448</u>

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2020**

	Pension Trust Fund Employees' Retirement Plan	Agency Veterans' Memorial Fund
ASSETS		
Cash	\$ 12,460	\$ 2,373
Accrued interest and dividends	428,094	-
Investments – at fair value:		
Common stocks and common stock funds	113,445,677	-
Corporate bonds and bond funds	37,205,720	-
Foreign stock funds	23,462,236	-
U.S. Government bond funds	28,166,134	-
Real estate funds	37,169,395	-
Real estate – timberland and timberland funds	7,058,854	-
Temporary cash investments	3,570,584	-
Private equity funds	7,738,543	-
Other	1,120	-
Total investments	257,818,263	-
Total assets	258,258,817	2,373
LIABILITIES		
Accounts payable	201,299	-
Amounts held for others	-	2,373
Total liabilities	201,299	2,373
NET POSITION – RESTRICTED FOR PENSION		
Held in trust	\$ 258,057,518	\$ -

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
PENSION TRUST FUND
Year Ended June 30, 2020**

	Employees' Retirement Plan
	<hr/>
ADDITIONS	
Contributions	
Employer contributions	\$ 3,608,286
Member contribution	50,823
	<hr/>
	3,659,109
	<hr/>
Investment earnings	
Net increase in fair value of investments	5,372,063
Interest	91,701
Dividends	2,301,689
	<hr/>
Total investment income	7,765,453
Less – investment expenses	<hr/> (791,641)
Net investment income	<hr/> 6,973,812
Total additions	<hr/> 10,632,921
	<hr/>
DEDUCTIONS	
Benefits paid to participants	14,739,464
Refunds of contributions	12,913
Administrative expenses	127,589
	<hr/>
Total deductions	<hr/> 14,879,966
Change in net position	(4,247,045)
NET POSITION RESTRICTED FOR PENSION – Beginning	<hr/> 262,304,563
NET POSITION RESTRICTED FOR PENSION – Ending	<hr/> <hr/> \$ 258,057,518

The Notes to Financial Statements are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Danville (the “City”), located in southwest Virginia at the North Carolina border, was founded in 1793 and chartered in 1830. The City covers an area of approximately 44 square miles and has a population of approximately 43,000. The accompanying financial statements present the government and its component units, which are legally separate entities for which the City is financially accountable.

Primary Government: The City is governed under the City Manager-Council form of government. The City engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, housing and human service programs, transportation and environmental services, planning, community development and recreation, cultural, library, and historic activities.

Discretely Presented Component Units: Danville Public Schools (“DPS” or the “Schools”) is organized as an independently governed school system for operating the public schools of the City. The Schools are fiscally dependent on the City and are prohibited from issuing bonded debt without approval of City council. The City is legally obligated to provide financial support to the Schools by State Law of the Commonwealth of Virginia. Annually the State superintendent provides the City with the amount of the Required Local Effort (RLE). In addition, major capital improvements are financed with long-term debt issued by the City.

The Industrial Development Authority of Danville (the “IDA”) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City Council pursuant to provisions of the Industrial Revenue Bond Act of the *Code of Virginia* (1950), as amended. Seven directors appointed by the City Council of Danville govern the IDA. The City provides the majority of the IDA’s funding. The IDA operates as a component unit solely for the purpose of economic development for the City. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

Complete financial statements for each of the component units may be obtained at the entities’ offices:

Danville Public Schools
P.O. Box 9600
Danville, Virginia 24543

Industrial Development Authority of Danville
P.O. Box 3300
Danville, Virginia 24543

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Jointly Governed Organizations: City Council, in conjunction with the Board of Supervisors of Pittsylvania County, Virginia (the “County”), established Danville-Pittsylvania Community Services (“DPCS”) in 1972 to implement the provisions of Chapter 10 of Title 37.1 of the *Code of Virginia* (1950), as amended. The primary function of DPCS is the establishment and operation of mental health, mental retardation, and substance abuse programs within the City and County. Seven members of the fifteen-member board of directors are appointed by City Council, and the County’s Board of Supervisors appoints the remaining eight members. The Board of Directors approves its own budget and maintains oversight of all programs. Most of the funding for DPCS comes from state and federal grants, as well as from charges for services. The City and County provide some financial assistance, but DPCS is not financially dependent on the City or the County. While not a component unit of the City or the County, DPCS is considered to be a jointly governed organization since neither the City nor the County has determinable ongoing financial interests in, or responsibilities for, DPCS. For the year ended June 30, 2020, the City provided \$428,925 in funding for DPCS.

In 2001, the Danville-Pittsylvania Regional Industrial Facility Authority (the “Facility Authority”) was created by ordinance of the Board of Supervisors of Pittsylvania County, Virginia, and the City Council of Danville, Virginia, to promote and further the purposes of the Virginia Regional Industrial Facilities Act, Chapter 64, Title 15.2 of the *Code of Virginia* (1950), as amended (Facility Act). The Facility Authority is an entity jointly owned by the City of Danville and Pittsylvania County and is a political subdivision of the Commonwealth of Virginia. The Facility Authority is empowered, among other things, to borrow money to pay the costs of real estate and all improvements located in industrial parks intended to be occupied by manufacturing, warehousing, distribution, office, or other commercial enterprise. In addition, the Facility Authority is authorized under the Facility Act to issue revenue bonds to finance facilities for such enterprises and to refund such bonds. The Facility Authority has no taxing power. For the year ended June 30, 2020 the City provided approximately \$625,000 in funding to the Facility Authority. The City has a moral obligation to continue to provide funding to the Facility Authority both for debt service as well as ongoing construction projects.

B. Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities report all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types

The City reports the following major governmental funds:

General Fund: The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund.

Community Development Fund: The Community Development Fund is a special revenue fund that accounts for all financial resources used for the growth of the City through state, federal, and local grants and donations. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Fund: The Capital Projects Fund accounts for financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds.

Special Revenue Fund: The Special Revenue fund accounts for and reports the proceeds of miscellaneous revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The City reports the following nonmajor governmental funds:

Special Revenue Funds: These funds consist of the Virginia Department of Transportation, and Economic Development Funds.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Permanent Fund: A permanent fund is used to report resources that are legally restricted to the extent that only the earnings, and not principal, may be used for purposes that support the government's program. The Cemetery Maintenance Fund is considered a permanent nonmajor fund. Earnings are used for maintenance of the City's cemetery, which is accounted for in the nonmajor cemetery enterprise fund.

Proprietary Fund Types

Enterprise Funds: Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's major enterprise funds consist of the Wastewater, Water, Gas, and Electric funds.

The City's nonmajor enterprise funds consist of the Transportation, Sanitation, Telecommunication, and Cemetery Operations funds.

Internal Service Funds: Internal Service Funds account for the financing of goods or services provided by one department or other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Funds are included in governmental activities for government-wide reporting purposes. The excess revenue or expenses for the funds are allocated to the appropriate functional activity. Internal service funds consist of the Motorized Equipment, Central Services, and Insurance funds.

Fiduciary Fund Types

Pension Trust Fund: The Pension Trust Fund accounts for assets held by the City in a trustee capacity for the City Employees' Retirement Plan.

Agency Fund: The Agency Fund accounts for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. This fund consists of the Veterans' Memorial Fund.

Interfund Activity: During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements, such that only net amounts due between governmental and business-type activities are shown as internal balances.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in and out. Certain eliminations are made in the preparation of the government-wide financial statements.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary 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 for most non-grant revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met and are considered available if they are collected within one year of the end of the current fiscal period. 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 only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales, communication, and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables, and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 enterprise funds and of the City’s internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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 nonoperating revenues and expenses.

Fiduciary funds, including the Pension Trust Fund, utilize the accrual basis of accounting. Agency Funds are unlike all other fund types, reporting only assets and liabilities; therefore, Agency Funds do not have a measurement focus. The Agency Fund utilizes the accrual basis of accounting to recognize receivables and payables.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance

- **Cash and cash equivalents**

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents.

- **Investments**

Certificates of deposit and investments in SNAP and LGIP as discussed in Note 2 are reported at amortized cost. Other investments are stated at fair value.

- **Receivables**

Receivables are presented net of an allowance for doubtful accounts, which is calculated using historical collection data and specific account analysis. Demolition receivables consist of costs incurred to clean up certain properties; such amounts are billed to property owners and secured by a lien on the property. The City has included a 97% reserve for such amounts in the allowance for doubtful accounts. Incentive grant funds recoverable from recipients reflect amounts advanced under incentive grants where the recipient has failed to meet the grant requirements and the City has become liable to the Tobacco Commission for the funds. The City has recorded a reserve for 100% of these accounts.

- **Inventories**

Primary Government

Inventories in the General Fund consist of supplies, valued using the average cost method, and are reported using the consumption method, in which an expenditure is reported when the supplies are removed from inventory and used. Inventories in the Enterprise Funds consist primarily of parts held for repairs or construction, and are valued using the average cost method.

Component Units

Inventories for the Schools consist of various consumable supplies and food. Food commodities received from the United States Department of Agriculture (USDA) are carried at the value assigned by USDA.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance
(Continued)

- **Property Held For Sale**

Property held for sale by the City and IDA is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased, or at estimated fair value at the date of gift, if donated. Costs of property improvements are capitalized.

- **Capital Assets**

Capital outlays are recorded as capital assets to the extent the City's capitalization threshold is met. Infrastructure has been capitalized retroactively to 1980. The capitalization threshold for purchased or constructed capital assets is \$5,000, except that the infrastructure threshold is \$100,000. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City does not require that the proceeds from the sale of historical treasures or works of art be used to acquire other items for the collection. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives of capital assets are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts, and any resulting gain or loss is included in current year's operations.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>City</u>	<u>DPS</u>	<u>IDA</u>
Buildings	40 years	40 years	40 years
Furniture and other equipment	3-20 years	5-10 years	15-40 years
Infrastructure	20-50 years	-	-

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance (Continued)

- **Pensions and Other Postemployment Benefits (OPEB)**

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the City's Plans and the additions to/deductions from the City's Plans' net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (the "VRS") or the Employees' Retirement System of the City of Danville, Virginia (the "ERS"). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

- **Deferred Outflows/Inflows of Resources**

In addition to assets, the statements that present net position report a separate section for *deferred outflows of resources*. These items represent a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statements that present financial position report a separate section for *deferred inflows of resources*. These items represent an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The City and Schools have the following items that qualify for reporting as deferred inflows or outflows:

- Deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Due to the relationship with outstanding debt, these deferred outflows are included in the calculation of net position, net investment in capital assets.
- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors as well as changes in actuarial assumptions in the measurement of the total pension or OPEB liabilities. These differences will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plans and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- At the government-wide level, the City reports deferred inflows for unearned property taxes, which are billed and/or collected but intended to fund future years.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance (Continued)

- **Deferred Outflows/Inflows of Resources (Continued)**

- Unavailable revenue is reported only in the governmental funds balance sheet for receivables not collected within 60 days of year end. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.
- Changes in proportion and differences between employer contributions and proportionate share of employer contributions in the Virginia Retirement System's teacher cost sharing pool or OPEB cost sharing pool plans. This difference is deferred and recognized in expense over the average remaining service life of the employees who are subject to the plan, and may be reported as a deferred outflow or inflow as appropriate.

- **Compensated Absences and Other Employee Benefits**

Expenditures for self-insured group hospitalization and workers' compensation claims in governmental funds are recorded when the liability has been incurred. Compensated absences are reported in governmental funds only when they are due. In enterprise funds, both the expenses and the liabilities are recorded as the benefits are earned. All liabilities, current and long-term, are recorded in the government-wide statements.

- a. Vacation Pay**

The City's policy regarding vacation pay allows for the unlimited accumulation of unused benefits. Unused vacation is paid upon termination or retirement of employment up to the City's limits, which vary depending on employee classification. Such amounts are recorded as liabilities in the governmental fund financial statements when they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits as earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability. The DPS allows for the accumulation of vacation pay that may be used by employees upon retirement, but is not paid at termination.

- b. Sick Pay**

At the City accumulated sick leave benefits earned but unpaid at the end of the fiscal year are recorded as a liability at the balance sheet date to the extent they are not subject to payout limitations. Accumulated sick leave is paid to employees upon retirement at a rate of \$1.50 per hour up to a maximum of 960 hours (\$1,440 per employee). Up to one year of unused sick leave may be applied to total service years upon retirement for purposes of calculation of pension benefits. Sick leave is not paid to employees upon termination.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance (Continued)

- **Compensated Absences and Other Employee Benefits (Continued)**

- b. Sick Pay (Continued)**

The DPS records accrued sick leave at a rate of \$15 a day. Sick leave is only paid out upon retirement or death, therefore, the DPS only accrues sick leave for employees 50 years of age or older.

- c. Group Health Insurance**

All permanent employees of the City, including elected officials and their staff, are eligible to participate in the City's group insurance program. The City contributes between 74% – 93.5% of the premium for active participating employees, dependent upon the plan the employee selects. The City is self-insured for group health insurance with the exception of \$225,000 in stop loss coverage per individual occurrence, and aggregate stop loss coverage of 125% after approximately \$12 million.

- d. Workers' Compensation**

The City is self-insured for all workers' compensation claims. Liabilities related to reported claims are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

- **Long-Term Debt**

For governmental fund types, bond premiums or discounts as well as issuance costs are recognized during the current period. Bond proceeds and any premiums and discounts are reported as an other financing source. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For enterprise funds and on the government-wide financial statements bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which is not materially different from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed in the year of issue.

- **Net Position/Fund Balance**

Net position in government-wide and proprietary financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position reflects constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statutes.

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

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance (Continued)

- **Net Position/Fund Balance (Continued)**

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – includes amounts associated with inventories, prepaids, long-term loans, and notes receivable.

Restricted – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision making authority – City Council. These committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – includes amounts intended to be used by the City for specific purposes but which do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assignments are made through the budget process and periodic financial reviews with the joint approval of the City Manager and the Director of Finance.

Unassigned – consists of the residual amounts in the City's General Fund.

The City has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Director of Finance will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-City funds, and City funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed by committed fund balance, then assigned fund balance, and lastly unassigned fund balance. The Director of Finance has the authority to deviate from this policy if it is considered in the best interest of the City.

The City has a policy to maintain a minimum unassigned fund balance within its General Fund of not less than 20% of operating revenues. If fiscal year end results show an increase to the unassigned fund balance, half of this increase will be as added to the City's budget stabilization balance. In 2012, City Council created a budget stabilization policy which is intended to sustain future service levels if General Fund revenues decline by more than 1.00%. Use of the funds require action by City Council, and draws from the fund are to be accompanied by cost-saving measures. The balance may not exceed 5.00% of the previous year's General Fund revenues.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance
(Continued)

- **Regulatory Assets and Deferred Inflows**

The City's Electric and Gas Funds apply regulatory accounting principles to certain power and gas costs, which result in regulatory assets or deferred inflows. City statutes provide that the City Utilities, over time, will adjust customers' electric and natural gas bills, for changes between expected and actual costs of purchased gas and power.

E. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenue, expenditures, and expenses. Actual results could differ from these estimates.

F. Budgetary Information

Prior to April 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means to finance them. After a public hearing has been conducted to obtain taxpayer comments, the budget is legally adopted through passage of an ordinance prior to July 1, of each year.

The legal level of budgetary control is effective at the fund level. The City Manager is authorized to transfer budgeted amounts within each fund. Transfers between funds require City Council approval.

An annual operating budget is adopted for only the General Fund. All budgets are presented on the modified accrual basis of accounting. Effective budgetary control is achieved for the Capital Projects Fund and Special Revenues Funds on a project-by-project or per grant basis when funding sources become available.

Budgets are adopted for management control for the Enterprise and Internal Services Funds. The restrictions on transfer of budgeted amounts for governmental funds also apply to the Enterprise and Internal Service Funds, except in the Gas and Electric Funds. Amounts in those funds budgeted for the purchase of natural gas and electric power may be increased to the extent that actual revenues exceed the original budgeted revenue.

All appropriations lapse at year end except appropriations within the Capital Projects Fund and Special Revenue Funds, which are continued until completion of the applicable projects or grants, even when such projects or grants extend beyond one fiscal year.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs; bond valued by a pricing service that uses matrix price;
- Level 3 inputs are significant unobservable inputs.

Note 2. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Investment Policy

In accordance with state statutes, the current investment policy (the “Policy”) of the City authorizes investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, the Virginia State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP). SNAP is overseen by the Treasurer of Virginia and the State Treasury Board. Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The carrying values of the position in LGIP and SNAP are the same as the value of the pool shares (i.e., both maintain a stable net asset value of \$1 per share in accordance with GASB No. 79). The Policy specifies that no investment may have a maturity greater than one year from date of purchase, unless matched to a specific cash flow.

The City’s investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below. The City’s investments are not subject to foreign currency risk.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” or “P-1” (or its equivalent) from Moody’s Investors Service or Standard & Poor’s. Corporate notes and certificate of deposits maturing in more than one year shall be defined as rated by Standards & Poor’s no lower than “AA” or by Moody’s as no lower than “Aa.” Certificates of deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s or “P-1” by Moody’s Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers’ acceptances, or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. The Policy establishes limitations on the holdings on non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted for commercial paper and corporate notes are 35% of the portfolio.

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase.

Custodial Credit Risk

The Policy requires that all investment securities purchased by the City be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, all of the City’s investments are held in a custodian’s trust department in the City’s name.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Investments (Continued)

The City's investments consist of the following:

	<u>Carrying Value</u>	<u>Weighted Average Maturity (Years)</u>
Municipal non-taxable bonds	\$ 6,940,813	3.15
Municipal taxable bonds	5,631,895	2.15
Corporate bonds	1,021,800	0.85
U.S. government bonds	1,000,220	4.52
State bonds	3,213,373	4.78
Certificates of deposit	48,500,000	0.80
LGIP	5,409,545	N/A
SNAP	15,710,943	N/A
	<u>\$ 87,428,589</u>	

City investments by credit rating consist of the following:

<u>Rating (Moody's or S&P)</u>	<u>Carrying Value</u>
AA	\$ 1,054,730
AA+	4,056,210
AAA	12,697,161
AAAm	21,120,488
Unrated	48,500,000
	<u>\$ 87,428,589</u>

LGIP and SNAP have been rated as AAAm by Standard & Poor's.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Fair Value

The City categorizes its investment fair value measurements within the fair value hierarchy established by GAAP as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by fair value level				
State bonds	\$ -	\$ 3,213,373	\$ -	\$ 3,213,373
Corporate bonds	-	1,021,800	-	1,021,800
Municipal bonds	-	12,572,708	-	12,572,708
U.S. government bonds	-	1,000,220	-	1,000,220
	<u>\$ -</u>	<u>\$ 17,808,101</u>	<u>\$ -</u>	<u>\$ 17,808,101</u>

Cash and investments are reflected in the financial statements as follows:

	<u>Component Units</u>		
	<u>Primary Government</u>	<u>Danville Public Schools</u>	<u>Industrial Development Authority</u>
Deposits and investments:			
Demand deposits	\$ 46,245,561	\$ 873,335	\$ 864,162
Cash on hand	74,300	1,175	-
Money market fund – held by custodian in escrow	85,000	-	-
Bonds	17,808,101	-	-
Certificates of deposit	48,500,000	-	-
LGIP	5,409,545	883,744	-
SNAP	15,710,943	-	-
	<u>\$ 133,833,450</u>	<u>\$ 1,758,254</u>	<u>\$ 864,162</u>
Statement of net position:			
Cash and investments – unrestricted	\$ 109,842,733	\$ 1,758,254	\$ 761,140
Cash and investments – restricted	23,905,717	-	103,022
Cash held by custodian in escrow	85,000	-	-
	<u>\$ 133,833,450</u>	<u>\$ 1,758,254</u>	<u>\$ 864,162</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Restricted cash at June 30, 2020, consisted of:

	<u>Primary Government</u>
Unspent bond proceeds	\$ 15,710,943
Unspent grants	5,041,540
Cemetery perpetual care	2,889,147
State and federal forfeiture funds	264,087
	<u>\$ 23,905,717</u>

Employees' Retirement System Investments

All investments of the Employees' Retirement System (the "System") are to adhere to the Board of Trustees Statement of Policy and Guidelines adopted on August 13, 1997, as amended. The Investment Consultant and the Executive Secretary of the Board will review compliance with these policies and guidelines on a regular basis. They shall report to the Trustees on a timely basis any violations, exceptions, required reports, and/or requests made by the investment managers with respect to the stated policies.

In accordance with these guidelines, investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Each advisor has been apportioned funds assuming that they will be fully invested in his assigned sector with no more than 5-10% in cash equivalents. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the statement of plan net position. The fair value of the real estate investment and the real estate – timberland investment is based on an independent appraisal. Certain of the System's investments are held with partnerships or other common funds where value is reported on a net asset value (NAV) per share, and is estimated by the fund manager.

Based on an asset study completed in 2015, the Trustees implemented the following asset deployment (based upon market value) to best achieve the long-term goals of the System in terms of compound total rate of return and assumed risk:

Domestic Equities	30%
Bonds	30
International Equities	10
Emerging Markets	10
Real Estate	10
Real Estate – Timber	5
Private Equity	5

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

This target mix has been chosen for the aggregate total portfolio. From time to time, the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations be kept to a minimum. From time to time, the Trustees may redeploy assets among the managers to balance the portfolio in accordance with the above target. As the portfolio grows, additional specialties may be used in addition to the ones above. The aggregation of domestic and international equities will be considered as part of the total equity allocation and real estate will be considered as part of the bond allocation for these purposes.

For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Interest Rate Risk

The System had the following investments subject to interest rate risk as of June 30, 2020:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 – 6	6 – 10	More than 10
Corporate bonds	\$ 36,951,629	\$ 1,068,360	\$ 20,551,313	\$ 7,303,483	\$ 8,028,473
Government backed CMOs	14,120,688	1,977	-	-	14,118,711
Government bonds	13,969,136	-	7,002,787	1,485,561	5,480,788
Non-government backed CMOs	254,091	-	-	-	254,091
Government agencies	76,310	76,310	-	-	-
		<u>\$ 1,146,647</u>	<u>\$ 27,554,100</u>	<u>\$ 8,789,044</u>	<u>\$ 27,882,063</u>
Temporary cash investments	3,570,584				
Bond funds – maturity not determined	<u>-</u>				
Total – subject to interest rate risk	<u>\$ 68,942,438</u>				

These investments are included on the statement of fiduciary net position as:

Temporary cash investments	\$ 3,570,584
Corporate bonds and bond funds	37,205,720
U.S. government bonds	<u>28,166,134</u>
	<u>\$ 68,942,438</u>

The System's investment policy does not limit investment maturities.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

Credit Risk

The System's formal investment policy requires a minimum rating of A by Standard & Poor's for any corporate bond at the time the bond is acquired.

The System's exposure to credit risk as of June 30, 2020 is as follows:

Investment Type/Rating	AAA	AA	A	BBB	U.S. Government Guaranteed	Not rated	Total
Non-government backed							
CMOS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 254,091	\$ 254,091
Government agencies	-	76,310	-	-	-	-	76,310
Government backed							
CMOS	-	-	-	-	14,120,688	-	14,120,688
Government bond funds	-	-	-	-	13,191,015	778,121	13,969,136
Corporate bond funds	530,095	3,775,710	18,247,727	14,398,097	-	-	36,951,629
Short-term investments	-	-	-	-	-	3,570,584	3,570,584
	<u>\$ 530,095</u>	<u>\$ 3,852,020</u>	<u>\$ 18,247,727</u>	<u>\$ 14,398,097</u>	<u>\$ 27,311,703</u>	<u>\$ 4,602,796</u>	<u>\$ 68,942,438</u>

Concentration of Credit Risk

The System's formal policy limits investments in any corporate entity to 5.00% of the outstanding shares in a company or 15 times the average daily trading volume for that stock. The policy prohibits any one corporate bond holding from exceeding 10% of the portfolio, at market value. The policy also limits total bond holdings in any corporation to 10% of the long-term indebtedness of that corporation.

The System did not have any single investment over 5.00% of the total investments of the system.

Foreign Currency Risk

All foreign investments are valued in United States dollars. The asset allocation policy of the System allows the managers to invest in equity securities of any developed country provided that no more than 20% of the total assets are in any one developed country except Japan where the maximum is 25%.

Unfunded Commitments

The System had non-marketable alternative investments that have associated unfunded commitments at June 30, 2020. These investments were in private equity, which had a fair value of \$7,738,543 and unfunded commitments of \$3,026,957 at June 30, 2020.

Unfunded commitments are drawn down throughout the life of the investment based on the cash needs of each individual limited partnership or real estate manager. Limited partnerships with unfunded commitments generally have remaining lives of 4 to 10 years.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. The System has the following recurring fair value measurements as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by fair value level				
Equity securities				
Domestic equity funds	\$ 113,445,677	\$ -	\$ -	\$ 113,445,677
International equity funds	23,462,236	-	-	23,462,236
	<u>136,907,913</u>	<u>-</u>	<u>-</u>	<u>136,907,913</u>
Total equity securities				
Debt securities				
Corporate bond funds	-	36,951,629	-	36,951,629
U.S. government bond funds	-	14,046,567	-	14,046,567
Collateralized mortgage obligation	-	14,374,778	-	14,374,778
	<u>-</u>	<u>65,372,974</u>	<u>-</u>	<u>65,372,974</u>
Total debt securities				
	<u>-</u>	<u>65,372,974</u>	<u>-</u>	<u>65,372,974</u>
Total investments by fair value level	<u>\$ 136,907,913</u>	<u>\$ 65,372,974</u>	<u>\$ -</u>	<u>202,280,887</u>
Investments measured at NAV				
Real estate				
Real estate funds				37,169,395
Real estate funds – timberland				7,058,854
				<u>44,288,249</u>
Total real estate funds				
				<u>44,288,249</u>
Private equity funds				7,738,543
				<u>7,738,543</u>
Total investments measured at NAV				<u>51,966,792</u>
Total investments measured at fair value				<u>\$ 254,247,679</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

Fair Value (Continued)

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Government bonds, corporate bonds, and collateralized mortgage obligations classified in Level 2 of the fair value hierarchy are valued on the basis of evaluated prices provided by independent pricing services when such prices are believed to reflect the fair value of such securities. Such prices may be determined by taking into account a security's price, yield, maturity, call feature, rating, or institutional-size trading in similar groups of securities and developments related to specific securities.

Investments Measured at NAV

Investments measured at NAV per share are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Real estate funds	\$ 37,169,395	\$ -	Not eligible	N/A
Real estate funds – timberland	7,058,854	-	Not eligible	N/A
Private equity funds	<u>7,738,543</u>	<u>3,026,957</u>	Not eligible	N/A
Total investments measured at NAV	<u>\$ 51,966,792</u>	<u>\$ 3,026,957</u>		

Real estate funds. This type includes open-end diversified core real estate commingled funds which primarily invests in institutional quality industrial, multi-family, office, and retail properties located throughout the U.S. The fair values of the investments have been determined using NAV per share (or its equivalent) based on valuations from the fund managers using appraisals from independent appraisers, using various valuation methods, including the income approach, cost basis approach and discounted cash flow method. In most cases, a combination of these methods is used.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2. Deposits and Investments (Continued)

Investments Measured at the NAV (Continued)

Real estate funds – timberland. This type includes two funds which were established to invest and reinvest assets of members primarily in interests in real property, which is to be timberland and timber; contracts or agreements for the cutting and/or use of timber on timberland; and in such other assets as deemed appropriate to establish proper portions of liquid assets for the Funds. The fair values of the investments have been determined using NAV per share (or its equivalent) based on valuations from the fund managers which uses appraisals from independent appraisers which determine the value using cost approach, sales comparison approach or income approach.

Private equity funds. This type includes three closed-end commingled funds that take private ownership of companies. The fair values of the investments have been determined using the NAV per share (or its equivalent) of the ERS's ownership interest in partners' capital. All of the investments are generally considered to be illiquid investments. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will have a life from 6 to 12 years from inception. It is also possible for the investments to be sold in the secondary market.

Note 3. Property Taxes

The City levies real estate taxes on all real property on a fiscal year basis, at a rate enacted by the City Council on the assessed value of property (except public utility property) as determined by the Director of Real Estate Assessments of the City. The Commonwealth of Virginia assesses public utility property. Neither the City nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100% of fair market value and reassessed each year as of July 1 at which time property taxes attach as an enforceable lien. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property where construction is incomplete as of July 1, but completed during the year. Any taxes paid after the due date are subject to a 10% penalty. Real estate taxes are billed in equal semi-annual installments due December 5 and June 5. The tax rate effective for fiscal year 2020 was \$0.84 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles are based on 100% of fair market value of the property as of January 1 of each year. For a vehicle, the tax may be prorated for the length of time the vehicle is in the City. Personal property taxes do not create a lien on property. Interest at the rate of 10% per annum is added to the delinquent tax and penalty. The taxes receivable balance at June 30, 2020 includes amounts not yet received from the January 1, 2020 levy due June 5, 2020. Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. The tax rate for fiscal year 2020 was \$3.50 for motor vehicles and tangible property and \$1.50 for machinery and tools per \$100 of assessed value. Under the provisions of the Personal Property Tax Relief Act of 1998, the state's share of the local personal property tax payment is an annual amount of \$3,593,576.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 4. Receivables

Receivables consist of the following:

			Component Units	
	Governmental Activities	Business-Type Activities	Danville Public Schools	Industrial Development Authority
Receivables				
Taxes and licenses	\$ 15,154,150	\$ -	\$ -	\$ -
Accounts	347,680	22,302,963	-	71,250
Demolition	4,855,780	-	-	-
Public works	574,689	-	-	-
Juvenile detention	179,344	-	-	-
Accrued interest	3,473,030	-	-	-
Incentive grant funds recoverable	112,000	-	-	-
Miscellaneous	531,759	-	290,436	-
	25,228,432	22,302,963	290,436	71,250
Less: allowance for doubtful accounts	(5,972,254)	(3,865,624)	-	-
Net receivables	<u>\$ 19,256,178</u>	<u>\$ 18,437,339</u>	<u>\$ 290,436</u>	<u>\$ 71,250</u>

Note 5. Due From Other Governments

Amounts due from other governments consist of the following:

	Governmental Activities	Business-Type Activities	Component Unit Danville Public Schools
Federal and state funding:			
Airport runway	\$ 4,159,756	\$ -	\$ -
Taxiway intersection	14,176	-	-
CDBG grant	47,721	-	-
Hurricane Michael relief	6,122,152	-	-
Riverside improvements	431	-	-
Transportation operations	-	574,015	-
Education grants	-	-	4,833,354
State compensation board funding	441,067	-	-
Comprehensive service act funding	643,967	-	-
Social services funding	484,913	-	-
Other miscellaneous state and federal grants	925,909	122,767	-
Sales and communication taxes	2,100,884	-	-
	<u>\$ 14,940,976</u>	<u>\$ 696,782</u>	<u>\$ 4,833,354</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 6. Regulatory Assets

The City's Electric and Gas Funds apply regulatory accounting principles to certain power and gas costs, which result in regulatory assets. City statutes provide that the City utilities, over time, will adjust customers' electric and natural gas bills for changes between expected and actual costs of purchased gas and power.

Regulatory assets at June 30 consist of wholesale costs in the Gas and Electric Funds that have not yet been passed on to consumers, but are expected to be recovered through future rate differentials. The regulatory asset in the Electric Fund increased significantly in fiscal year 2014 – from approximately \$2,900,000 at June 30, 2013 to \$18,800,000 at June 30, 2014. This increase was driven by several factors: first, the City recognized a liability for stranded costs of approximately \$5,600,000; second, unexpected congestion charges of approximately \$4,800,000 were incurred in the winter of 2014; lastly, the remaining increase arose from ordinary differences between base power costs and charges to customers. In recognition of the significance of this balance, City Council approved an ordinance in September 2014 raising the City's statutory limit with respect to this asset to \$20,000,000, and acknowledging the expectation that the asset is expected to be recovered through future differentials. As of June 30, 2020 recoveries had reduced the asset to \$5,108,223. Recoveries are primarily accomplished through the City's power cost adjustment (PCA) rate component. Actions by future City Councils or other events that serve to limit rate increases could result in this regulatory asset becoming unrecoverable.

Note 7. Loans Receivable

The City provides several types of housing loans to low income citizens within the City through awards from the U.S. Department of Housing and Urban Development (HUD). Substantially all of the loans, except for those below \$3,000 in amount, are secured by a first or second deed of trust on the related real estate. These loans consist of the following:

Deferred loans – no monthly principal payments are due. The full amount of the loan becomes due if the house is no longer occupied as primary residence by the designated owner. No interest is charged on these loans.

Low interest loans – these loans are generally amortized over 10 years if under \$5,000 or over 20 years if over \$5,000. The loans bear interest at 4.00% to 6.00% and the maximum loan amount is \$40,000.

Forgivable loans – no interest is charged and 20% of the principal balance is forgiven at each anniversary date of the loan. The maximum forgivable loan amount is \$30,000 for houses under 1,400 square feet and \$40,000 for houses over 1,400 square feet.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 7. Loans Receivable (Continued)

Revitalization loans – As part of blight removal and revitalization efforts the City may rehabilitate a property through repair, demolition, or new construction, and then deed the property to the Danville Redevelopment Housing Authority (DRHA). The property must then be sold to qualified low income buyers, often through rent-to-own arrangements, and proceeds are returned to the City for similar reinvestments.

Loans receivable consist of the following:

Revitalization loans	\$ 343,250
Deferred loans	357,724
Low interest loans	725,816
Forgivable loans	<u>1,564,439</u>
	2,991,229
Less: allowance for doubtful accounts	<u>(2,027,555)</u>
	<u><u>\$ 963,674</u></u>

Note 8. Interfund Balances and Activity

Balances due to/from other funds consist of the following:

	Due To (Fund)	
	General Fund	Total
Due From (Fund)		
Community Development	\$ 16,353	\$ 16,353
Motorized Equipment	1,463,468	1,463,468
Central Services	200,526	200,526
Special Revenue	<u>3,314,207</u>	<u>3,314,207</u>
	<u><u>\$ 4,994,554</u></u>	<u><u>\$ 4,994,554</u></u>

The reasons for interfund receivables and payables arise primarily to provide short-term advances to other funds as needed. The General Fund may serve as a purchaser or source of liquidity for other funds in the normal course of operations.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8. Interfund Balances and Activity (Continued)

Transfers between funds for the current year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds:			
General Fund	\$ 15,353,000	\$ (5,432,050)	\$ 9,920,950
Capital Projects Fund	1,597,420	-	1,597,420
Economic Development Fund	2,150,000	-	2,150,000
Special Revenue Fund	1,420,000	-	1,420,000
	<u>\$ 20,520,420</u>	<u>\$ (5,432,050)</u>	<u>\$ 15,088,370</u>
Enterprise Funds:			
Wastewater Fund	\$ -	\$ (705,760)	\$ (705,760)
Water Fund	-	(950,300)	(950,300)
Gas Fund	-	(3,186,330)	(3,186,330)
Electric Fund	-	(10,429,610)	(10,429,610)
Telecommunication Fund	-	(81,000)	(81,000)
Transportation Fund	264,630	-	264,630
	<u>\$ 264,630</u>	<u>\$ (15,353,000)</u>	<u>\$ (15,088,370)</u>

Funds are transferred from the General Fund to the Transportation Fund because the latter operates for the benefit of the City.

Transfers from the General Fund to the Capital Projects Fund represent the City's budgeted pay-as-you-go funding for capital projects.

Transfers from the General Fund to the Special Revenue Fund represent City funds required to match grant program resources.

Transfers from the General Fund to the Economic Development Fund represent the City's support of ongoing economic development activity.

Transfers from the Enterprise Funds are received by the General Fund, and represent contributions from these funds to support the City's operations.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 9. Balances Between City and Component Units

Due to/from balances between the City and its component units are as follows:

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
Governmental Activities	\$ 7,095,418	\$ -
Component Units:		
Danville Public Schools	\$ -	\$ 2,292,983
Danville Industrial Development Authority – payable	-	260,435
Danville Industrial Development Authority – loan	-	4,542,000
	-	7,095,418
Less: long-term portion	-	(4,039,000)
Current portion	\$ -	\$ 3,056,418

On September 1, 2013, the IDA issued a taxable revenue bond in the amount of \$7,160,000. As part of the debt issuance documents, the City has agreed to appropriate annual payments to the IDA for debt service. This bond was refunded in fiscal year 2017, which brought the current payable to the IDA to \$4,542,000. The new interest rate for the bond is 2.3173% and is scheduled to be paid off in 2028.

These amounts are due in the following installments:

<u>Year Ending</u> <u>June 30,</u>	<u>Due From</u> <u>City To IDA</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 503,000	\$ 144,590
2022	520,000	127,352
2023	538,000	109,525
2024	557,000	91,074
2025	576,000	71,983
2026-2030	1,848,000	94,832
	<u>\$ 4,542,000</u>	<u>\$ 639,356</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 10. Component Unit IDA Leases

The IDA has operating leases to local companies with various terms and renewal options. These businesses have received incentives through the IDA to locate, expand, or remain in the Danville area. Lease payments are based on the principal loan balance the IDA owes on the individual properties. These leases have remaining terms of 3-5 years with option to extend between 8-15 years.

Future estimated minimum payments receivable under the operating leases are as follows:

Year Ending June 30,	
2021	\$ 702,982
2022	547,274
2023	366,610
2024	253,700
2025	247,950
2026-2030	<u>1,184,813</u>
	<u><u>\$ 3,303,329</u></u>

The IDA has also entered into certain sales-type leases, under which the lease payments are accounted for as a long-term receivable and the gain or loss on the sale of the underlying property has been recognized at the time of the lease agreement. Minimum future lease payments due under the sales-type leases are as follows:

Year Ending June 30,	
2021	\$ 33,900
2022	33,900
2023	33,900
2024	33,900
2025	33,900
Thereafter	<u>221,675</u>
	391,175
Less unearned income	<u>(94,402)</u>
Net investment in sales-type leases	<u><u>\$ 296,773</u></u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 11. Capital Assets

Changes in capital assets were as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 20,229,417	\$ 123,617	\$ -	\$ 20,353,034
Construction in progress	5,606,067	10,595,139	(2,714,714)	13,486,492
Total capital assets, not depreciated	<u>25,835,484</u>	<u>10,718,756</u>	<u>(2,714,714)</u>	<u>33,839,526</u>
Capital assets, depreciated:				
Buildings	58,744,343	989,069	-	59,733,412
Infrastructure	72,525,828	2,597,417	-	75,123,245
Furniture and other equipment	47,012,230	2,947,181	(1,492,950)	48,466,461
Total capital assets, depreciated	<u>178,282,401</u>	<u>6,533,667</u>	<u>(1,492,950)</u>	<u>183,323,118</u>
Less accumulated depreciation:				
Buildings	(23,623,759)	(1,593,941)	-	(25,217,700)
Infrastructure	(38,763,478)	(2,932,414)	-	(41,695,892)
Furniture and other equipment	(37,331,112)	(2,876,249)	1,418,736	(38,788,625)
Total accumulated depreciation	<u>(99,718,349)</u>	<u>(7,402,604)</u>	<u>1,418,736</u>	<u>(105,702,217)</u>
Total City capital assets, depreciated, net	<u>78,564,052</u>	<u>(868,937)</u>	<u>(74,214)</u>	<u>77,620,901</u>
Assets transferred from DPS*	77,837,094	-	-	77,837,094
Less accumulated depreciation	<u>(77,837,094)</u>	<u>-</u>	<u>-</u>	<u>(77,837,094)</u>
Total assets transferred from DPS, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, depreciated, net	<u>78,564,052</u>	<u>(868,937)</u>	<u>(74,214)</u>	<u>77,620,901</u>
Governmental activities capital assets, net	<u>\$ 104,399,536</u>	<u>\$ 9,849,819</u>	<u>\$ (2,788,928)</u>	<u>\$ 111,460,427</u>

* The Virginia Assembly permits the local option of creating a tenancy in common with the local school board when a city or county issues bonds for acquisition, construction, or improvement of public school property. As a result, certain school buildings purchased with the City's general obligation bonds are reported as part of the City's capital assets.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 11. Capital Assets (Continued)

Governmental Activities

Depreciation, not including \$979,798 reported in the internal service funds, was charged to government functions as follows:

General government administration	\$ 1,178,286
Judicial administration	82,299
Public safety	1,553,100
Public works	3,064,120
Health and welfare	30,095
Parks, recreation, and cultural	359,251
Community development	155,655
	<u>\$ 6,422,806</u>

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 1,477,714	\$ 1,029	\$ -	\$ 1,478,743
Construction in progress	21,832,350	9,305,905	(11,816,107)	19,322,148
	<u>23,310,064</u>	<u>9,306,934</u>	<u>(11,816,107)</u>	<u>20,800,891</u>
Total capital assets, not depreciated				
Capital assets, depreciated:				
Buildings and infrastructure	461,918,643	22,314,162	(116,710)	484,116,095
Furniture and other equipment	81,540,626	2,195,066	(2,222,669)	81,513,023
	<u>543,459,269</u>	<u>24,509,228</u>	<u>(2,339,379)</u>	<u>565,629,118</u>
Total capital assets, depreciated				
Less accumulated depreciation:				
Buildings and infrastructure	(194,218,235)	(12,049,280)	259,441	(206,008,074)
Furniture and other equipment	(59,533,942)	(2,568,765)	2,000,401	(60,102,306)
	<u>(253,752,177)</u>	<u>(14,618,045)</u>	<u>2,259,842</u>	<u>(266,110,380)</u>
Total accumulated depreciation				
Total capital assets, depreciated, net	289,707,092	9,891,183	(79,537)	299,518,738
	<u>289,707,092</u>	<u>9,891,183</u>	<u>(79,537)</u>	<u>299,518,738</u>
Business-type activities capital assets, net	<u>\$ 313,017,156</u>	<u>\$ 19,198,117</u>	<u>\$ (11,895,644)</u>	<u>\$ 320,319,629</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 11. Capital Assets (Continued)

Component Unit – Danville Public Schools

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 2,176,690	\$ -	\$ -	\$ 2,176,690
Construction in progress	950,551	-	(950,551)	-
Total capital assets, not depreciated	3,127,241	-	(950,551)	2,176,690
Capital assets, depreciated:				
Buildings	55,097,692	4,773,841	-	59,871,533
Furniture and other equipment	10,587,850	47,177	(43,060)	10,591,967
Total capital assets, depreciated	65,685,542	4,821,018	(43,060)	70,463,500
Less accumulated depreciation:				
Buildings	(45,290,620)	(653,946)	-	(45,944,566)
Furniture and other equipment	(6,727,085)	(973,969)	43,060	(7,657,994)
Total accumulated depreciation	(52,017,705)	(1,627,915)	43,060	(53,602,560)
Capital assets depreciated, net	13,667,837	3,193,103	-	16,860,940
Total capital assets, net	\$ 16,795,078	\$ 3,193,103	\$ (950,551)	\$ 19,037,630

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 11. Capital Assets (Continued)

Component Unit – Industrial Development Authority

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 9,988,226	\$ 259,000	\$ (493,255)	\$ 9,753,971
Construction in progress	<u>33,990</u>	<u>646,418</u>	<u>-</u>	<u>680,408</u>
Total capital assets, not depreciated	<u>10,022,216</u>	<u>905,418</u>	<u>(493,255)</u>	<u>10,434,379</u>
Capital assets, depreciated:				
Building	33,100,240	2,756,837	(9,432,238)	26,424,839
Equipment	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Total capital assets, depreciated, net	<u>33,175,240</u>	<u>2,756,837</u>	<u>(9,432,238)</u>	<u>26,499,839</u>
Less accumulated depreciation	<u>(6,410,767)</u>	<u>(767,601)</u>	<u>3,336,414</u>	<u>(3,841,954)</u>
Total capital assets, depreciated, net	<u>26,764,473</u>	<u>1,989,236</u>	<u>(6,095,824)</u>	<u>22,657,885</u>
Total capital assets, net	<u><u>\$ 36,786,689</u></u>	<u><u>\$ 2,894,654</u></u>	<u><u>\$ (6,589,079)</u></u>	<u><u>\$ 33,092,264</u></u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 12. Long-Term Liabilities

Following is a summary of the changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General obligation bonds					
– direct borrowing	\$ 45,384,496	\$ 9,190,594	\$ (8,678,276)	\$ 45,896,814	\$ 3,953,349
Bond premiums	1,799,722	1,177,230	(144,478)	2,832,474	-
Capital leases	162,276	261,325	(130,460)	293,141	124,760
Tobacco commission obligation (Note 25)	-	130,000	(18,000)	112,000	25,334
Compensated absences	1,796,721	2,892,823	(1,617,049)	3,072,495	2,765,247
Workers' compensation	1,768,701	517,026	(646,882)	1,638,845	441,668
	<u>\$ 50,911,916</u>	<u>\$ 14,168,998</u>	<u>\$ (11,235,145)</u>	<u>\$ 53,845,769</u>	<u>\$ 7,310,358</u>
<u>Business-Type Activities</u>					
General obligation bonds					
– direct borrowing	\$ 47,359,689	\$ 11,354,407	\$ (9,016,766)	\$ 49,697,330	\$ 3,969,374
Bond premiums	3,501,904	1,493,101	(298,756)	4,696,249	-
Capital leases	198,705	930,191	(285,714)	843,182	211,923
Landfill postclosure costs (Note 13)	1,080,000	-	(90,000)	990,000	90,000
Compensated absences	493,756	761,666	(444,380)	811,042	729,936
Workers' compensation	391,396	59,784	(293,767)	157,413	40,301
	<u>\$ 53,025,450</u>	<u>\$ 14,599,149</u>	<u>\$ (10,429,383)</u>	<u>\$ 57,195,216</u>	<u>\$ 5,041,534</u>

Compensated absences and workers' compensation, for governmental activities, are typically paid from the General Fund.

Tobacco Commission Obligation

The City, in conjunction with the IDA, has noted that certain grant recipients are not performing under their agreements with the City and Tobacco Commission. In accordance with the grant agreements, the City is liable to the Tobacco Commission up to the full amount of the Tobacco Commission funds provided in the original award. The City reached an agreement to repay these funds to the Tobacco Commission over four years, and will attempt to recover the funds from the grant recipients.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 12. Long-Term Liabilities (Continued)

General Obligation Public Improvement Bonds, Series 2019

On October 24, 2019, the City issued \$11,595,000 (less \$237,207 in underwriting fees and other issuance costs) of General Obligation Public Improvement Bonds, Series 2019A, consisting entirely of new money. On October 24, 2019, the City also issued \$8,950,000 (less \$198,781 in underwriting fees and other issuance costs) of General Obligation Public Improvement Bonds, Series 2019B, refunding the 2009A and 2010B bond issues in the amounts of \$1,478,590 and \$8,316,650, respectively. The City issued the Bonds to finance capital expenditures for general governmental projects, to refund the aforementioned bonds, and pay the costs of issuing the Bonds.

The following schedule represents all long-term debt of the City:

Description	Original Issue	Annual Amount	Interest Rate	Maturity	Outstanding June 30, 2020
General Obligation Bonds					
School Series 2001B – G.W.	\$ 6,512,513	\$ 296,369 – 371,160	3.10 – 5.10 %	07/15/2021	\$ 738,413
School Series 2001B – Langston	5,210,006	237,088 – 296,928	3.10 – 5.10	07/15/2021	590,731
School Series 2001A – Loan	2,500,000	125,000	3.10 – 5.10	07/15/2021	250,000
General Improvement					
Refunding 2009B	13,895,000	775,000 – 2,515,000	3.80 – 6.09	03/01/2022	1,600,000
General Improvement					
Refunding 2010A	12,925,000	355,000 – 895,000	2.00 – 5.00	09/01/2028	950,000
General Improvement 2010B	10,410,000	330,000 – 655,000	2.19 – 6.02	09/01/2020	370,000
General Improvement					
Refunding 2012A	6,395,000	860,000 – 1,215,000	2.70 – 3.50	03/01/2026	6,395,000
General Improvements and					
Refunding 2012B	7,170,000	210,000 – 670,000	2.00 – 4.00	03/01/2032	4,165,000
General Improvement 2013A	6,360,000	60,000 – 535,000	2.00 – 5.00	07/01/2038	475,000
General Improvement 2015A	9,845,000	350,000 – 665,000	2.00 – 3.375	08/01/2035	8,385,000
General Improvements and					
Refunding 2015B	10,565,000	260,000 – 1,170,000	3.00 – 5.00	08/01/2029	9,750,000
General Obligation 2016	19,830,000	125,000 – 1,415,000	2.824	03/01/2039	16,240,000
General Improvements and					
Refunding 2017B	18,310,000	375,000 – 1,560,000	3.00 – 5.00	09/01/2037	17,540,000
Qualified Zone Academy Bonds					
2016	1,600,000	106,667	N/A	12/01/2032	1,280,000
General Improvement 2018	7,015,000	215,000-500,000	3.50 – 5.00	09/01/2038	6,800,000
General Improvement 2019A	11,595,000	365,000-800,000	2.50 – 5.00	09/01/2039	11,595,000
General Improvements and					
Refunding 2019B	8,470,000	480,000-595,000	2.50 – 5.00	03/01/2037	8,470,000
	<u>\$ 158,607,519</u>				<u>\$ 95,594,144</u>
Capital leases	\$ 1,911,271	\$ 48,099 – 54,561	2.82 – 4.29 %	12/31/2022	\$ 1,136,323

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 12. Long-Term Liabilities (Continued)

Debt service for future years is as follows:

Year Ending June 30,	General Obligation Bonds					
	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 3,953,349	\$ 1,580,421	\$ 3,969,374	\$ 1,932,042	\$ 7,922,723	\$ 3,512,463
2022	4,059,158	1,429,810	4,045,597	1,754,516	8,104,755	3,184,326
2023	3,249,301	1,277,511	3,262,366	1,569,794	6,511,667	2,847,305
2024	3,396,253	1,159,497	3,375,414	1,414,206	6,771,667	2,573,703
2025	3,540,247	1,020,580	3,536,420	1,249,653	7,076,667	2,270,233
2026-2030	12,351,594	3,294,355	16,256,739	3,976,182	28,608,333	7,270,537
2031-2035	10,570,827	1,525,910	9,297,507	1,636,478	19,868,334	3,162,388
2036-2040	4,776,085	256,750	5,953,913	344,109	10,729,998	600,859
	<u>\$ 45,896,814</u>	<u>\$ 11,544,834</u>	<u>\$ 49,697,330</u>	<u>\$ 13,876,980</u>	<u>\$ 95,594,144</u>	<u>\$ 25,421,814</u>

Year Ending June 30,	Capital Leases			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 124,760	\$ 10,486	\$ 211,923	\$ 43,204
2022	101,853	6,259	188,076	33,331
2023	66,528	2,588	187,874	24,161
2024	-	-	124,098	14,630
2025	-	-	131,211	7,518
	<u>\$ 293,141</u>	<u>\$ 19,333</u>	<u>\$ 843,182</u>	<u>\$ 122,844</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 12. Long-Term Liabilities (Continued)

Component Unit Obligations

A summary of the changes in long-term liabilities reported by DPS and the IDA is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
DPS					
Compensated absences	\$ 1,345,235	\$ 814,730	\$ (619,000)	\$ 1,540,965	\$ 709,000
Lease purchase agreement	4,101,000	-	(189,000)	3,912,000	204,000
Entering retirement in phases plan	820,184	-	(491,667)	328,517	316,334
	<u>\$ 6,266,419</u>	<u>\$ 814,730</u>	<u>\$ (1,299,667)</u>	<u>\$ 5,781,482</u>	<u>\$ 1,229,334</u>
IDA					
Notes payable	\$ 15,781,845	\$ 4,157,015	\$ (9,296,122)	\$ 10,642,738	\$ 1,331,583
Revolving loan fund – USDA	99,000	-	-	99,000	-
Bonds payable	5,028,000	-	(486,000)	4,542,000	503,000
	<u>\$ 20,908,845</u>	<u>\$ 4,157,015</u>	<u>\$ (9,782,122)</u>	<u>\$ 15,283,738</u>	<u>\$ 1,834,583</u>

DPS – Lease Purchase Agreement

An equipment lease purchase agreement was executed on October 18, 2017 in the amount of \$4,242,000 to finance the energy performance contract for the purpose of the purchase and installation of specified energy saving equipment designed to save energy and reduce related costs for identified property and buildings owned by the Schools. The Schools recorded a liability for this agreement at the time it was executed. The obligation bears interest at 2.295% with principal and interest due annually from October 2018 through October 2032. The related equipment was purchased and installed over the fiscal years ended June 30, 2018 and 2019.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 12. Long-Term Liabilities (Continued)

Aggregate maturities are as follows:

<u>Year Ending June 30,</u>	<u>Lease Purchase Agreement</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 204,000	\$ 89,780
2022	220,000	85,099
2023	236,000	80,050
2024	253,000	74,633
2025	271,000	68,827
2026-2030	1,586,000	242,834
2031-2034	<u>1,142,000</u>	<u>53,428</u>
	<u>\$ 3,912,000</u>	<u>\$ 694,651</u>

Note 13. Landfill Postclosure Costs

The City closed its former landfill site in 1993. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure. The presence of certain contaminants has been detected in the groundwater on adjacent property, and the City is subject to a corrective action plan that requires continued monitoring of the site until at least 2031. Management estimates that remaining postclosure monitoring costs will be approximately \$990,000 as of June 30, 2020, which has been recorded as a liability in the Sanitation Fund. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

Note 14. Unavailable/Unearned Revenue

The components of unavailable/unearned revenues in the City's governmental activities and governmental funds are as follows:

Taxes receivable – unavailable	\$ 6,575,925
Deferred taxes – unearned	5,249,210
Advanced collections – unearned	11,165
Prepaid business licenses – unearned	120,144
Other receivables – unavailable	<u>1,161,499</u>
Total unavailable/unearned revenue – governmental funds	13,117,934
Less deferrals for unavailability	<u>(7,737,424)</u>
Deferred inflows – statement of net position	<u>\$ 5,380,510</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 15. Fund Balances

Fund balances are classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

	General Fund	Community Development Fund	Capital Projects Fund	Special Revenue	Nonmajor Governmental Funds	Total
Nonspendable:						
Prepays	\$ 757,539	\$ -	\$ -	\$ -	\$ -	\$ 757,539
Inventories	321,870	-	-	-	-	321,870
Cemetery perpetual care	-	-	-	-	2,889,147	2,889,147
Total nonspendable	<u>1,079,409</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,889,147</u>	<u>3,968,556</u>
Restricted for:						
Unspent bond proceeds	-	-	9,103,614	-	-	9,103,614
Police	58,782	-	-	-	-	58,782
Commonwealth Attorney	108,986	-	-	-	-	108,986
Fire department equipment and supplies	96,319	-	-	-	-	96,319
Other grants	-	-	-	2,045,961	2,995,579	5,041,540
Total restricted	<u>264,087</u>	<u>-</u>	<u>9,103,614</u>	<u>2,045,961</u>	<u>2,995,579</u>	<u>14,409,241</u>
Committed to:						
Capital projects	-	-	1,965,511	-	-	1,965,511
Stabilization	3,000,000	-	-	-	-	3,000,000
Sheriff – Project Lifesaver	241	-	-	-	-	241
Schools	3,814,752	-	-	-	-	3,814,752
Total committed	<u>6,814,993</u>	<u>-</u>	<u>1,965,511</u>	<u>-</u>	<u>-</u>	<u>8,780,504</u>
Assigned to:						
General administration	177,730	-	-	-	-	177,730
Judicial administration	18,358	-	-	-	-	18,358
Public safety	122,001	-	-	-	-	122,001
Public works	35,583	-	-	-	-	35,583
Health and welfare	44,285	-	-	-	-	44,285
Education	1,426,907	-	-	-	-	1,426,907
Parks, recreation, and cultural	40,403	-	-	-	-	40,403
Community development	72,556	950,011	-	777,179	6,457,897	8,257,643
Total assigned	<u>1,937,823</u>	<u>950,011</u>	<u>-</u>	<u>777,179</u>	<u>6,457,897</u>	<u>10,122,910</u>
Unassigned	<u>33,214,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,214,777</u>
Total fund balance	<u>\$ 43,311,089</u>	<u>\$ 950,011</u>	<u>\$ 11,069,125</u>	<u>\$ 2,823,140</u>	<u>\$ 12,342,623</u>	<u>\$ 70,495,988</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 16. Summary of Pension Related Matters

The City and the Schools participate in several employee pension plans as described in Notes 17-20. Following is a summary of key pension-related financial statement elements lifted from those notes.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Danville Public Schools</u>
Net pension asset	\$ 9,509,646	\$ 2,610,070	\$ 12,119,716	\$ 71,290
Deferred outflows of resources:				
Differences between expected and actual experience:				
Danville ERS	\$ 5,461,627	\$ 1,243,369	\$ 6,704,996	\$ -
VRS	-	-	-	31,404
Net difference between projected and actual earnings on pension plan investments:				
Danville ERS	7,301,829	2,211,955	9,513,784	-
Change in actuarial assumptions:				
Danville ERS	1,679,308	508,715	2,188,023	-
VRS	487,280	-	487,280	145,465
VRS teacher cost sharing plan	-	-	-	5,514,120
Pension contributions subsequent to measurement date:				
VRS teacher cost sharing plan	-	-	-	5,856,953
VRS	625,011	-	625,011	90,525
Changes in proportion and related differences – VRS Teacher cost sharing plan	-	-	-	3,929,971
	<u>\$ 15,555,055</u>	<u>\$ 3,964,039</u>	<u>\$ 19,519,094</u>	<u>\$ 15,568,438</u>
Net pension liability	<u>\$ 2,236,533</u>	<u>\$ -</u>	<u>\$ 2,236,533</u>	<u>\$ 55,684,997</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 16. Summary of Pension Related Matters (Continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Danville Public Schools</u>
Deferred inflows of resources:				
Difference between expected and actual experience:				
VRS Teacher cost sharing plan	\$ -	\$ -	\$ -	\$ 1,222,710
ERS	1,208,692	290,247	1,498,939	-
VRS	224,889	-	224,889	38,703
Net difference between projected and actual earnings on pension plan investments:				
Danville ERS	1,457,761	441,602	1,899,363	-
VRS Teacher cost sharing plan	-	-	-	3,565,746
VRS	217,917	-	217,917	73,875
Change in actuarial assumptions:				
VRS	17,780	-	17,780	-
Changes in proportion and related differences – VRS Teacher cost sharing plan	-	-	-	2,742,487
	<u>\$ 3,127,039</u>	<u>\$ 731,849</u>	<u>\$ 3,858,888</u>	<u>\$ 7,643,521</u>
Pension expense (benefit):				
Danville ERS	\$ 7,320,087	\$ 2,217,486	\$ 9,537,573	\$ -
VRS Teacher cost sharing plan	-	-	-	4,804,958
VRS	508,342	-	508,342	156,359
	<u>\$ 7,828,429</u>	<u>\$ 2,217,486</u>	<u>\$ 10,045,915</u>	<u>\$ 4,961,317</u>

Note 17. Danville Employees' Retirement System

Plan Description

The Employees' Retirement System of the City of Danville, Virginia (ERS), a single-employer defined benefit plan, was established on January 1, 1946, and was placed under the management of the Board of Trustees for the purpose of providing retirement, disability, and death benefits for full-time permanent employees in accordance with Chapter 32 of the *Danville City Code*. The City makes contributions to the ERS, which acts as administrator. As such, the ERS functions as an investment and administrative agent for the City with respect to the plan. The ERS is a fiduciary fund and is included in this report as a pension trust fund.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Plan Description (Continued)

The retirement allowance for a public safety employee consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1/50th or 2.00% of the final three-year average salary multiplied by the number of years of creditable service. A public safety employee, with at least five years of service, may retire early after reaching the age of 55 and receive reduced benefits. Effective September 1, 2018, for public safety employees, the benefit multiplier changed from 2.00% to 2.20%.

Pension provisions include disability benefits whereby a member who becomes totally and permanently incapacitated and who has completed five years of creditable service is eligible to receive a disability retirement allowance. The allowance begins at the time of the disability and is based on creditable service to date and a projection of creditable service assuming no disability. The allowance is offset by any workers' compensation benefits if the disability is work related.

If, after five years of service, an active member should die at any time prior to retirement, a retirement allowance shall be payable to either the spouse, minor child, or parent of the member. Such retirement allowance will be continued during the lifetime of such person, or in the case of a minor child, until such time as the child dies or attains majority. For members employed prior to October 1, 1991, the beneficiary may elect to receive as a lump sum the member's accumulated contributions, with interest, in lieu of any other benefits under the ERS.

Employees Covered by Benefit Terms

As of the July 1, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Members</u>
Inactive members:	
Terminated vested members	318
Retired members	<u>705</u>
Total inactive members	1,023
Active members	<u>929</u>
Total covered employees	<u><u>1,952</u></u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Contributions

Contributions made by the City on behalf of active members are established by the City of Danville, based on actuarial estimates (performed annually on July 1) of future plan benefits to be paid. Since March 1, 1979, employees' contributions have been paid by the City. Contributions for employees hired after September 30, 1991 are considered to be 100% City contributions. These contributions, like the City's portion of pre-October 1, 1991 employees, vest after five years of creditable service. The contribution rate made on behalf of active members is currently 5.315% of compensation for general employees and 16.089% of compensation for public safety employees. Contributions to the pension plan from the City were \$3,608,286 and \$4,782,977 for the years ended June 30, 2020 and 2019, respectively.

Employees hired after September 1, 2019 are required to make contributions to the plan. The contribution rate made by active members is currently 2.66% of compensation for general employees and 5% of compensation for public safety employees.

The portion of contributions to the plan made by the City on behalf of members' vests immediately with the employees. The remainder of the contributions vests after five years of creditable service.

Prior to 2013, the City generally awarded cost-of-living adjustments (COLAs) to retirees, and an expectation for COLAs was included in assumptions used to calculate the actuarial accrued liability. In 2012, the City Council approved an ordinance to state that retirees will no longer receive COLAs, effective July 1, 2013. On the same date, the City Council adopted a resolution to approve a new retiree bonus policy. The retiree bonus policy calls for a one-time bonus for retirees each year that certain criteria are met. In no case would the retiree bonus exceed 50% of a retiree's monthly benefit. The bonuses will be funded directly from the City's budget, and must be approved by City Council when bonus criteria are met. Council may choose to follow, modify, or ignore the bonus policy. The first such bonus, totaling \$415,000, was awarded in the fall of 2014, and was recognized as a contribution into the plan for the year ending June 30, 2015. The most recent bonus was issued in June 2019, and was for \$259,890. No retiree bonuses were issued for 2020.

Measurement Date

The City's net pension asset was measured as of June 30, 2020. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of July 1, 2019, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of July 1, 2019, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

Inflation	2.75%
Salary increases, including inflation	5.75% for the first 15 years; 3.75% after Police/Fire
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of actuarial experience analysis during the 2000 to 2010 time period. The next assumption review is scheduled for the July 1, 2020 valuation date.

Actuarial Cost Method

The method of valuation used for pension benefits is called the Entry Age Normal Method. Under this method, investment gains and losses are smoothed over five years, and an open 30 year level dollar amortization of unfunded liability is used while the funding ratio is near or above 100%.

Employees Included in the Calculations

All regular, full-time employees on the valuation date are included in the calculations. Former employees or their survivors who are entitled to an immediate or deferred benefit under the provisions of the plan as indicated by the employee data are also included.

Actuarial Assumptions

Mortality: Healthy and Disabled Lives

RP-2000 Mortality Table.

Disability:

General Employees

300% of United Auto Workers Disability rates.

Policemen and Firemen

400% of United Auto Workers Disability rates.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Actuarial Assumptions (Continued)

Salary Progression:

Salaries are assumed to increase at a rate of 4.00% per year for all employees of which 3.00% is due to expected inflation. No portion of membership payroll is expected to increase due to growth in the active group size.

Investment Return:

7.00% compounded annually.

Plan Expenses:

Certain administrative expenses are now being paid from the trust fund. These expenses are not considered to be material and are not explicitly reflected in the valuation.

Retirement Age:

General Employees	
Age	Probability of Retirement
55-59	0.045
60-61	0.083
62	0.107
63-64	0.137
65-69	0.250
70+	1.000
Policemen and Firemen	
Age	Probability of Retirement
55-57	0.637
58-59	0.110
60-64	0.251
65+	1.000

Future Post-Retirement Cost-of-Living Increases: None

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Actuarial Assumptions (Continued)

Retirement Age: (Continued)

For the purpose of valuing death benefits, all male employees are assumed to be married to a spouse three years younger and all female employees are assumed to be married to a spouse three years older.

For purposes of determining projected benefits payable from member contributions, those contributions are assumed to earn 5.00% interest compounded annually.

Projected benefits are limited to the federal (415) limitation for defined benefit plans.

Total contributions made by the City have been included in the calculations as of July 1, 2020.

The Entry Age Normal method used in this report was adopted effective July 1, 1994.

The rates assumed for salary progression, investment return, and future post-retirement cost-of-living increases have been adopted effective July 1, 2010 and revised July 1, 2013. All other actuarial assumptions used for the July 1, 2014 valuation were adopted effective July 1, 2002.

Pension Plan Fiduciary Net Position

Detailed information about the Employees' Retirement System of the City of Danville, Virginia's Fiduciary Net Position is available in the separately issued 2020 Comprehensive Annual Financial Report (CAFR). A copy of the 2020 ERS CAFR may be downloaded from the City's website at <http://www.danville-va.gov/360/Employees-Retirement-System-Board> or by writing to the Finance Director, 427 Patton Street, Danville, VA 24541.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. The risk adjustment may also reflect the City's selection of a more conservative assumption. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, and the final investment return assumption, are summarized in the following table:

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Asset Class (Strategy)	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Domestic Equity	5.75 %	40.00 %
International Equity	6.25	10.00
Fixed Income – U.S. Investment Grade	1.65	30.00
Private Equity/Timber	6.25	10.00
Real Estate	4.50	10.00
Cash Equivalents	0.40	0.00
 Total weighted average real return	 4.50	 <u>100.00 %</u>
 Inflation	 <u>2.75</u>	
 Total Return without Adjustment	 7.25	
 Risk Adjustment	 <u>(0.25)</u>	
 Total Expected Return	 <u>7.00 %</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2019	\$ 234,107,902	\$ 262,304,563	\$ (28,196,661)
Changes for the year:			
Service cost	4,373,375	-	4,373,375
Interest	16,186,089	-	16,186,089
Differences between expected and actual experience	6,022,813	-	6,022,813
Contributions – employer	-	3,608,286	(3,608,286)
Contributions – employee	-	50,823	(50,823)
Change in benefit terms	-	-	-
Net investment income	-	6,973,812	(6,973,812)
Benefit payments, including refunds of employee contributions	(14,752,377)	(14,752,377)	-
Administrative expenses	-	(127,589)	127,589
Net changes	11,829,900	(4,247,045)	16,076,945
Balances at June 30, 2020	\$ 245,937,802	\$ 258,057,518	\$ (12,119,716)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the City's ERS plan using the discount rate of 7.00%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
City's net pension asset (liability)	\$ (15,683,409)	\$ 12,119,716	\$ 35,535,652

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 17. Danville Employees' Retirement System (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the City recognized pension expense for the ERS of \$9,537,573. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the ERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,704,996	\$ (1,498,939)
Change in assumptions	2,188,023	-
Net difference between projected and actual earnings on pension plan investments	9,513,784	(1,899,363)
	<u>\$ 18,406,803</u>	<u>\$ (3,398,302)</u>

In future years, the above deferred outflows and inflows will be recognized as an increase to pension expense as follows:

Year Ending June 30,	Increase to Pension Expense
2021	\$ 3,298,433
2022	4,178,113
2023	4,090,368
2024	3,441,587
Thereafter	-

Note 18. Virginia Retirement System

Plan Description

All constitutional officers that are full-time, salaried permanent employees of the City, (the "Political Subdivision") are automatically covered by the VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the "System") along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan is as follows:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Average Final Compensation** – A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.
- **Normal Retirement Age** – Age 65.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
- **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
- **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.
- **Normal Retirement Age** – Normal Social Security retirement age.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
 - **Eligibility** – Same as Plan 1.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Retirement Contributions** – A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service** –
 - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting** –
 - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Calculating the Benefit –**
 - **Defined Benefit Component:** See definition under Plan 1.
 - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
- **Normal Retirement Age –**
 - **Defined Benefit Component:** Same as Plan 2.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
 - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
 - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component –** Same as Plan 2.
 - **Defined Contribution Component –** Not Applicable.
 - **Eligibility –** Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** –
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.
 - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
 - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Members</u>
Inactive members or their beneficiaries currently receiving benefits	<u>89</u>
Inactive members:	
Vested inactive members	15
Non-vested inactive members	40
Inactive members active elsewhere in VRS	<u>54</u>
Total inactive members	<u>109</u>
Active members	<u>130</u>
Total covered employees	<u><u>328</u></u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The political subdivision's contractually required contribution rate for the year ended June 30, 2020 was 11.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$625,011 and \$584,271 for the years ended June 30, 2020 and 2019, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Actuarial Assumptions (Continued)

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, no changes to salary scale, and decreased discount rate from 7.00% to 6.75%.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	5.61 %	1.91 %
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	100.00 %		5.13
	Inflation		2.50
	*Expected arithmetic nominal return		7.63 %

- * The above allocation provides for a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever is greater. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2018	\$ 26,584,151	\$ 24,816,573	\$ 1,767,578
Changes for the year:			
Service cost	640,791	-	640,791
Interest	1,812,343	-	1,812,343
Benefit changes	-	-	-
Differences between expected and actual experience	(238,743)	-	(238,743)
Assumption changes	729,708	-	729,708
Contributions – employer	-	589,705	(589,705)
Contributions – employee	-	262,020	(262,020)
Net investment income	-	1,640,864	(1,640,864)
Benefit payments, including refunds of employee contributions	(1,373,716)	(1,373,716)	-
Refunds of employee contributions	(13,346)	(13,346)	-
Administrative expenses	-	(16,411)	16,411
Other changes	-	(1,034)	1,034
Net changes	1,557,037	1,088,082	468,955
Balances at June 30, 2019	\$ 28,141,188	\$ 25,904,655	\$ 2,236,533

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 6.75%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability (asset)	\$ 5,458,945	\$ 2,236,533	\$ (345,105)

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 18. Virginia Retirement System (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the political subdivision recognized pension expense of \$508,342. At June 30, 2020, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 224,889
Change in assumptions	487,280	17,780
Net difference between projected and actual earnings on pension plan investments	-	217,917
Contributions subsequent to measurement date	625,011	-
Total	<u>\$ 1,112,291</u>	<u>\$ 460,586</u>

The \$625,011 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2021	\$ 85,644
2022	(71,210)
2023	(3,129)
2024	15,389

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 19. Virginia Retirement System – School Nonprofessional Employees

Nonprofessional employees at Danville Public Schools also participate in the Virginia Retirement System. The plan descriptions and actuarial assumptions are substantively the same as those described in Note 18.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Members</u>
Inactive members or their beneficiaries currently receiving benefits	<u>45</u>
Inactive members:	
Vested inactive members	4
Non-vested inactive members	12
Inactive members active elsewhere in VRS	<u>6</u>
Total inactive members	<u>22</u>
Active members	<u>60</u>
Total covered employees	<u><u>127</u></u>

Contributions

The school division's contractually required contribution rate for the year ended June 30, 2020 was 3.82% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

Contributions to the pension plan from the school division were \$90,525 and \$86,013 for the years ended June 30, 2020 and June 30, 2019, respectively.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2018	\$ 8,176,028	\$ 8,538,195	\$ (362,167)
Changes for the year:			
Service cost	190,357	-	190,357
Interest	552,528	-	552,528
Changes in assumptions	-	-	-
Differences between expected and actual experience	48,564	-	48,564
Contributions – employer	224,954	-	224,954
Contributions – employee	-	73,060	(73,060)
Net investment income	-	103,220	(103,220)
Benefit payments, including refunds of employee contributions	(565,540)	555,378	(555,378)
Refunds of employee contributions	-	-	-
Administrative expenses	-	(5,785)	5,785
Other changes	-	(347)	347
Net changes	450,863	159,986	290,877
Balances at June 30, 2019	\$ 8,626,891	\$ 8,698,181	\$ (71,290)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the school division using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
School division's net pension liability (asset)	\$ 904,588	\$ (71,290)	\$ (861,324)

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the school division recognized pension expense (benefit) of \$156,359. At June 30, 2020, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,404	\$ 38,703
Change in assumptions	145,465	-
Net difference between projected and actual earnings on pension plan investments	-	73,875
Employer contributions subsequent to the measurement date	90,525	-
Total	<u>\$ 267,394</u>	<u>\$ 112,578</u>

The \$90,525 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2021	\$ 58,241
2022	1,672
2023	(1,315)
2024	5,693

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2020, approximately \$8,439 was payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan

General Information about the Teacher Cost Sharing Plan

Plan Description

All full-time, salaried permanent (professional) employees of Virginia public school divisions, including Danville Public Schools, (the “School Division”), are automatically covered by the VRS Teacher Retirement Plan upon employment. This multiple employer, cost sharing plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employers pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those referenced in Note 18.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division’s contractually required contribution rate for the year ended June 30, 2020 was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were \$5,856,953 and \$5,611,419 for the years ended June 30, 2020 and June 30, 2019, respectively.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the school division reported a liability of \$55,684,997 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. For the year ended June 30, 2019, the school division's proportion was 0.4231% as compared to 0.3857% at June 30, 2018.

For the year ended June 30, 2020, the school division recognized pension expense of \$4,804,958. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2020, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,222,710
Change in assumptions	5,514,120	-
Net difference between projected and actual earnings on pension plan investments	-	3,565,746
Changes in proportion and differences between Employer contributions and proportionate share of contributions	3,929,971	2,742,487
Employer contributions subsequent to the measurement date	5,856,953	-
Total	<u>\$ 15,301,044</u>	<u>\$ 7,530,943</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$5,856,953 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2021	\$ (391,320)
2022	(1,033,923)
2023	839,444
2024	1,665,333
2025	833,614

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2019, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total pension liability	\$ 49,683,336
Plan fiduciary net position	<u>36,522,769</u>
Employers' net pension liability (asset)	<u>\$ 13,160,567</u>
Plan fiduciary net position as a percentage of the total pension liability	73.51%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability of the school division using the discount rate of 6.75%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	\$ 83,830,111	\$ 55,684,997	\$ 32,414,200

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2020, approximately \$198,376 was payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

Note 21. Other Postemployment Benefits – Local Plan

Plan Description

The City is a single, non-participating employer of the State's Line of Duty Act (LODA), and therefore, directly funds the cost of benefits provided under LODA. Eligible public safety employees and volunteers of the City who are disabled or killed in the line of duty and their eligible family members are included under the LODA plan.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 21. Other Postemployment Benefits – Local Plan (Continued)

Benefits Provided

The City continues to pay the LODA health benefit plan premiums for any claimant and/or eligible spouse and family member to the Department of Health Resources and Management (DHRM), Virginia; pays death benefit of \$100,000 (if death occurs as a direct result of performing duty; amount may vary for other causes of death) to eligible family members, funeral benefits (if requested); any administrative fees associated with the LODA claims and retroactive health insurance premium reimbursements, if applicable.

Effective July 1, 2017, benefits are not covered upon eligibility for Medicare due to age, income greater than pre-disability income, surviving spouses who remarry. Existing participants with a death or disability eligibility date prior to July 1, 2017 and current/existing spouses who remarry prior to July 1, 2017 are grandfathered.

Employees Covered by Benefit Terms

The number of participants at July 1, 2019 was as follows:

Retirees currently receiving benefits	19
Active employees *	<u>321</u>
Total	<u><u>340</u></u>

* Includes 83 Danville Life Saving Crew members.

Total OPEB Liability

The City's total OPEB liability of \$6,514,340 was measured as of June 30, 2020 and was determined based on an actuarial valuation performed as of July 1, 2019.

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases, including inflation	3.00%
Healthcare cost trend rates	6.25% Initial, 4.25% Ultimate
Retirees' share of benefit-related costs	Same as Health Care Trend
Actuarial cost method	Entry Age Normal

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 21. Other Postemployment Benefits – Local Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Participation: 30% of the eligible active population are assumed to be eligible for LODA disability benefits.

Active Crew Members: Age and gender information was provided by the City for 94 Active Crew Members. Date of hire was assumed to be at age 30, or current age less one year, if younger than 30.

The demographic assumptions below are based on an experience study conducted for the City's public safety employees. The same assumptions were applied to all active participants for the valuation.

Retirement Rates:

<u>Age</u>	<u>Assumed Rate</u>
50-55	5.00%
56	6.30
57	7.80
58	9.80
59	12.20
60	15.30
61	19.10
62	23.80
63	29.80
64	37.30
65+	100.00

Disability Rates:

<u>Age</u>	<u>Assumed Rate</u>	
	<u>Male</u>	<u>Female</u>
25	0.12%	0.20%
35	0.20	0.32
45	0.40	0.60
55	1.44	1.96
60	3.60	4.84
65	0.00	0.00

Mortality rates: RP-2000 Tables with one-year setback for males and one year set forward for females projected to 2025 using Scale BB. For pre-retirement deaths, 75% of these rates are used. For disabled members, the RP-2000 disabled tables are used.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study performed on July 1, 2019 for the City's public safety employees. The same assumptions were applied to all participants.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 21. Other Postemployment Benefits – Local Plan (Continued)

Changes in the Total OPEB Liability

Balance at June 30, 2019	\$ 7,632,689
Changes for the year:	
Service cost	138,516
Interest	239,373
Benefit changes	-
Differences between expected and actual experience	(1,825,267)
Assumption or other input changes	571,392
Benefit payments	(242,463)
Other changes	100
Net changes	(1,118,349)
Balance at June 30, 2020	\$ 6,514,340

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.45%) or one percentage point higher (3.45%) than the current discount rate:

	1.00% Decrease (1.45%)	Current Discount Rate (2.45%)	1.00% Increase (3.45%)
Total OPEB liability	\$ 7,476,936	\$ 6,514,340	\$ 5,756,691

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3.25%) or one percentage point higher (5.25%) than the current healthcare cost trend rates:

	1.00% Decrease (3.25%)	Current Ultimate Trend Rate (4.25%)	1.00% Increase (5.25%)
Total OPEB liability	\$ 5,710,109	\$ 6,514,340	\$ 7,529,614

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 21. Other Postemployment Benefits – Local Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the City recognized OPEB expense of \$324,062. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,694,891
Change in assumptions	922,569	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 922,569</u>	<u>\$ 1,694,891</u>

The \$922,569 reported as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2021	\$ (53,927)
2022	(53,927)
2023	(53,927)
2024	(53,927)
Thereafter	(556,614)

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Schools also participate in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and other employees are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

Teacher Employee Health Insurance Credit Program

All full time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit (HIC) Program. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Specific information about the Teacher HIC is available at <https://www.varetire.org/retirees/insurance/healthinscredit/index.asp>

The GLI and Teacher HIC are administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Both of these plans are considered multiple employer, cost sharing plans.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools
(Continued)

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2020 Contribution – general employees	\$10,438
June 30, 2020 Contribution – teachers	\$198,344
June 30, 2019 Contribution – general employees	\$9,978
June 30, 2019 Contribution – teachers	\$189,587

Teacher Health Insurance Credit Program

Governed by:	<i>Code of Virginia</i> 51.1-1401(E) and may be impacted as a result of funding provided to school divisions by the Virginia General Assembly.
Total rate:	1.20% of covered employee compensation.
June 30, 2020 Contribution	\$448,252
June 30, 2019 Contribution	\$429,856

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools
(Continued)

OPEB Liabilities, OPEB Expense, and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2019 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers.

General Employees

June 30, 2020 proportionate share of liability	\$ 187,000
June 30, 2019 proportion	0.01151%
June 30, 2018 proportion	0.01015%
June 30, 2020 expense	\$ 8,000

Teachers

June 30, 2020 proportionate share of liability	\$ 2,978,000
June 30, 2019 proportion	0.18300%
June 30, 2018 proportion	0.16574%
June 30, 2020 expense	\$ 85,000

Teacher Health Insurance Credit Program

June 30, 2020 proportionate share of liability	\$ 5,590,000
June 30, 2019 proportion	0.42705%
June 30, 2018 proportion	0.38827%
June 30, 2020 expense	\$ 483,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

Group Life Insurance Program – General School Employees

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,000	\$ 2,000
Change in assumptions	12,000	6,000
Net difference between projected and actual earnings on OPEB plan investments	-	4,000
Changes in proportion	25,000	3,000
Employer contributions subsequent to the measurement date	10,438	-
	<u>\$ 59,438</u>	<u>\$ 15,000</u>

Group Life Insurance Program – Teachers

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 198,000	\$ 39,000
Change in assumptions	188,000	90,000
Net difference between projected and actual earnings on OPEB plan investments	-	61,000
Changes in proportion	230,000	106,000
Employer contributions subsequent to the measurement date	198,344	-
	<u>\$ 814,344</u>	<u>\$ 296,000</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

Teacher Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 31,000
Change in assumptions	130,000	39,000
Net difference between projected and actual earnings on OPEB plan investments	-	-
Changes in proportion	433,000	216,000
Employer contributions subsequent to the measurement date	448,252	-
	<u>\$ 1,011,252</u>	<u>\$ 286,000</u>

The deferred outflows of resources related to OPEB resulting from the Schools' contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense		
	Group Life Insurance Program – General Employees	Group Life Insurance Program – Teachers	Teacher Health Insurance Credit Program
2021	\$ 4,663	\$ 26,282	\$ 28,163
2022	4,663	26,285	28,157
2023	6,293	52,192	30,607
2024	8,275	84,366	29,787
2025	7,823	99,885	43,036
Thereafter	2,283	30,990	117,250

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Teachers	3.50 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.75%
• Ages 65 and older	5.50 – 4.75%
Investment rate of return, net of expenses, including inflation	6.75%

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans.

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program	Teacher Employee HIC OPEB Plan
Total OPEB Liability	\$ 3,390,238	\$ 1,438,114
Plan fiduciary net position	1,762,972	129,016
Employers' net OPEB liability (asset)	1,627,266	1,309,098
Plan fiduciary net position as a percentage of total OPEB liability	52.00%	8.97%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools (Continued)

The long-term expected rate of return on VRS investments was determined using a log-normal distribution analysis.

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 6.75%, because the expectation is that all future benefit payments will be funded by the Plans' fiduciary net position.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liabilities of the Schools, as well as what the Schools' net OPEB liabilities would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability – general employees	\$ 246,058	\$ 187,000	\$ 139,646
GLI Net OPEB liability – teachers	3,912,133	2,978,000	2,220,258
Teacher HIC Net OPEB liability	6,256,719	5,590,499	5,024,546

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan – Schools

At June 30, 2020, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

• Group Life Insurance – general employees	\$ 2,534
• Group Life Insurance – teachers	12,663
• Teacher Employee Health Insurance Credit	11,554

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools (Continued)

Following is a summary of key financial statement elements lifted from the Schools' OPEB plans described above.

	<u>Danville Public Schools</u>
Deferred outflows of resources	
OPEB contributions subsequent to measurement date:	
GLI – general employees	\$ 10,438
GLI – teachers	198,344
HIC – teachers	448,252
Changes in proportion and related differences – cost sharing plans:	
GLI – general employees	25,000
GLI – teachers	230,000
HIC – teachers	433,000
Changes in assumptions:	
GLI – general employees	12,000
GLI – teachers	188,000
HIC – teachers	130,000
Difference between expected and actual experience:	
GLI – general employees	12,000
GLI – teachers	198,000
	<u>\$ 1,885,034</u>
Net OPEB liability:	
GLI – general employees	\$ 187,000
GLI – teachers	2,978,000
HIC – teachers	5,590,000
	<u>\$ 8,755,000</u>
Deferred inflows of resources:	
Difference between expected and actual experience:	
GLI – general employees	\$ 2,000
GLI – teachers	39,000
HIC – teachers	31,000
Changes in assumptions:	
GLI – general employees	6,000
GLI – teachers	90,000
HIC – teachers	39,000

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 22. Other Postemployment Benefits Liability – Virginia Retirement System Plans – Schools (Continued)

	<u>Danville Public Schools</u>
Deferred inflows of resources: (Continued)	
Net difference between projected and actual earnings on OPEB plan investments:	
GLI – general employees	\$ 4,000
GLI – teachers	61,000
Changes in proportion and related differences – cost sharing plans:	
GLI – general employees	3,000
GLI – teachers	106,000
HIC – teachers	216,000
	<u>\$ 597,000</u>

Note 23. Service Contracts

Power Purchase Contracts – American Municipal Power

The City purchases substantially all of its power through American Municipal Power, Inc. (AMP) through contracts described below. AMP has issued debt to fund the various projects, and although this is not directly an obligation of the City, the related agreements are “take-or-pay” contracts, under which the City is obligated to purchase a minimum amount of power.

AMP Fremont Energy Center (AFEC) (87 members)

On February 3, 2011 American Municipal Power, Inc. (AMP) entered into a non-binding memorandum of understanding (MOU) with FirstEnergy Corp. regarding the Fremont Energy Center (“AFEC”). AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio. The closing date to purchase was July 28, 2011. AMP’s acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

To provide permanent financing for the AFEC Project on June 29, 2012 AMP issued in two series \$546,085,000 of its AMP Fremont Center Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AMP Fremont Energy Center (“AFEC”) and development costs and completion of construction and commissioning of AFEC; (ii) to make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures allocable to AMP’s 90.69% undivided ownership interest in AFEC; (iii) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

AMP Fremont Energy Center (AFEC) (87 members) (Continued)

On January 21, 2012 the AMP Fremont Energy Center (“AFEC”) began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency (“MPPA”) and entered into a power sales contract with Central Virginia Electric Cooperative (“CVEC”) for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of the 87 members, pursuant to a take-or-pay power sales contract.

As of January 1, 2020 the outstanding obligation on the Fremont Energy Center (“AFEC”) on AMP’s books is approximately \$489,280,000.

The City of Danville has executed a take-or-pay power sales contract with AMP for 37,300 kW or 8.03% of capacity and associated energy from the AFEC facility.

Combined Hydroelectric Projects (79 Members)

AMP recently completed construction of three hydroelectric facilities, the Cannelton, the Smithland, and the Willow Island hydroelectric generating facilities (the “Combined Hydroelectric Project”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Project facilities entailed the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmission facilities. The Combined Hydroelectric Project, including associated transmission facilities, are operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Project.

The Cannelton Hydro facility, 88MW, in operation as of June 7, 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro facility, 44MW, in operation as of February 4, 2016, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2039. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Combined Hydroelectric Projects (79 Members) (Continued)

The Smithland Hydro facility, 76MW, in operation as of September 1, 2017, is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh.

To provide financing for the Combined Hydroelectric Project, in 2009 and 2010 AMP issued in seven series \$2,045,425,000 of its Combined Hydroelectric Project Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds, and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

In addition, AMP issued the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$209,530,000 on October 6, 2016. The bonds were used to finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to construction, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

On July 24, 2018, AMP issued the Combined Hydroelectric Projects Revenue Bonds, Series 2018A (the “Series 2018A Bonds”) with an aggregate par amount of \$99,530,000. The proceeds of the bonds were used to repay draws on the AMP credit line made to provide interim financing for capital expenditures, costs and expenses related to the Combined Hydroelectric Project, fund a deposit to the Parity Common Reserve Account, and pay the costs of issuance of the Series 2018A Bonds.

On February 18, 2020, AMP issued the Combined Hydroelectric Projects Revenue Bonds, Refunding Series 2018A (the “Series 2020A Bonds”) with an aggregate par amount of \$105,310,000. The proceeds of the bonds were used to refund a portion (\$129,360,000) of AMP’s outstanding Combined Hydroelectric Bonds and pay the costs of issuance of the Series 2020A Bonds.

As of January 1, 2020, the total outstanding Combined Hydro Project debt on AMP’s books is approximately \$2,194,396,470.

The City of Danville executed a take-or-pay power sales contract with AMP for 22,084 kW or 10.62% of capacity and associated energy from the combined hydro facilities.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Meldahl Hydroelectric Project (48 Members)

AMP constructed a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). Now that the Meldahl Project has entered commercial operation, it has a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license to operate the Meldahl Project.

In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam, an existing dam on the Ohio River (“Meldahl Project”). In March 2009, AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP committed to finance the development and the construction of Meldahl Project and to acquire within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”).

Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project is owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the Meldahl Board). AMP, acting as agent of Meldahl LLC, has financed the development, acquisition, construction, and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$740,135,000 consisting of taxable, tax-exempt, and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds, and New Clean

Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members. The Meldahl Project entered commercial operation on April 12, 2016.

By resolution adopted on June 23, 2016 the AMP Board of Trustees authorized the issuance and sale of the Series 2016A Bonds. AMP issued Meldahl Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) in the amount of \$80,050,000 on July 27, 2016. The proceeds of which were utilized to make a deposit to the Construction Account to retire balances held for the costs and expenses associated with the Project on AMP’s line of credit, fund a deposit to the Parity Common Reserve Account and pay the cost of issuance of the Series 2016A.

As of January 1, 2020, the outstanding debt for the Meldahl Hydroelectric Projects facility on AMP’s books was approximately \$675,680,000.

The City of Danville has executed a take-or-pay power sales contract with AMP for 5,039 kW or 4.80% of capacity and associated energy from the Meldahl hydro facility.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Greenup Hydroelectric Project (47 Members)

The Greenup Hydroelectric Facility (the “Greenup Facility”) is a 70.2 MW run-of-the-river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River. The Greenup Facility entered commercial operation in 1982 and has been owned and operated by the City of Hamilton, Ohio (“Hamilton”) since 1988. AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP acquired a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”) on May 11, 2016.

On May 11, 2016, in order to finance the acquisition of AMP’s interest as well as AMP’s share of certain capital expenditures at the Greenup Facility and related costs, AMP issued its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “Greenup Bonds”) in the principal amount of \$125,630,000. The Greenup Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 47 of its Members.

AMP and Hamilton are responsible for an aliquot share, equal to their respective undivided ownership interest in the Greenup Facility (51.4% for Hamilton and 48.6% for AMP), of the operating and maintenance expenses of the Greenup Facility. In accordance with, and subject to the provisions of, the AMP-Hamilton Agreements, Hamilton continues to operate the Greenup Facility.

As of January 1, 2020, the total outstanding Greenup Facility debt on AMP’s books is approximately \$124,035,000.

The City of Danville has executed a take-or-pay power sales contract with AMP for 3,299 kW or 9.67% of capacity and associated energy from the Greenup facility.

Prairie State Energy Campus (68 Members)

On December 20, 2007, AMP acquired 368,000 kW or an effective 23.26% undivided ownership interest (the “PSEC Ownership Interest”) in the Prairie State Energy Campus (“PSEC”), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company (“AMP 368 LLC”). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Prairie State Energy Campus (68 Members) (Continued)

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the “Prairie State Power Sales Contract”) with 68 Members (the “Prairie State Participants”). The Prairie State Power Sales Contract is, in all material respects, comparable to the Power Sales Contract for the Project. The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

AMP’s share of the total Project costs, including AMP’s share of PSEC capital improvements, resulted in the issuance by AMP of approximately \$1.697 billion of debt from July 2008 through September 2010. These costs include (i) AMP’s costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project.

In 2015, 2017 and 2019, AMP issued bonds to refund certain previously issued PSEC bonds.

As of January 1, 2020 the outstanding obligation on Prairie State project on AMP’s books is \$1,495,245,000.

The City of Danville executed a take-or-pay power sales contract with AMP for 49,760 kW or 13.52% of capacity and associated energy from the Prairie State facility.

Natural Gas Purchase Contracts – MuniGas

In 2007, the City entered into an agreement to purchase all natural gas for distribution to City customers through Municipal Gas Acquisition and Supply Corporation (MuniGas). Although the contract requires the City to source all gas purchases through this contract, it is not a take-or-pay contract and does not include minimum purchase requirements. The contract expires in 2027 but may be extended by mutual agreement.

Other Power Purchase Contracts

Schoolfield Hydro

In January 2016, a twenty year agreement between the City of Danville and STS Hydropower was finalized for the 4.55 megawatts generated at the Schoolfield dam located in Danville, Virginia. Both City Council and Utility Commission unanimously approved moving forward with this project. The agreement starts on December 1, 2016 and will expire on November 30, 2036. The terms include a \$63.50/megawatt hour rate with a 1.75% annual escalation. This generation represents approximately 1.00% of Danville’s peak load.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 23. Service Contracts (Continued)

Other Power Purchase Contracts (Continued)

Kentuck Solar

In May 2016, a twenty-five year agreement between the City of Danville and Washington Gas and Light was finalized for the construction of a 6-megawatt solar farm in Ringgold, Virginia within the Danville Utilities footprint. Both City Council and Utility Commission unanimously approved moving forward with this project. The agreement started upon the constructing and commissioning of the facility, which went online March 2018. The terms include a fixed \$72.51/megawatt hour rate with no annual escalation. This generation represents approximately 1.5% of Danville's peak load.

Future Service Contracts

Whitmell Solar

In September 2018, a twenty-five year agreement between the City of Danville and Turning Point Energy was finalized for the construction of a 10-megawatt solar farm in Whitmell Virginia within the Danville Utilities footprint. Both City Council and Utility Commission unanimously approved moving forward with this project. The agreement starts upon the constructing and commissioning of the facility forecasted to go online in August 2020. This generation represents approximately 24,000 mWh and 2.5% of Danville's peak load.

Ringgold Solar

In September 2018, a twenty-five year agreement between the City of Danville and Strata Solar was finalized for the construction of a 12-megawatt solar farm in Ringgold, Virginia within the Danville Utilities footprint. Both City Council and Utility Commission unanimously approved moving forward with this project. The agreement starts upon the constructing and commissioning of the facility forecasted to go online in September 2020. This generation represents approximately 28,000 mWh and 3% of Danville's peak load.

Note 24. Commitments and Contingencies

Litigation

The City, DPS, and the IDA are contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of operations. It is the opinion of City management and the City Attorney that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material to the financial position of the City or its component units.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 24. Commitments and Contingencies (Continued)

Grant programs

The City and DPS participate in a number of grant programs. Although the City and DPS have been audited in accordance with the provisions of the Uniform Guidance, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, management believes such disallowances, if any, will not be significant, except as discussed below.

Construction contracts

The City has several construction and similar contracts in progress at June 30, 2020. The uncompleted portion of these contracts represents financial commitments that were not yet liabilities at June 30, 2020, and consist of the following:

Contracts in progress	\$ 20,492,203
Less: paid or recorded as liabilities	<u>(13,429,821)</u>
Remaining commitment	<u><u>\$ 7,062,382</u></u>

Arbitrage

The City has certain debt instruments subject to arbitrage regulations. As of June 30, 2020, the arbitrage estimate was zero.

Encumbrance commitments

The City had the following outstanding encumbrances, which include the construction contracts in progress above, as of June 30, 2020.

<u>Major Funds</u>	
General Fund	\$ 1,913,119
City Capital Projects Fund	2,937,798
Special Revenue Fund	<u>542,405</u>
Total encumbrances	<u><u>\$ 5,393,322</u></u>

Take-or-pay contracts

The City has entered into several take-or-pay contracts as described in Note 24, which require the City to purchase certain minimum amounts of power. The City could incur losses if the City were unable to use or resell any portion of the purchases to which it has committed.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 24. Commitments and Contingencies (Continued)

Moral obligations

The IDA has several moral obligations for debt service in place for various organizations within the Danville, Virginia area. The total debt outstanding related to these moral obligations is approximately \$8,500,000.

As discussed in Note 1, the City has a moral obligation for debt service at the Danville-Pittsylvania Regional Facility Authority. Total debt outstanding at the Facility Authority is approximately \$1,000,000 with a final maturity of 2020; the City and Pittsylvania County each provide equal funding for the debt service.

Note 25. Incentive Grants

The City, often in conjunction with the Industrial Development Authority (the “Authority”), has awarded performance grants to companies within the City to foster economic development. Disbursements under these grants vary based on the performance requirements and period in which the company has to perform. During the current fiscal year, the City awarded approximately \$3,100,000 in new grants and paid approximately \$790,000 in such grant funds for awards for current and prior years from the Economic Development Fund. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$4,800,000, and will be funded by the City through the Authority.

In fiscal year 2017, the Authority, the City, and the Commonwealth of Virginia entered into a performance agreement with Overfinch for the location of a facility in the City of Danville, Virginia. The Authority will lease to Overfinch a facility suitable for its operations. The Overfinch can choose to remain in this facility or have the Authority build a new facility on a certain parcel of land. No decision has been reached on that construction. Overfinch’s capital investment requirements vary based on the option chosen for the facility, however, the job requirements remain the same. During fiscal year 2020, Overfinch was operating in the leased facility and was considered delinquent with its performance requirements.

In fiscal year 2020, the Authority, the City, and the Commonwealth of Virginia entered into a performance agreement with PRA Group Inc., for the location of a facility in the City of Danville, Virginia. PRA purchased real property from the Authority during fiscal year 2020. PRA agreed to capital investment and employment performance requirements.

In addition to those agreements previously described, the Authority also has multiple performance grants outstanding under which funds have been paid to the companies involved, but the performance period is not yet complete. Should a company fail to perform under the terms of the agreement, all or part of the funds awarded could become due and payable to the Authority. The Authority would then owe funds to the City, which may also owe certain funds back to the various granting authorities. Ultimate repayment responsibility rests with the City for these funds. Total outstanding grants with respect to which the City is contingently liable total approximately \$112,000 for funds from the Tobacco Commission.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 26. Risk Management

Primary government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to retain risks of losses in those areas where it believes it is more economical to manage its risks internally and account for any health and workers' compensation claims settlement in the General Fund. The City also maintains an insurance fund to account for insurance transactions other than health insurance and workers' compensation. The City is self-insured for all workers' compensation claims, comprehensive and collision for vehicles which cost less than \$100,000, property damage up to a deductible of \$10,000, and employee liability to the extent that it is not covered by another policy. Exceptions to the self-insurance program are made when insurance coverage is available and when premiums are cost effective. The City is covered by property/casualty insurance policies on real and personal property (except vehicles) and the following liability insurance policies: public entity and public officials excess liability, medical and dental malpractice liability, voting booths, special events, vacant buildings, volunteer liability, nonowned aircraft liability, and commercial crime. The City maintains a blanket surety bond on all City workers who handle funds and excess amounts of insurance on key officials. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

The City is also self-insured for health insurance claims, as described in Note 1.

One City employee is covered by a surety bond.

The fleet insurance and commercial general liability insurance is provided under a pooled agreement with the Virginia Municipal Liability Pool (the "Pool"), a public entity risk pool. If the Pool should be in a deficit condition, it may levy an additional pro-rata assessment to members of the Pool, which may not exceed twice the members' annual contributions. The Pool agreement does not address the question of member liability in case of a deficit condition. Claims have not exceeded coverage in any of the previous three years, and there were no reductions in coverage from the previous year.

Workers' compensation claims liabilities include an amount for claims that have been incurred but not reported to date. Liabilities are determined using a combination of actual claims experience and actuarially determined amounts and include incremental claims, adjustment expense, and estimated recoveries. An independent contractor processes the public liability claims and the City records a provision and liability in the entity-wide statements for an estimate of incurred but not reported claims.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 26. Risk Management (Continued)

Primary government (Continued)

Self-Insurance

Changes in the estimated claims payable for workers' compensation and health insurance are as follows for the past three years:

			Beginning of Year	Changes in Claims and Reserves	Claim Payments	End of Year
Workers' compensation	2020	\$	2,160,097	\$ 1,970,445	\$ 2,334,283	\$ 1,796,259
	2019		2,753,317	385,753	978,973	2,160,097
	2018		2,912,259	822,045	980,987	2,753,317
Health insurance	2020	\$	642,844	\$ 7,445,997	\$ 7,297,874	\$ 790,967
	2019		528,726	7,478,282	7,364,164	642,844
	2018		1,095,214	8,137,174	8,703,662	528,726

Component Unit – Danville Public Schools

DPS are a member of the School Systems of Virginia Group Self-Insurance Association (the "Association"), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since the Schools entered the pool in 1982. The Schools have elected to have the Association hold the Board's dividends as a reserve against possible future claims. At June 30, 2020, the cumulative amount held in escrow amounted to \$260,154. This amount is included on the Statement of Net Position with other receivables. During the current fiscal year, the Schools paid \$204,736 in workers' compensation claims.

Note 27. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*** due to the COVID-19 pandemic.

In January 2017, the GASB issued **Statement No. 84, *Fiduciary Activities***. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87, *Leases***. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 27. New Accounting Standards (Continued)

In June 2018, the GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2020. The requirements of this Statement should be applied prospectively.

In August 2018, the GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued **Statement No. 91**, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued **Statement No. 92**, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 27. New Accounting Standards (Continued)

In March 2020, the GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97**, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

Note 28. Tax Abatements

The City has real estate tax abatement agreements with 83 individuals or businesses who have constructed or renovated property within the City limits as of June 30, 2020. These agreements are structured in accordance with the State's Economic Development Assistance Program. The abatements are available for residents, hotel, or commercial structures. For all three abatements, the structure must be no less than 50 years old, be accessed by a Real Estate Assessor prior to rehabilitation, and the structure may remain the same after rehabilitation to continue to qualify for the abatement. The exemption shall begin on July 1 of the tax year following completion of the rehabilitation or renovation and will run with the real estate for a period of no longer than 15 years for residential structures and 5 years for hotel and commercial structure. Hotel and commercial exemptions follow a 5 year descending abatement rate starting at 100% and descending 20% each year for the next 5 years. There is a \$50 fee for residential structures and \$100 fee for hotel and commercial structures for the City to process each application for the abatement, and each qualifying rehabilitation or renovation must occur within two years of the application's acceptance.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 28. Tax Abatements (Continued)

The four largest tax abatement agreements as of June 30, 2020 are as follows:

<u>Application No.</u>	<u>Agreement Date</u>	<u>Years Remaining</u>	<u>Abatement Percentage</u>	<u>Lost Real Estate Taxes In Fiscal Year 2020</u>
074	07/01/2010	5	\$0.84/\$100	\$ 2,357
109	07/01/2018	13	\$0.84/\$100	1,531
070	07/01/2008	3	\$0.84/\$100	24,996
071	07/01/2009	4	\$0.84/\$100	5,351

Total revenue losses for the year ended June 30, 2020 for all 79 individuals and businesses participating in the real estate abatements were approximately \$280,000. Projected future losses for all current abatement agreements is approximately \$83,000.

Note 29. Prior Period Restatement

The following is a summary of the restatement to the net position, as applicable, resulting from an adjustment for Highway Maintenance Grant revenue earned in fiscal year 2019:

	<u>Special Revenue</u>	<u>Governmental Activities</u>
Net position July 1, 2019, as previously reported	\$ (322,731)	\$ 142,725,767
Highway Maintenance revenue unreported in 2019	<u>1,815,130</u>	<u>1,815,130</u>
Net position July 1, 2019, as restated	<u><u>\$ 1,492,399</u></u>	<u><u>\$ 144,540,897</u></u>

Industrial Development Authority of Danville

The following is a summary of the restatements to net position, resulting from a correction of a lease amortization:

Net position July 1, 2019, as previously reported	\$ 26,341,652
Deposit on building purchase that was erroneously expensed	100,000
Lease amortization related to sales-type lease adjustment	<u>(14,789)</u>
Net position July 1, 2019, as restated	<u><u>\$ 26,426,863</u></u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 30. Subsequent Event

Subsequent to year end, the City has approved issuance of \$11,675,000 of General Obligation Public Improvement Bonds, Series 2020A, consisting entirely of new money. The City also has approved the issuance of \$3,675,000 of General Obligation Public Improvement Bonds, Series 2020B, refunding the 2009A and 2010A bond issues in the amounts of \$290,000 and \$3,395,000, respectively. The City will be issuing the Bonds to finance capital expenditures for general governmental projects, to refund the aforementioned bonds, and pay the costs of issuing the Bonds.

On November 3, 2020, the citizens voted to pass the referendum to open a Casino through Caesars Entertainment in the City. The City is scheduled to receive approximately \$15 million in December 2020 for a one time startup fee.

As noted in the June 16, 2020 Regular City Council meeting, the Council voted to approved the sale of the Pinnacles Hydroelectric Complex to Northbrook Energy for the amount of \$8.2 million.

Note 31. COVID-19 Uncertainty

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The City’s operations are heavily dependent on the ability to raise taxes, assess fees, and access the capital markets. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed the tax bases and other areas in which the City received revenue during fiscal year 2020. As such, our financial condition and liquidity could be negatively impacted for the fiscal year 2021.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the City’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the City is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future fiscal years. The City received 2 payments of \$3,493,685 from the CARES Act in June 2020 and August 2020.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS –
DANVILLE EMPLOYEES' RETIREMENT SYSTEM
June 30, 2020**

	Fiscal Year		
	2020	2019	2018
Total Pension Liability			
Service cost	\$ 4,373,375	\$ 4,205,168	\$ 4,043,430
Interest on total pension liability	16,186,089	15,946,626	15,757,522
Changes in benefit terms	-	-	5,636,323
Difference between expected and actual experience	6,022,813	(2,498,233)	256,405
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(14,752,377)	(14,061,024)	(12,716,164)
Net change in total pension liability	11,829,900	3,592,537	12,977,516
Total pension liability – beginning	234,107,902	230,515,365	217,537,849
Total pension liability – ending	245,937,802	234,107,902	230,515,365
Plan Fiduciary Net Position			
Contributions – employer	3,608,286	4,782,997	3,276,604
Contributions – employee	50,823	-	-
Net investment income	6,973,812	16,641,621	16,591,445
Benefit payments, including refunds of employee contributions	(14,752,377)	(14,061,024)	(12,716,164)
Administrative expenses	(127,589)	(121,916)	(86,903)
Other	-	-	-
Net change in plan fiduciary net position	(4,247,045)	7,241,678	7,064,982
Plan fiduciary net position – beginning	262,304,563	255,062,885	247,997,903
Plan fiduciary net position – ending	258,057,518	262,304,563	255,062,885
Net pension asset – ending	\$ (12,119,716)	\$ (28,196,661)	\$ (24,547,520)
Plan fiduciary net position as a percentage of total pension liability (asset)	105%	112%	111%
Covered payroll	\$ 43,872,041	\$ 42,945,709	\$ 43,151,947
Net pension liability (asset) as a percentage of covered payroll	-28%	-66%	-57%

This schedule is intended to show information for 10 years. Years prior to 2014 are not available. However, additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

EXHIBIT 13

Fiscal Year			
2017	2016	2015	2014
\$ 4,089,280	\$ 3,400,557	\$ 3,259,684	\$ 3,141,494
14,637,265	13,747,122	12,984,495	12,480,764
-	-	-	-
1,681,266	6,118,120	2,432,640	-
5,105,391	-	-	-
(12,200,073)	(11,623,173)	(11,594,274)	(10,380,124)
13,313,129	11,642,626	7,082,545	5,242,134
204,224,720	192,582,094	185,499,549	180,257,415
217,537,849	204,224,720	192,582,094	185,499,549
2,857,851	2,937,843	3,998,392	5,849,278
-	-	-	-
25,415,340	645,251	5,204,202	38,756,248
(12,200,073)	(11,623,173)	(11,594,274)	(10,380,124)
(111,095)	(125,428)	(143,714)	(109,411)
-	-	-	-
15,962,023	(8,165,507)	(2,535,394)	34,115,991
232,035,880	240,201,387	242,736,781	208,620,790
247,997,903	232,035,880	240,201,387	242,736,781
\$ (30,460,054)	\$ (27,811,160)	\$ (47,619,293)	\$ (57,237,232)
114%	114%	125%	131%
\$ 43,309,556	\$ 42,444,501	\$ 39,745,625	\$ 38,027,568
-70%	-66%	-120%	-151%

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
DANVILLE EMPLOYEES' RETIREMENT SYSTEM
June 30, 2020**

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	\$ 4,250,604	\$ 3,608,286	\$ 642,318	\$ 43,872,041	8.22 %
2019	4,712,599	4,782,997	(70,398)	42,945,709	11.14
2018	4,078,291	3,276,604	801,687	43,151,947	7.59
2017	2,857,851	2,857,851	-	43,309,556	6.60
2016	2,937,843	2,937,843	-	42,444,501	6.92
2015	3,583,779	3,998,392	(414,613)	39,745,625	10.06
2014	6,228,799	5,849,278	379,521	38,027,568	15.38
2013	5,295,468	5,280,687	14,781	36,804,751	14.35
2012	5,073,189	4,929,208	143,981	36,767,568	13.41
2011	4,949,970	4,950,582	(612)	38,309,497	12.92

The Notes to Required Supplementary Information are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
VIRGINIA RETIREMENT SYSTEM – CONSTITUTIONAL OFFICERS
June 30, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 640,791	\$ 630,259	\$ 654,365	\$ 638,986	\$ 626,442	\$ 582,704
Interest on total pension liability	1,812,343	1,749,249	1,721,851	1,660,705	1,582,601	1,523,713
Difference between expected and actual experience	(238,743)	(105,720)	(377,881)	(66,041)	240,276	-
Changes in assumptions	729,708	-	(260,243)	-	-	-
Benefit payments, including refunds of employee contributions	(1,387,062)	(1,357,830)	(1,335,530)	(1,384,752)	(1,282,338)	(1,247,980)
Net change in total pension liability	1,557,037	915,958	402,562	848,898	1,166,981	858,437
Total pension liability – beginning	26,584,151	25,668,193	25,265,631	24,416,733	23,249,752	22,391,315
Total pension liability – ending	28,141,188	26,584,151	25,668,193	25,265,631	24,416,733	23,249,752
Plan Fiduciary Net Position						
Contributions – employer	589,705	590,775	573,824	593,184	591,211	620,933
Contributions – employee	262,020	258,046	252,490	243,442	244,259	241,904
Net investment income	1,640,864	1,734,871	2,603,485	366,699	965,809	2,927,045
Benefit payments, including refunds of employee contributions	(1,387,062)	(1,357,830)	(1,335,530)	(1,384,752)	(1,282,338)	(1,247,980)
Administrative expenses	(16,411)	(15,097)	(15,237)	(13,630)	(13,462)	(15,950)
Other	(1,034)	(1,540)	(2,307)	(158)	(201)	154
Net change in plan fiduciary net position	1,088,082	1,209,225	2,076,725	(195,215)	505,278	2,526,106
Plan fiduciary net position – beginning	24,816,573	23,607,348	21,530,623	21,725,838	21,220,560	18,694,454
Plan fiduciary net position – ending	25,904,655	24,816,573	23,607,348	21,530,623	21,725,838	21,220,560
Net pension liability – ending	\$ 2,236,533	\$ 1,767,578	\$ 2,060,845	\$ 3,735,008	\$ 2,690,895	\$ 2,029,192
Plan fiduciary net position as a percentage of total pension liability	92%	93%	92%	85%	89%	91%
Covered payroll	\$ 5,431,818	\$ 5,329,915	\$ 5,156,900	\$ 4,944,269	\$ 4,906,673	\$ 4,846,949
Net pension liability as a percentage of covered payroll	41%	33%	40%	76%	55%	42%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

(Continued)

The Notes to Required Supplementary Information are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
VIRGINIA RETIREMENT SYSTEM – SCHOOLS NONPROFESSIONAL EMPLOYEES
June 30, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 190,357	\$ 174,350	\$ 186,119	\$ 189,058	\$ 186,876	\$ 212,808
Interest on total pension liability	552,528	546,294	519,760	529,082	525,413	494,905
Difference between expected and actual experience	48,564	(140,555)	116,563	(478,030)	(322,695)	-
Changes in assumptions	224,954	-	(71,319)	-	-	-
Benefit payments, including refunds of employee contributions	(565,540)	(416,515)	(327,611)	(418,969)	(255,375)	(288,413)
Net change in total pension liability	450,863	163,574	423,512	(178,859)	134,219	419,300
Total pension liability – beginning	8,176,028	8,012,454	7,588,942	7,767,801	7,633,582	7,214,282
Total pension liability – ending	8,626,891	8,176,028	8,012,454	7,588,942	7,767,801	7,633,582
Plan Fiduciary Net Position						
Contributions – employer	73,060	79,096	75,562	154,870	156,811	169,720
Contributions – employee	103,220	91,413	85,108	87,249	88,856	89,035
Net investment income	555,378	599,557	902,372	125,624	330,257	986,601
Benefit payments, including refunds of employee contributions	(565,540)	(416,515)	(327,611)	(418,969)	(255,375)	(288,413)
Administrative expenses	(5,785)	(5,276)	(5,271)	(4,691)	(4,474)	(5,283)
Other	(347)	(530)	(800)	(55)	(69)	52
Net change in plan fiduciary net position	159,986	347,745	729,360	(55,972)	316,006	951,712
Plan fiduciary net position – beginning	8,538,195	8,190,450	7,461,090	7,517,062	7,201,056	6,249,344
Plan fiduciary net position – ending	8,698,181	8,538,195	8,190,450	7,461,090	7,517,062	7,201,056
Net pension liability (asset) – ending	\$ (71,290)	\$ (362,167)	\$ (177,996)	\$ 127,852	\$ 250,739	\$ 432,526
Plan fiduciary net position as a percentage of total pension liability	101%	104%	102%	98%	97%	94%
Covered payroll	\$ 2,249,743	\$ 1,927,099	\$ 1,763,226	\$ 1,788,926	\$ 2,145,082	\$ 1,778,846
Net pension liability as a percentage of covered payroll	-3%	-19%	-10%	7%	12%	24%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
VIRGINIA RETIREMENT SYSTEM
June 30, 2020**

Entity Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government – Constitutional Officers					
2020	\$ 625,011	\$ 625,011	\$ -	\$ 5,649,541	11.06 %
2019	584,271	584,271	-	5,431,818	10.76
2018	589,197	589,197	-	5,329,915	11.05
2017	572,985	572,985	-	5,156,900	11.11
2016	597,078	597,078	-	4,944,269	12.08
2015	592,339	592,339	-	4,906,673	12.07
Schools – Nonprofessional Employees					
2020	90,525	90,525	-	2,370,974	3.82
2019	86,013	86,013	-	2,249,743	3.82
2018	87,044	87,044	-	1,927,099	4.52
2017	75,562	75,562	-	1,763,226	4.29
2016	157,146	157,146	-	1,788,926	8.78
2015	157,999	157,999	-	2,145,082	7.37

This schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

CITY OF DANVILLE, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY –
VRS TEACHER RETIREMENT PLAN
June 30, 2020

School Division Fiscal Year Ended June 30,	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	42.31 %	\$ 55,684,997	\$ 35,879,963	155.20 %	73.51 %
2019	38.57	45,360,000	31,410,746	144.41	74.81
2018	39.64	48,745,000	31,339,331	155.54	72.92
2017	41.42	58,050,000	31,568,468	183.89	68.28
2016	42.64	53,666,000	32,356,641	165.86	70.68
2015	44.88	54,235,000	32,833,731	165.18	70.88

This schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the school division's fiscal year.

CITY OF DANVILLE, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
VRS TEACHER RETIREMENT PLAN
June 30, 2020

Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	\$ 5,856,953	\$ 5,856,953	\$ -	\$ 37,348,749	15.68 %
2019	5,611,419	5,611,419	-	35,879,963	15.64
2018	5,124,075	5,124,075	-	31,410,746	16.31
2017	4,510,278	4,510,278	-	31,339,331	14.39
2016	4,439,145	4,439,145	-	31,568,468	14.06
2015	4,596,302	4,596,302	-	32,356,641	14.21

This schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the school division's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

CITY OF DANVILLE, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS –
LOCAL PLAN – LODA
June 30, 2020

	Primary Government		
	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 138,516	\$ 134,483	\$ 130,565
Interest on total OPEB liability	239,373	255,202	251,270
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(1,825,267)	-	-
Changes in assumptions	571,392	463,261	-
Benefit payments	(242,464)	(268,751)	(285,326)
Other	100	-	-
Net change in total OPEB liability	(1,118,350)	584,195	96,509
Total OPEB liability – beginning	7,632,690	7,048,495	6,951,986
Total OPEB liability – ending	\$ 6,514,340	\$ 7,632,690	\$ 7,048,495
Covered payroll	\$ 11,958,023	\$ 12,873,319	\$ 12,293,226
Net OPEB liability as a percentage of covered payroll	54%	59%	57%

This schedule is intended to show information for 10 years. Since fiscal year 2018 is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

CITY OF DANVILLE, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2020

Entity Fiscal Year Ended June 30,	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Schools:					
Virginia Retirement System – Health Insurance Credit – Teachers					
2020	0.4271 %	\$ 5,590,000	\$ 35,879,963	15.58 %	8.97 %
2019	0.3883	4,930,000	31,410,746	15.70	8.08
2018	0.4000	5,040,000	31,339,331	16.08	7.04
Virginia Retirement System – Group Life Insurance – Non-Teachers					
2020	0.0115	187,000	2,249,743	8.31	52.00 %
2019	0.0102	154,000	1,927,099	7.99	51.22
2018	0.0096	145,000	1,763,226	8.22	48.86
Virginia Retirement System – Group Life Insurance – Teachers					
2020	0.1830	2,978,000	35,879,963	8.30	52.00 %
2019	0.1657	2,517,000	31,339,331	8.03	51.22
2018	0.1703	2,564,000	31,568,468	8.12	48.86

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS**

June 30, 2020

Entity Fiscal Year Ended June 30,	Actuarially Determined Employer Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Schools:					
VRS Health Insurance Credit Teachers					
2020	\$ 448,252	\$ 448,252	\$ -	\$ 37,348,749	1.20 %
2019	429,856	429,856	-	35,879,963	1.20
2018	386,288	386,288	-	31,410,746	1.23
VRS Group Life Insurance – Non-Teachers					
2020	10,438	10,438	-	2,370,974	0.44
2019	9,978	9,978	-	2,249,743	0.44
2018	8,733	8,733	-	1,927,099	0.45
VRS Group Life Insurance – Teachers					
2020	198,344	198,344	-	37,348,749	0.53
2019	189,587	189,587	-	35,879,963	0.53
2018	165,932	165,932	-	31,410,746	0.53

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2020

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2018 are not material.

Effective September 1, 2018, for Police and Firemen, in the City's Employees' Retirement System, the benefit multiplier is changed from 2.00% to 2.20%. This change was considered substantively in place as of June 30, 2018 and has been recognized in the current year actuarial estimates.

Other Postemployment Benefits (OPEB) – VRS

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty Disability rates
- Applicable to: Pension and GLI OPEB

(Continued)

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2020

Note 2. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty Disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty Disability rates from 60% to 45%
- Applicable to: Pension and GLI OPEB

Teacher Cost-Sharing Pool:

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension and GLI OPEB

(Continued)

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020

Note 3. Methods and Assumptions – Employees’ Retirement System

Valuation date:

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	Five-year moving average
Inflation	3.00%
Salary increases	4.00%, including inflation
Investment rate of return	7.00%
Retirement age – general employees	3.00% at age 55 increasing to 100% at age 70
Retirement age – police and fire employees	10% at age 55 increasing to 100% at age 60
Mortality	RP-2000 Mortality Table

There have been no material changes to the Danville Employees’ Retirement System’s benefit provisions since the last actuarial valuations except as described in Note 1.



OTHER SUPPLEMENTARY INFORMATION



COMBINING STATEMENTS NONMAJOR GOVERNMENTAL FUNDS

- **Virginia Department of Transportation Fund (VDOT)** – is a special revenue fund that accounts for revenue derived from the Virginia Department of Transportation. These revenues are legally restricted for qualifying expenditures related to street and bridge design, construction, safety, and maintenance.
- **Economic Development Fund** – is a special revenue fund that accounts for the financial resources used for the growth and development of a diversified economic base in the City through state, federal, and local grants.
- **Cemetery Maintenance Fund** – is a permanent fund used to account for funds set aside to provide for the perpetual care of City cemeteries. Only the earnings from the investments of this fund may be expended.



CITY OF DANVILLE, VIRGINIA

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2020

	Special Revenue Funds		Permanent Fund	
	VDOT	Economic Development	Cemetery Maintenance	Total
ASSETS				
Cash and investments	\$ 531,663	\$ 6,747,732	\$ -	\$ 7,279,395
Cash and investments – restricted	2,995,579	-	2,889,147	5,884,726
Total assets	<u>\$ 3,527,242</u>	<u>\$ 6,747,732</u>	<u>\$ 2,889,147</u>	<u>\$ 13,164,121</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 531,663	\$ 29,400	\$ -	\$ 561,063
Due to component unit	-	260,435	-	260,435
Total liabilities	<u>531,663</u>	<u>289,835</u>	<u>-</u>	<u>821,498</u>
FUND BALANCES				
Nonspendable				
Cemetery maintenance	-	-	2,889,147	2,889,147
Restricted	2,995,579	-	-	2,995,579
Assigned	-	6,457,897	-	6,457,897
Total fund balances	<u>2,995,579</u>	<u>6,457,897</u>	<u>2,889,147</u>	<u>12,342,623</u>
Total liabilities and fund balances	<u>\$ 3,527,242</u>	<u>\$ 6,747,732</u>	<u>\$ 2,889,147</u>	<u>\$ 13,164,121</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2020**

	Special Revenue Funds		Permanent Fund	
	VDOT	Economic Development	Cemetery Maintenance	Total
REVENUES				
Miscellaneous	\$ 19,863	\$ -	\$ 25,156	\$ 45,019
Recovered costs	112,833	65,875	-	178,708
Revenue from use of money and property	49,523	-	-	49,523
Intergovernmental	11,055,075	1,182,821	-	12,237,896
Total revenues	11,237,294	1,248,696	25,156	12,511,146
EXPENDITURES				
General government	-	109,257	-	109,257
Public works	10,795,888	-	-	10,795,888
Payment on capital lease	94,898	-	-	94,898
Community development	-	3,716,308	-	3,716,308
Total expenditures	10,890,786	3,825,565	-	14,716,351
Excess (deficiency) of revenues over (under) expenditures	346,508	(2,576,869)	25,156	(2,205,205)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	261,325	-	-	261,325
Transfers in	-	2,150,000	-	2,150,000
Total other financing sources (uses)	261,325	2,150,000	-	2,411,325
Net change in fund balances	607,833	(426,869)	25,156	206,120
FUND BALANCES				
Beginning	2,387,746	6,884,766	2,863,991	12,136,503
Ending	\$ 2,995,579	\$ 6,457,897	\$ 2,889,147	\$ 12,342,623

COMBINING STATEMENTS NONMAJOR ENTERPRISE FUNDS

- **Transportation** – provides mass transit service throughout the City.
- **Sanitation** – provides for the collection and disposal of solid waste.
- **Cemetery Operations** – provides for burial services and cemetery maintenance.
- **Telecommunications** – provides broadband communication service for the City, Danville Public Schools, as well as certain businesses and homes.

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF NET POSITION – NONMAJOR ENTERPRISE FUNDS
June 30, 2020

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
ASSETS					
CURRENT ASSETS					
Cash and investments	\$ 96,048	\$ 2,160,433	\$ 178,644	\$ 914,467	\$ 3,349,592
Receivables, net	493	34,601	5,507	78,273	118,874
Due from other governments	696,782	-	-	-	696,782
Inventories	-	-	-	180,095	180,095
Total current assets	<u>793,323</u>	<u>2,195,034</u>	<u>184,151</u>	<u>1,172,835</u>	<u>4,345,343</u>
NONCURRENT ASSETS					
Net pension asset	256,644	277,369	94,717	35,936	664,666
Capital assets:					
Non-depreciable	-	509,232	-	-	509,232
Depreciable, net	<u>4,456,517</u>	<u>874,232</u>	<u>-</u>	<u>7,433,440</u>	<u>12,764,189</u>
Total noncurrent assets, net	<u>4,713,161</u>	<u>1,660,833</u>	<u>94,717</u>	<u>7,469,376</u>	<u>13,938,087</u>
Total assets	<u>5,506,484</u>	<u>3,855,867</u>	<u>278,868</u>	<u>8,642,211</u>	<u>18,283,430</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	<u>389,778</u>	<u>421,253</u>	<u>143,851</u>	<u>54,578</u>	<u>1,009,460</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	59,195	138,956	7,545	8,999	214,695
Accrued interest	1	30	-	-	31
Refundable deposits	-	-	-	20,000	20,000
Long-term liabilities – due within one year	<u>63,940</u>	<u>290,619</u>	<u>36,778</u>	<u>9,546</u>	<u>400,883</u>
Total current liabilities	<u>123,136</u>	<u>429,605</u>	<u>44,323</u>	<u>38,545</u>	<u>635,609</u>
NONCURRENT LIABILITIES					
Long-term liabilities – due in more than one year	<u>7,133</u>	<u>1,049,005</u>	<u>4,087</u>	<u>1,060</u>	<u>1,061,285</u>
Total noncurrent liabilities	<u>7,133</u>	<u>1,049,005</u>	<u>4,087</u>	<u>1,060</u>	<u>1,061,285</u>
Total liabilities	<u>130,269</u>	<u>1,478,610</u>	<u>48,410</u>	<u>39,605</u>	<u>1,696,894</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	<u>71,962</u>	<u>77,773</u>	<u>26,558</u>	<u>10,076</u>	<u>186,369</u>
Total deferred inflows of resources	<u>71,962</u>	<u>77,773</u>	<u>26,558</u>	<u>10,076</u>	<u>186,369</u>
NET POSITION					
Net investment in capital assets	4,456,517	1,143,831	-	7,433,440	13,033,788
Unrestricted	<u>1,237,514</u>	<u>1,576,906</u>	<u>347,751</u>	<u>1,213,668</u>	<u>4,375,839</u>
	<u>\$ 5,694,031</u>	<u>\$ 2,720,737</u>	<u>\$ 347,751</u>	<u>\$ 8,647,108</u>	<u>\$ 17,409,627</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION – NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2020**

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 305,355	\$ 3,595,074	\$ 751,661	\$ 613,227	\$ 5,265,317
OPERATING EXPENSES					
Services	3,157,779	4,128,017	1,028,604	604,188	8,918,588
Depreciation	730,610	84,963	-	427,794	1,243,367
Total operating expenses	3,888,389	4,212,980	1,028,604	1,031,982	10,161,955
Operating income (loss)	(3,583,034)	(617,906)	(276,943)	(418,755)	(4,896,638)
NONOPERATING REVENUES (EXPENSES)					
Sales income	4,800	-	115,200	-	120,000
Recovered costs	29,888	38,522	-	-	68,410
Gain (loss) on sale of capital assets	(21,714)	-	-	-	(21,714)
Other income	15,084	31,450	-	6,806	53,340
Federal and state grants	2,257,220	-	-	-	2,257,220
Other contributions	471,980	-	-	-	471,980
Interest income	6,695	43,099	55,608	19,425	124,827
Net change in the fair value of investments	794	12,195	16,309	4,979	34,277
Interest expense	(8)	(8,415)	-	-	(8,423)
Total nonoperating revenues	2,764,739	116,851	187,117	31,210	3,099,917
Income (loss) before transfers	(818,295)	(501,055)	(89,826)	(387,545)	(1,796,721)
TRANSFERS					
Transfers in	264,630	-	-	-	264,630
Transfers out	-	-	-	(81,000)	(81,000)
Total transfers	264,630	-	-	(81,000)	183,630
Change in net position	(553,665)	(501,055)	(89,826)	(468,545)	(1,613,091)
NET POSITION – Beginning	6,247,696	3,221,792	437,577	9,115,653	19,022,718
NET POSITION – Ending	\$ 5,694,031	\$ 2,720,737	\$ 347,751	\$ 8,647,108	\$ 17,409,627

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2020

	Transportation	Sanitation	Cemetery Operations	Tele- communications	Total
OPERATING ACTIVITIES					
Received from customers	\$ 306,602	\$ 3,679,987	\$ 756,072	\$ 589,499	\$ 5,332,160
Payments to suppliers for goods and services	(2,252,613)	(2,348,809)	(480,614)	(457,796)	(5,539,832)
Payments to employees for services	(944,127)	(889,549)	(314,788)	(102,166)	(2,250,630)
Payments to internal service funds for goods and services	(41,880)	(616,872)	(95,988)	(80)	(754,820)
Nonoperating revenue	49,772	69,972	-	6,806	126,550
Net cash provided by (used in) operating activities	(2,882,246)	(105,271)	(135,318)	36,263	(3,086,572)
NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	264,630	-	-	-	264,630
Transfers to other funds	-	-	-	(81,000)	(81,000)
Operating grants received	2,604,085	-	115,200	-	2,719,285
Net cash provided by (used in) noncapital financing activities	2,868,715	-	115,200	(81,000)	2,902,915
CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital lease	-	202,775	-	-	202,775
Acquisition of capital assets	(457,986)	(240,937)	-	(298,280)	(997,203)
Principal payments on long-term debt	(101)	(142,478)	-	-	(142,579)
Interest payments on long-term debt	(11)	(8,304)	-	-	(8,315)
Cash proceeds from disposal of capital assets	42,910	-	-	-	42,910
Other contributions	471,980	-	-	-	471,980
Net cash provided by (used in) capital and related financing activities	56,792	(188,944)	-	(298,280)	(430,432)
INVESTING ACTIVITIES					
Interest on investments	6,695	43,099	55,608	19,425	124,827
Net activity in investment securities	794	12,195	16,309	4,979	34,277
Net cash provided by investing activities	7,489	55,294	71,917	24,404	159,104
Net increase (decrease) in cash and investments	50,750	(238,921)	51,799	(318,613)	(454,985)
CASH AND CASH EQUIVALENTS					
Beginning	45,298	2,399,354	126,845	1,233,080	3,804,577
Ending	\$ 96,048	\$ 2,160,433	\$ 178,644	\$ 914,467	\$ 3,349,592
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ (3,583,034)	\$ (617,906)	\$ (276,943)	\$ (418,755)	\$ (4,896,638)
Adjustments:					
Depreciation charged to operations	730,610	84,963	-	427,794	1,243,367
Pension expense net of employer contributions	388,555	270,714	132,992	37,951	830,212
Nonoperating revenue, net	49,772	69,972	-	6,806	126,550
Change in noncash employee benefits charged to operations	21,542	49,429	8,034	5,782	84,787
Changes in assets and liabilities:					
Change in receivables	1,247	84,913	4,411	(23,728)	66,843
Change in reserve for uncollectibles	-	-	-	(341)	(341)
Change in inventories	-	-	-	20,100	20,100
Change in prepaids	-	43,781	-	-	43,781
Change in accounts payable	(490,938)	(1,137)	(3,812)	(19,346)	(515,233)
Change in deferred revenue	-	(90,000)	-	-	(90,000)
Net cash provided by (used in) operating activities	\$ (2,882,246)	\$ (105,271)	\$ (135,318)	\$ 36,263	\$ (3,086,572)

COMBINING STATEMENTS INTERNAL SERVICE FUNDS

- **Motorized Equipment** – acquires and maintains all vehicles used by the various departments of the City.
- **Central Services** – provides office supplies and printing services for all departments of the City.
- **Insurance** – provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS
June 30, 2020

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
CURRENT ASSETS				
Cash and investments	\$ 128	\$ 329	\$ 4,247,938	\$ 4,248,395
Cash and investments – held by fiscal agents	-	-	50,000	50,000
Receivables, net	-	470	10,260	10,730
Inventories	-	115,468	-	115,468
Total current assets	128	116,267	4,308,198	4,424,593
NONCURRENT ASSETS				
Net pension asset	179,631	27,959	-	207,590
Capital assets:				
Depreciable, net	2,634,717	69,735	-	2,704,452
Total noncurrent assets	2,814,348	97,694	-	2,912,042
Total assets	2,814,476	213,961	4,308,198	7,336,635
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	272,814	42,463	-	315,277
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	67,267	52,973	-	120,240
Accrued interest	48	-	-	48
Due to other funds	1,463,468	200,526	-	1,663,994
Long-term liabilities – due within one year	82,128	6,549	-	88,677
Total current liabilities	1,612,911	260,048	-	1,872,959
NONCURRENT LIABILITIES				
Long-term liabilities – due in more than one year	43,823	728	-	44,551
Total noncurrent liabilities	43,823	728	-	44,551
Total liabilities	1,656,734	260,776	-	1,917,510
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	50,367	7,840	-	58,207
Total deferred inflows of resources	50,367	7,840	-	58,207
NET POSITION				
Net investment in capital assets	2,558,149	69,735	-	2,627,884
Unrestricted	(1,177,960)	(81,927)	4,308,198	3,048,311
	\$ 1,380,189	\$ (12,192)	\$ 4,308,198	\$ 5,676,195

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION – INTERNAL SERVICE FUNDS
Year Ended June 30, 2020**

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 3,084,772	\$ 226,588	\$ 2,351,796	\$ 5,663,156
OPERATING EXPENSES				
Operations	2,891,764	291,948	2,351,796	5,535,508
Depreciation	769,482	17,290	-	786,772
Total operating expenses	3,661,246	309,238	2,351,796	6,322,280
Operating income (loss)	(576,474)	(82,650)	-	(659,124)
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets	78,319	-	-	78,319
Recoveries and rebates	118,172	-	-	118,172
Net change in the fair value of investments	-	-	20,350	20,350
Interest income	-	-	68,364	68,364
Interest expense	(249)	-	-	(249)
Total nonoperating revenues	196,242	-	88,714	284,956
Change in net position	(380,232)	(82,650)	88,714	(374,168)
NET POSITION – Beginning	1,760,421	70,458	4,219,484	6,050,363
NET POSITION – Ending	\$ 1,380,189	\$ (12,192)	\$ 4,308,198	\$ 5,676,195

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS
Year Ended June 30, 2020

	Motorized Equipment	Central Services	Insurance	Total
OPERATING ACTIVITIES				
Received from interfund services	\$ 3,084,772	\$ 226,629	\$ 3,251,796	\$ 6,563,197
Payments to suppliers for goods and services	(2,055,694)	(10,604)	(3,300,638)	(5,366,936)
Payments to employees for services	(498,347)	(94,600)	-	(592,947)
Payments to internal service funds for goods and services	(155,964)	(121,074)	-	(277,038)
Other	118,172	-	-	118,172
Net cash provided by (used in) operating activities	492,939	351	(48,842)	444,448
NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	201,923	34,415	-	236,338
Net cash provided by noncapital financing activities	201,923	34,415	-	236,338
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(802,789)	(34,766)	-	(837,555)
Principal payments on long-term debt and capital leases	(38,835)	-	-	(38,835)
Interest payments on long-term debt	(321)	-	-	(321)
Cash proceeds from disposal of capital assets	147,088	-	-	147,088
Net cash used in capital and related financing activities	(694,857)	(34,766)	-	(729,623)
INVESTING ACTIVITIES				
Interest on investments	-	-	68,364	68,364
Net activity in investments	(5)	-	20,350	20,345
Net cash provided by investing activities	(5)	-	88,714	88,709
Net increase in cash and investments	-	-	39,872	39,872
CASH AND CASH EQUIVALENTS				
Beginning	128	329	4,258,066	4,258,523
Ending	\$ 128	\$ 329	\$ 4,297,938	\$ 4,298,395
RECONCILIATION TO EXHIBIT 27				
Cash and investments	\$ 128	\$ 329	\$ 4,247,938	\$ 4,248,395
Cash and investments – held by fiscal agent	-	-	50,000	50,000
	\$ 128	\$ 329	\$ 4,297,938	\$ 4,298,395
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating loss	\$ (576,474)	\$ (82,650)	\$ -	\$ (659,124)
Adjustments:				
Depreciation charged to operations	769,482	17,290	-	786,772
Pension expense net of employer contributions	273,674	16,530	-	290,204
Nonoperating revenue, net	118,172	-	-	118,172
Change in noncash employee benefits charged to operations	11,908	4,814	-	16,722
Changes in assets and liabilities:				
Change in accounts receivable	-	41	-	41
Change in inventory	-	(2,835)	-	(2,835)
Change in accounts payable	(103,823)	47,161	(48,842)	(105,504)
Net cash provided by (used in) operating activities	\$ 492,939	\$ 351	\$ (48,842)	\$ 444,448

AGENCY FUND

- **Veterans' Memorial Fund** – the City acts as custodian of monies donated to the Veterans' Memorial in Danville, Virginia.

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
VETERANS' MEMORIAL FUND
Year Ended June 30, 2020**

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
ASSETS				
Cash	\$ 1,333	\$ 1,040	\$ -	\$ 2,373
LIABILITIES				
Amounts held for others	\$ 1,333	\$ 1,040	\$ -	\$ 2,373

The Notes to Financial Statements are an integral part of this statement.

STATISTICAL SECTION

This part of the City of Danville’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the government’s overall financial health.

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Tables

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These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.

Revenue Capacity 3, 6, 8-11

These schedules contain information to help the reader assess the government’s most significant local revenue sources, such as property taxes and charges for utility services.

Debt Capacity 12-15

These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.

Demographic and Economic Information 16-17

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.

Operating Information..... 7, 18

These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

TABLE 1

CITY OF DANVILLE, VIRGINIA

NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Unaudited)

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Governmental activities										
Net investment in capital assets	\$ 42,918,073	\$ 43,916,141	\$ 45,906,197	\$ 63,746,102	\$ 62,317,615	\$ 64,049,250	\$ 65,079,988	\$ 67,992,243	\$ 63,575,867	\$ 65,948,718
Restricted	15,329,590	15,892,978	20,156,434	9,769,912	12,513,267	5,997,424	6,330,399	5,702,756	5,475,647	17,704,420
Unrestricted	52,970,198	53,538,232	59,020,475	55,442,221	104,667,291	114,710,399	98,301,236	82,134,341	73,674,253	62,380,068
Prior Period Adjustment for PPT	-	-	-	-	3,121,755	3,178,331	3,256,351	4,112,512	-	-
Total governmental activities net position	<u>\$ 111,217,861</u>	<u>\$ 113,347,351</u>	<u>\$ 125,083,106</u>	<u>\$ 128,958,235</u>	<u>\$ 176,376,418</u>	<u>\$ 181,578,742</u>	<u>\$ 166,455,272</u>	<u>\$ 151,716,828</u>	<u>\$ 142,725,767</u>	<u>\$ 146,033,206</u>
Business-type activities										
Net investment in capital assets	\$ 205,342,317	\$ 215,409,229	\$ 229,150,139	\$ 241,435,018	\$ 243,029,734	\$ 278,554,519	\$ 259,038,283	\$ 264,261,471	\$ 271,666,549	\$ 272,976,091
Unrestricted	88,396,611	86,331,002	84,923,475	84,302,763	104,213,338	105,424,066	100,757,800	95,265,773	86,359,177	80,588,692
Total business-type activities net position	<u>\$ 293,738,928</u>	<u>\$ 301,740,231</u>	<u>\$ 314,073,614</u>	<u>\$ 325,737,781</u>	<u>\$ 347,243,072</u>	<u>\$ 383,978,585</u>	<u>\$ 359,796,083</u>	<u>\$ 359,527,244</u>	<u>\$ 358,025,726</u>	<u>\$ 353,564,783</u>
Primary government										
Net investment in capital assets	\$ 248,260,390	\$ 259,325,370	\$ 275,056,336	\$ 305,181,120	\$ 305,347,349	\$ 342,603,769	\$ 324,118,271	\$ 332,253,714	\$ 335,242,416	\$ 338,924,809
Restricted	54,706,266	51,555,636	20,156,434	9,769,912	12,513,267	5,997,424	6,330,399	5,702,756	5,475,647	17,704,420
Unrestricted	101,990,133	104,206,576	143,943,950	139,744,984	205,758,874	216,956,134	195,802,685	173,287,602	160,033,430	142,968,760
Total primary government net position	<u>\$ 404,956,789</u>	<u>\$ 415,087,582</u>	<u>\$ 439,156,720</u>	<u>\$ 454,696,016</u>	<u>\$ 523,619,490</u>	<u>\$ 565,557,327</u>	<u>\$ 526,251,355</u>	<u>\$ 511,244,072</u>	<u>\$ 500,751,493</u>	<u>\$ 499,597,989</u>

TABLE 2

CITY OF DANVILLE, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Expenses										
Governmental activities:										
General government	\$ 11,513,535	\$ 26,522,291	\$ 27,448,521	\$ 10,985,447	\$ 8,772,098	\$ 9,990,115	\$ 11,658,747	\$ 14,054,318	\$ 14,125,255	\$ 8,872,032
Judicial administration	4,895,286	5,349,323	6,115,877	6,210,609	5,879,586	6,632,827	7,473,184	7,130,025	6,927,179	7,306,607
Public safety	27,211,372	27,119,838	29,449,843	26,273,320	28,403,082	31,831,428	34,125,023	33,112,404	32,671,287	33,838,376
Public works	10,468,862	12,690,486	10,251,460	10,114,068	15,073,851	18,223,240	19,264,879	19,637,304	27,341,027	24,663,507
Heath and welfare	12,236,155	11,614,813	11,413,162	11,250,069	13,380,667	14,004,567	14,706,753	15,373,215	13,918,408	13,829,605
Parks, recreation, cultural	6,227,105	5,235,582	5,573,523	5,247,916	6,366,189	6,113,481	5,917,655	6,427,242	5,908,886	4,980,594
Community development	3,862,302	4,715,326	3,395,882	21,838,752	6,255,078	3,581,479	13,902,395	8,555,627	9,882,504	7,510,057
Education	29,939,742	21,382,291	21,303,585	20,646,479	18,342,352	17,849,211	21,106,956	22,464,784	24,366,922	24,862,582
Interest on long-term debt	12,513,650	7,235,159	1,339,765	1,552,148	1,382,842	1,489,001	908,884	1,647,524	1,650,236	1,817,377
Total governmental activities expenses	118,868,009	121,865,109	116,291,618	114,118,808	103,855,745	109,715,349	129,064,476	128,402,443	136,791,704	127,680,737
Business-type activities:										
Wastewater	6,954,269	6,761,973	6,411,408	6,328,929	6,447,892	6,531,704	6,428,368	6,506,025	6,558,007	6,818,946
Water	5,407,252	5,541,327	5,562,611	5,352,732	5,494,478	5,661,330	5,659,141	5,968,830	5,470,700	6,282,189
Gas	20,911,099	17,955,882	19,464,631	22,819,175	20,545,403	17,381,323	17,544,201	18,423,664	19,231,970	17,523,404
Electric	95,215,780	89,185,930	89,532,367	113,273,134	104,497,754	100,626,328	110,071,510	124,458,095	115,840,740	114,687,535
Nonmajor	6,787,829	7,085,616	7,007,241	7,612,881	7,115,373	7,454,373	8,250,051	8,466,146	8,932,305	10,170,378
Total business-type activities expenses	135,276,229	126,530,728	127,978,258	155,386,851	144,100,900	137,655,058	147,953,271	163,822,760	156,033,722	155,482,452
Total primary government expenses	<u>\$ 254,144,238</u>	<u>\$ 248,395,837</u>	<u>\$ 244,269,876</u>	<u>\$ 269,505,659</u>	<u>\$ 247,956,645</u>	<u>\$ 247,370,407</u>	<u>\$ 277,017,747</u>	<u>\$ 292,225,203</u>	<u>\$ 292,825,426</u>	<u>\$ 283,163,189</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 6,171,322	\$ 313,908	\$ 1,015,444	\$ 27,316	\$ 47,057	\$ 51,135	\$ 42,530	\$ 11,943	\$ 91,357	\$ 78,209
Judicial administration	1,044,237	3,592,835	3,004,455	3,498,685	3,424,310	3,621,618	3,720,856	3,608,340	3,875,264	3,725,332
Public safety	223,330	182,461	217,675	10,935	9,313	56,145	3,905	60,958	3,504	3,095
Public works	-	-	-	-	-	207,137	203,543	320,110	-	-
Health and welfare	-	-	-	-	-	-	-	-	-	-
Parks, recreation, cultural	68,083	23,218	31,155	419,975	416,055	394,883	567,403	377,186	384,983	311,322
Community development	-	-	-	315	230	-	-	252	364	-
Education	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	39,799,066	41,329,002	45,271,317	19,523,936	19,065,751	17,700,275	19,236,189	20,905,084	20,161,338	20,481,613
Capital grants and contributions	4,654,262	8,702,174	7,927,634	18,332,445	11,661,581	17,651,513	14,842,063	15,093,837	13,224,062	18,874,161
Total governmental activities program revenues	51,960,300	54,143,598	57,467,680	41,813,607	34,624,297	39,682,706	38,616,489	40,377,710	37,740,872	43,473,732

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Program Revenues (Continued)										
Business-type activities:										
Charges for services:										
Wastewater	\$ 9,812,296	\$ 9,862,984	\$ 9,373,746	\$ 9,410,786	\$ 9,697,361	\$ 9,833,682	\$ 9,693,870	\$ 9,581,368	\$ 9,956,338	\$ 8,764,608
Water	6,230,140	5,897,749	5,714,753	7,345,579	8,251,968	8,193,551	8,248,139	7,999,919	7,814,555	8,624,922
Gas	24,700,569	21,475,496	23,474,585	26,497,854	23,991,058	20,923,374	20,652,399	21,846,999	23,530,875	19,435,941
Electric	109,022,347	102,304,323	100,176,098	125,670,235	116,039,450	109,239,372	116,922,960	128,282,965	118,360,916	117,349,139
Nonmajor	5,857,175	6,103,392	5,975,111	6,525,644	6,406,305	6,267,362	6,383,133	6,186,451	5,837,550	5,265,317
Operating grants and contributions	2,101,602	1,584,669	1,390,628	1,473,919	1,742,109	1,869,938	3,448,039	2,582,827	2,287,063	2,257,220
Capital grants and contributions	1,511,920	226,283	318,635	268,697	29,772	1,488,142	-	-	-	-
Total business-type activities program revenues	159,236,049	147,454,896	146,423,556	177,192,714	166,158,023	157,815,421	165,348,540	176,480,529	167,787,297	161,697,147
Total primary government program revenues	\$ 211,196,349	\$ 201,598,494	\$ 203,891,236	\$ 219,006,321	\$ 200,782,320	\$ 197,498,127	\$ 203,965,029	\$ 216,858,239	\$ 205,528,169	\$ 205,170,879
Net (expense)/revenue										
Governmental activities	\$ (66,907,709)	\$ (67,721,511)	\$ (58,823,938)	\$ (72,305,201)	\$ (69,231,448)	\$ (70,032,643)	\$ (90,447,987)	\$ (88,024,733)	\$ (99,050,832)	\$ (84,207,005)
Business-type activities	23,959,820	20,924,168	18,445,298	21,805,863	22,057,123	20,160,363	17,395,269	12,657,769	11,753,575	6,214,695
Total primary government net expense	\$ (42,947,889)	\$ (46,797,343)	\$ (40,378,640)	\$ (50,499,338)	\$ (47,174,325)	\$ (49,872,280)	\$ (73,052,718)	\$ (75,366,964)	\$ (87,297,257)	\$ (77,992,310)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 25,869,256	\$ 26,720,274	\$ 26,758,831	\$ 27,868,180	\$ 27,726,602	\$ 28,516,172	\$ 28,671,078	\$ 32,850,905	\$ 32,446,068	\$ 34,870,542
Sales taxes	7,745,308	8,109,198	8,101,954	8,082,871	8,419,504	8,491,311	8,765,046	8,886,896	8,929,130	8,851,945
Business licenses	4,677,012	4,704,465	5,512,860	5,833,099	5,344,704	5,300,860	4,976,049	5,084,382	5,277,586	5,271,255
Utility taxes	997,935	972,637	984,613	991,780	981,093	965,139	960,635	977,324	960,242	936,355
Hotel and meals taxes	7,008,520	7,335,791	7,595,830	7,442,989	7,840,067	8,242,667	8,349,183	8,752,196	9,599,166	9,459,346
Recordation and bank stock taxes	957,247	901,985	870,757	930,744	930,735	992,111	1,021,576	1,105,670	1,061,898	1,205,695
Auto license and recordation taxes	1,095,474	1,086,443	1,090,372	1,120,071	1,113,862	1,150,497	1,162,663	1,109,603	1,149,051	1,201,125
Contributions from Component Unit	-	-	-	-	3,342,319	-	-	-	-	-
Noncategorical state and federal aid	-	-	-	6,038,488	5,939,560	4,399,809	5,549,708	6,022,182	9,834,014	6,576,160
Investment income	591,487	986,545	521,402	1,641,092	1,020,884	1,333,951	632,649	722,805	1,921,725	1,325,447
Miscellaneous	11,461,568	2,602,443	1,005,617	1,682,156	613,199	1,267,625	735,941	587,431	1,315,791	913,074
Transfers	13,411,864	16,431,220	17,234,663	14,548,860	14,533,937	14,631,400	14,578,010	14,995,042	17,565,100	15,088,370
Total governmental activities	73,815,671	69,851,001	69,676,899	76,180,330	77,906,466	75,291,542	75,402,538	81,094,436	90,059,771	85,699,314

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Revenues and Other Changes in Net Position (Continued)										
Business-type activities:										
Investment income	\$ 1,373,048	\$ 1,954,386	\$ 874,230	\$ 1,583,234	\$ 686,097	\$ 1,266,152	\$ 653,635	\$ 821,114	\$ 2,546,152	\$ 1,885,307
Miscellaneous	446,072	1,553,969	2,145,633	2,823,930	2,230,591	1,176,615	1,110,387	1,247,320	1,763,855	2,527,425
Transfers	(13,411,864)	(16,431,220)	(17,234,663)	(14,548,860)	(14,533,937)	(14,631,400)	(14,578,010)	(14,995,042)	(17,565,100)	(15,088,370)
Total business-type activities	(11,592,744)	(12,922,865)	(14,214,800)	(10,141,696)	(11,617,249)	(12,188,633)	(12,813,988)	(12,926,608)	(13,255,093)	(10,675,638)
Total primary government	<u>\$ 62,222,927</u>	<u>\$ 56,928,136</u>	<u>\$ 55,462,099</u>	<u>\$ 66,038,634</u>	<u>\$ 66,289,217</u>	<u>\$ 63,102,909</u>	<u>\$ 62,588,550</u>	<u>\$ 68,167,828</u>	<u>\$ 76,804,678</u>	<u>\$ 75,023,676</u>
Change in Net Position										
Governmental activities	\$ 6,907,962	\$ 2,129,490	\$ 10,852,961	\$ 3,875,129	\$ 8,675,018	\$ 5,258,899	\$ (15,045,449)	\$ (6,930,297)	\$ (8,991,061)	\$ 1,492,309
Business-type activities	12,367,076	8,001,303	4,230,498	11,664,167	10,439,874	7,971,730	4,581,281	(268,839)	(1,501,518)	(4,460,943)
Total primary government	<u>\$ 19,275,038</u>	<u>\$ 10,130,793</u>	<u>\$ 15,083,459</u>	<u>\$ 15,539,296</u>	<u>\$ 19,114,892</u>	<u>\$ 13,230,629</u>	<u>\$ (10,464,168)</u>	<u>\$ (7,199,136)</u>	<u>\$ (10,492,579)</u>	<u>\$ (2,968,634)</u>

TABLE 3

CITY OF DANVILLE, VIRGINIA

GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)

Other Local Taxes									
Fiscal Year	Property Taxes	Sales Taxes	Business License Taxes	Utility Taxes	Hotel and Meals Taxes	Recordation and Bank Stock Taxes	Auto License and Recordation Taxes	Total	Grand Total
2011	\$ 25,869,256	\$ 7,745,308	\$ 4,677,012	\$ 997,935	\$ 7,008,520	\$ 957,247	\$ 1,095,474	\$ 22,481,496	\$ 48,350,752
2012	26,720,274	8,109,198	4,704,465	972,637	7,335,791	901,985	1,086,443	23,110,519	49,830,793
2013	26,758,831	8,101,954	5,512,860	984,613	7,595,830	870,757	1,090,372	24,156,386	50,915,217
2014	27,868,180	8,082,871	5,833,099	991,780	7,442,989	930,744	1,120,071	24,401,554	52,269,734
2015	27,726,602	8,419,504	5,344,704	981,093	7,840,067	1,030,735	1,113,862	24,729,965	52,456,567
2016	28,516,172	8,491,311	5,300,860	965,139	8,242,667	992,111	1,150,497	25,142,585	53,658,757
2017	28,671,075	8,765,046	4,976,049	960,635	8,349,183	1,021,576	1,162,663	25,235,152	53,906,227
2018	32,850,905	8,886,896	5,084,382	977,324	8,752,196	1,105,670	1,109,603	25,916,071	58,766,976
2019	31,481,463	8,929,130	5,277,586	960,242	9,599,166	1,061,898	1,149,051	26,977,073	58,458,536
2020	34,870,542	8,851,945	5,271,255	936,355	9,459,346	1,205,695	1,201,125	26,925,721	61,796,263

TABLE 4

CITY OF DANVILLE, VIRGINIA

FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

(Unaudited)

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Fund										
Nonspendable/Restricted/Committed/										
Assigned	\$ 7,721,548	\$ 6,473,442	\$ 7,103,594	\$ 7,792,980	\$ 11,016,803	\$ 12,085,518	\$ 8,477,355	\$ 9,452,114	\$ 8,637,651	\$ 10,096,312
Unassigned	30,350,466	30,690,145	29,013,386	35,078,780	37,048,908	36,907,387	34,498,029	30,066,455	31,302,863	33,214,777
Total general fund	<u>\$ 38,072,014</u>	<u>\$ 37,163,587</u>	<u>\$ 36,116,980</u>	<u>\$ 42,871,760</u>	<u>\$ 48,065,711</u>	<u>\$ 48,992,905</u>	<u>\$ 42,975,384</u>	<u>\$ 39,518,569</u>	<u>\$ 39,940,514</u>	<u>\$ 43,311,089</u>
All other governmental funds										
Nonspendable/Restricted/Committed										
Community Development	\$ 264,537	\$ 55,793	\$ 25,623	\$ 7,625	\$ 3,218,964	\$ 3,208,407	\$ 1,403,384	\$ 1,038,032	\$ 996,139	\$ 950,011
Nonspendable/Restricted/Committed										
Capital Projects	12,422,706	13,154,663	17,421,894	13,911,991	11,267,939	16,077,177	17,381,778	20,532,007	16,533,237	11,069,125
Restricted – Special Revenue	1,145,379	1,109,613	1,434,005	1,361,801	1,622,818	1,722,465	1,353,933	1,416,967	(322,731)	2,201,827
Restricted – VDOT	-	-	1,474,956	947,450	2,056,622	2,277,197	2,774,096	1,925,505	2,387,746	2,995,579
Restricted – Economic Development	-	-	2,649,962	1,238,644	2,650,732	4,630,210	5,589,316	6,039,893	6,884,766	6,457,897
Nonspendable – Cemetery Maintenance	2,642,347	2,682,522	2,708,917	2,734,092	2,766,767	2,789,017	2,816,017	2,840,517	2,863,991	2,889,147
Total all other governmental funds	<u>\$ 16,474,969</u>	<u>\$ 17,002,591</u>	<u>\$ 25,715,357</u>	<u>\$ 20,201,603</u>	<u>\$ 23,583,842</u>	<u>\$ 30,704,473</u>	<u>\$ 31,318,524</u>	<u>\$ 33,792,921</u>	<u>\$ 29,343,148</u>	<u>\$ 26,563,586</u>

TABLE 5

CITY OF DANVILLE, VIRGINIA

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)
(Unaudited)**

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues										
Property taxes	\$ 26,150,093	\$ 27,284,133	\$ 27,848,904	\$ 27,754,056	\$ 27,618,077	\$ 28,318,281	\$ 28,596,301	\$ 31,117,992	\$ 33,310,771	\$ 34,153,100
Local taxes	22,481,496	23,110,519	23,413,891	24,396,546	24,720,732	25,170,039	25,692,229	26,108,521	27,198,315	27,164,991
Fines and forfeitures	597,250	589,063	539,186	520,154	487,897	448,600	362,431	353,857	386,050	312,163
Permits, privilege fees, and regulatory licenses	210,694	182,461	217,675	218,083	216,705	292,979	252,914	225,545	210,412	225,428
Revenue from use of money and property	1,296,328	1,530,398	945,900	1,553,782	882,640	1,280,745	601,472	676,706	1,823,958	1,236,733
Charges for services	3,536,954	3,572,557	2,561,408	3,411,896	3,376,394	3,643,700	3,972,083	3,839,592	3,794,107	3,614,031
Miscellaneous and contributions	1,074,889	1,258,407	1,167,282	927,694	973,177	2,995,552	1,694,156	1,168,791	2,163,280	1,422,962
Recovered costs	5,502,072	5,779,290	6,003,288	6,313,810	9,029,221	6,262,196	4,343,299	4,843,323	5,610,172	7,445,356
Intergovernmental	36,122,952	40,497,593	46,347,841	43,438,861	35,215,362	37,411,178	38,915,135	41,256,816	42,305,700	45,225,555
Total revenues	96,972,728	103,804,421	109,045,375	108,534,882	102,520,205	105,823,270	104,430,020	109,591,143	116,802,765	120,800,319
Expenditures										
General government	5,459,861	9,349,502	12,894,894	7,848,419	7,699,046	8,260,921	8,171,141	10,149,026	9,618,452	4,145,330
Judicial administration	5,114,279	5,431,560	5,973,866	6,036,322	6,330,493	6,600,180	6,659,891	6,945,317	6,906,259	7,289,435
Public safety	26,797,585	26,649,896	25,235,947	26,889,959	26,858,824	27,373,044	28,787,033	26,483,397	29,114,885	30,289,774
Public works	11,784,512	14,686,446	13,623,926	12,463,018	15,187,957	13,418,094	17,717,684	15,721,592	23,943,335	23,933,775
Health and welfare	12,652,403	11,678,445	11,387,410	11,526,481	13,250,461	13,101,381	13,305,839	13,925,727	13,604,326	13,658,037
Education	19,608,733	22,462,199	22,380,145	18,724,575	16,420,448	16,033,378	17,371,819	21,232,229	24,366,922	24,862,582
Parks, recreation, and cultural	5,172,499	5,023,585	5,288,584	5,203,975	5,442,125	5,578,683	5,977,721	5,353,167	5,344,702	4,441,347
Community development	4,044,531	3,871,343	2,603,250	8,962,080	4,646,975	5,184,253	11,493,236	9,350,202	10,507,510	7,706,322
Nondepartmental	6,062,030	6,390,130	9,148,205	5,419,946	8,037,822	8,963,385	8,955,634	6,835,546	7,238,297	7,031,629
Capital outlay	9,063,568	11,687,731	7,786,891	22,187,029	8,136,643	11,650,717	10,282,330	9,310,880	5,871,705	13,506,417
Debt service										
Principal	992,617	4,911,916	2,990,346	1,226,188	1,424,172	1,639,111	3,083,791	3,151,912	3,390,759	3,768,315
Interest	916,047	2,323,243	1,340,152	1,129,392	1,316,796	1,391,981	1,459,422	1,594,610	1,552,372	1,578,585
Bond issuance costs	-	-	-	-	35,847	-	195,466	143,104	120,859	343,072
Total expenditures	107,668,665	124,465,996	120,653,616	127,617,384	114,787,609	119,195,128	133,461,007	130,196,709	141,580,383	142,554,620
Ratio of debt service to total non-capital expenditures	1.9%	6.4%	3.8%	2.2%	2.6%	2.8%	3.7%	3.9%	3.6%	4.1%
Excess of revenues over (under) expenditures	(10,695,937)	(20,661,575)	(11,608,241)	(19,082,502)	(12,267,404)	(13,371,858)	(29,030,987)	(20,605,566)	(24,777,618)	(21,754,301)
Other financing sources (uses)										
Transfers in	18,714,276	25,446,671	31,387,755	26,543,687	25,714,460	23,378,370	27,319,325	26,116,794	25,347,100	20,520,420
Transfers out	(5,302,412)	(9,015,451)	(14,153,092)	(11,994,827)	(11,083,923)	(8,746,970)	(11,241,315)	(11,373,371)	(8,114,609)	(5,432,050)
Bonds issued	-	3,849,550	-	4,123,367	2,953,000	6,380,545	128,991	5,857,369	3,225,000	4,450,879
Refunding bonds issued	9,721,943	-	8,266,227	-	-	-	13,434,012	-	-	4,739,714
Payments to refunded bond escrow agent	(4,542,956)	-	(6,226,490)	-	-	-	900,707	(1,603,440)	-	(5,187,334)
Premium on bonds	-	-	-	-	-	202,598	-	625,796	292,299	1,177,230
Proceeds from capital lease	-	-	-	-	-	205,140	(6,914,203)	-	-	261,325
Total other financing sources (uses)	18,590,851	20,280,770	19,274,400	18,672,227	17,583,537	21,419,683	23,627,517	19,623,148	20,749,790	20,530,184
Net change in fund balances	\$ 7,894,914	\$ (380,805)	\$ 7,666,159	\$ (410,275)	\$ 5,316,133	\$ 8,047,825	\$ (5,403,470)	\$ (982,418)	\$ (4,027,828)	\$ (1,224,117)

TABLE 6

CITY OF DANVILLE, VIRGINIA

**MAJOR ENTERPRISE FUNDS – CHARGES FOR SERVICES
FOR THE LAST TEN YEARS
(Unaudited)**

Fiscal Year	Electric Fund	Gas Fund	Wastewater Fund	Water Fund	Total Major Enterprise Funds
2010-11	\$ 109,022,347	\$ 24,700,569	\$ 9,812,296	\$ 6,230,140	\$ 149,765,352
2011-12	102,304,323	21,475,496	9,862,984	5,897,749	139,540,552
2012-13	100,176,098	23,474,585	9,373,746	5,714,753	138,739,182
2013-14	125,670,235	26,497,854	9,410,786	7,345,579	168,924,454
2014-15	116,039,450	23,991,058	9,697,361	8,251,968	157,979,837
2015-16	109,239,372	20,932,374	9,833,682	8,193,551	148,198,979
2016-17	116,922,960	20,652,399	9,693,870	8,248,139	155,517,368
2017-18	128,282,965	21,846,999	9,581,368	7,999,919	167,711,251
2018-19	118,360,916	23,530,875	9,956,338	7,814,555	159,662,684
2019-20	117,349,139	19,435,941	8,764,608	8,624,922	154,174,610

TABLE 7

CITY OF DANVILLE, VIRGINIA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(Unaudited)

Function	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Fund										
General government administration	99	95	95	99	96	101	93	94	95	111
Judicial administration	97	99	98	110	116	116	121	120	126	126
Public safety	408	394	392	392	392	393	391	393	391	392
Public works	111	106	105	103	101	101	114	113	112	112
Health, welfare, and social services	101	98	99	99	99	99	100	100	102	102
Park, recreational, and cultural	51	49	49	49	52	53	57	59	61	61
Community development	18	17	17	17	17	17	19	18	16	16
Total General Fund	885	858	855	869	873	880	895	897	903	920
Wastewater Fund	11	11	11	11	11	11	11	11	11	11
Water Fund	19	18	18	18	18	18	16	16	16	16
Gas Fund	54	53	52	51	51	50	48	48	48	47
Electric Fund	106	99	99	100	100	100	104	104	104	89
Telecommunications Fund	4	4	4	4	3	4	3	3	3	2
Transportation Fund	17	18	18	18	20	27	28	34	38	38
Central Services Fund	3	3	3	3	3	3	3	4	4	4
Motorized Equipment Fund	20	19	19	19	19	19	19	21	21	21
Sanitation Fund	43	37	30	28	30	29	26	26	27	27
Cemetery Fund	16	16	16	15	15	15	15	15	13	13
Total Other Funds	293	278	270	267	270	276	273	282	285	268
Total	1,178	1,136	1,125	1,136	1,143	1,156	1,168	1,179	1,188	1,188

Source: City Council Approved Budget – Authorized Positions

TABLE 8

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF ASSESSED PROPERTY VALUES

FOR THE LAST TEN YEARS

(Unaudited)

Fiscal Year	Assessed Value of Real Property (1)	Tax Rate	Assessed Value of Personal Property (2)	Assessed Value of Machinery and Tools (2)	Assessed Value of Mobile Homes (2)	Assessed Value of Public Service Corp. (2)	Assessed Value of Aircraft (2)	Tax Rate	Total Assessed Value	Total Direct Tax Rate
2011	\$ 2,235,675,600	3.00	\$ 279,862,350	\$ 86,749,356	\$ 4,286,745	\$ 49,939,634	\$ 4,448,493	0.73	\$ 2,660,962,178	3.73
2012	2,257,904,600	3.00	297,930,560	91,384,107	4,070,257	46,789,855	4,259,000	0.73	2,702,338,379	3.73
2013	2,232,454,800	3.00	301,421,189	89,409,088	3,889,155	46,254,322	2,488,700	0.73	2,675,917,254	3.73
2014	2,245,455,200	3.00	303,862,061	85,276,081	3,157,546	46,364,169	5,596,700	0.73	2,689,711,757	3.73
2015	2,234,658,900	3.00	314,269,866	88,642,291	3,089,306	46,364,169	5,376,000	0.73	2,692,400,532	3.73
2016	2,240,747,200	3.00	322,874,514	89,676,124	2,825,460	46,578,273	8,061,770	0.73	2,710,763,341	3.73
2017	2,235,165,800	3.00	330,647,557	97,330,638	2,808,748	46,429,405	7,601,044	0.73	2,719,983,192	3.73
2018	2,270,914,500	3.50	340,099,963	112,709,350	3,061,340	49,032,295	7,469,241	0.80	2,783,286,689	4.30
2019	2,261,428,500	3.50	347,473,090	117,196,127	3,025,660	60,222,468	7,040,932	0.80	2,796,386,777	4.30
2020	2,262,959,300	3.60	349,438,279	114,095,791	3,180,324	59,098,352	8,939,000	0.84	2,797,711,046	4.44

Rate for all years shown:

See note (3) below See note (2) below \$1.50 per \$100 See note (3) below See note (4) below \$0.30 per \$100

(1) Real property assessed on a fiscal year basis.

(2) Personal property assessed on a calendar year basis:

2009 – 2017 \$3.00 per \$100
2018 – 2019 \$3.50 per \$100
2020 \$3.60 per \$100

(3) Real property and mobile home tax rates:

2009 – 2017 \$0.73 per \$100
2018 – 2019 \$0.80 per \$100
2020 \$0.84 per \$100

(4) Public Service Corp. – Real Property rate as in note (3), Personal Property rate as in note (2).

TABLE 9

CITY OF DANVILLE, VIRGINIA

**PRINCIPAL REAL ESTATE TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Taxpayer	2020			2011		
	Total Assessed Value	Rank	Percentage of Total Assessed Value (1)	Total Assessed Value	Rank	Percentage of Total Assessed Value
Danville Regional Medical Center LLC	\$ 77,847,500	1	3.44%	\$ 74,803,900	1	3.32%
Goodyear Tire and Rubber Company	29,245,500	2	1.29%	32,466,900	2	1.44%
JTI Leaf Services US LLC	22,019,100	3	0.97%	9,344,200	10	0.41%
NAP Coleman Marketplace LLC	18,641,000	4	0.82%	24,295,000	4	1.08%
ITG Brands, LLC	15,659,700	5	0.69%	-		0.00%
Daniel Group Inc.	14,321,000	6	0.63%	18,527,900	5	0.82%
River District Tower LLC	13,776,700	7	0.61%	-		0.00%
Piedmont Lands of Virginia LLC	12,844,800	8	0.57%	-		0.00%
EBI LLC	10,427,300	9	0.46%	10,102,300	8	0.45%
Essel Propack	10,382,500	10	0.46%	-		0.00%
Danville Mall LLC (Piedmont Mall LLC)	10,244,900	11	0.45%	25,393,300	3	1.13%
Wal-Mart Real Estate Business Trust	10,149,500	12	0.45%	9,854,500	9	0.44%
Sams Real Estate Business Trust	9,086,300	13	0.40%	10,108,500	7	0.45%
Pemberton Lofts LLC	8,639,000	14	0.38%	-		0.00%
Dan Shopping Center Inc	8,126,500	15	0.36%	-		0.00%
Nestle USA Inc. (formerly Carnation Co.)	-		0.00%	10,136,500	6	0.45%
Industrial Development Authority of Danville	-		0.00% (2)	6,979,800	15	0.31%
Centra Health Inc	-		0.00%	-		0.00%
Riverside Shopping Center LP	-		0.00%	-		0.00%
Revenue Properties of Danville LLC	-		0.00%	-		0.00%
Dan River Properties LLC	-		0.00%	-		0.00%
Lorillard Tobacco Company	-		0.00%	8,208,200	11	0.36%
Finlay Interests 5 LTD	-		0.00%	7,961,800	12	0.35%
MJRW Inc.	-		0.00%	6,994,400	14	0.31%
Marshall, Robert & Margaret D. (Rev Trust)	-		0.00%	7,408,400	13	0.33%
	<u>\$ 271,411,300</u>		<u>12.00%</u>	<u>\$ 262,585,600</u>		<u>11.66%</u>

(1) Total 2020 Assessed Real Estate Value is \$2,262,959,300 for the City of Danville.

(2) Industrial Development Authority of Danville includes Esselpropack only in Fiscal Year 2015.

TABLE 10

CITY OF DANVILLE, VIRGINIA

REAL PROPERTY TAX LEVIES AND COLLECTIONS

FOR THE LAST TEN YEARS

(Unaudited)

Fiscal Year	Tax Rate Per \$100	Original Levy (1)	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Collected in Year of Levy (1)	Uncollected at End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due (1)	Collections & Adjustments in Subsequent Years (1)	Total Collections & Adjustments Thru June 30, 2020	Uncollected Balance June 30, 2020	Percentage of Original Levy Collected June 30, 2020
2011	\$ 0.73	\$ 16,156,634	\$ 15,134,880	93.68 %	\$ 1,021,754	6.32 %	\$ 968,268	\$ 16,103,148	\$ 53,486	99.67 %
2012	0.73	16,321,848	15,319,292	93.86	1,002,556	6.14	939,955	16,259,247	62,601	99.62
2013	0.73	16,165,990	15,204,912	94.05	961,078	5.95	887,541	16,092,453	73,537	99.55
2014	0.73	16,241,177	15,223,541	93.73	1,017,636	6.27	930,109	16,153,650	87,527	99.46
2015	0.73	16,175,657	14,985,466	92.64	1,190,191	7.36	1,084,261	16,069,727	105,930	99.35
2016	0.73	16,226,974	15,323,516	94.43	903,458	5.57	719,019	16,042,535	184,439	98.86
2017	0.73	16,243,600	15,357,140	94.54	886,460	5.46	498,275	15,855,415	388,185	97.61
2018	0.80	18,049,905	16,926,921	93.78	1,122,984	6.22	-	16,926,921	1,122,984	93.78
2019	0.80	17,955,991	17,040,137	94.90	915,854	5.10	-	17,040,137	915,854	94.90
2020	0.84	18,865,804	17,948,051	95.14	917,753	4.86	-	17,948,051	917,753	95.14

(1) Real Estate taxes are assessed on a fiscal year basis with 1st half taxes due December 5th and 2nd half taxes due June 5th.

TABLE 11

CITY OF DANVILLE, VIRGINIA

PERSONAL PROPERTY TAX LEVIES AND COLLECTIONS

FOR THE LAST TEN YEARS

(Unaudited)

Fiscal Year	Tax Rate Per \$100 (5)	Original Levy (1)	Collections and Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Collected in Year of Levy (1)	Uncollected at End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due (1)	Collections and Adjustments in Subsequent Years (1)	Total Collections & Adjustments Thru June 30, 2020	Uncollected Balance At June 30, 2020 (2)	Percentage of Original Levy Collected At June 30, 2020
2011	\$ 3.00	\$ 9,516,667	\$ 9,315,272	97.88 %	\$ 201,395 (3)	2.12 %	\$ 201,395	\$ 9,516,667	\$ -	100.00 %
2012	3.00	10,330,962	10,139,346	98.15	191,616 (3)	1.85	101,453	10,240,799	90,163	99.13
2013	3.00	10,210,303	9,944,695	97.40	265,608 (3)	2.60	167,705	10,112,400	97,903	99.04
2014	3.00	10,560,822	10,271,351	97.26	289,471 (3)	2.74	179,777	10,451,128	109,694	98.96
2015	3.00	10,897,755	10,677,434	97.98	220,322 (4)	2.02	114,850	10,792,283	105,472	99.03
2016	3.00	11,197,466	10,975,442	98.02	222,025 (4)	1.98	87,786	11,063,227	134,239	98.80
2017	3.00	11,183,892	4,094,676	36.61	7,089,216 (3)	63.39	6,944,287	11,038,963	144,929	98.70
2018	3.50	13,362,140	5,200,943	38.92	8,161,197 (3)	61.08	7,700,503	12,901,446	460,694	96.55
2019	3.50	13,546,839	4,986,240	36.81	8,560,599 (3)	63.19	-	4,986,240	8,560,599	36.81
2020	3.60	14,006,837	5,363,605	38.29	8,643,232 (4)	61.71	-	5,363,605	8,643,232	38.29

(1) Beginning on January 1, 1999, the City has levied taxes on a calendar year basis with 1st half taxes due June 5th and 2nd half taxes due December 5th.

(2) According to state law uncollected personal property taxes are collectible five years following the year of levy.

(3) Personal property tax uncollected reported as of June 30 of subsequent fiscal year.

(4) This includes second half of the tax levy which is not due until December 5th and also the Personal Property Tax Relief Act (PPTRA) funds from the Commonwealth of Virginia. PPTRA funds amounting to \$3,593,576 are received in three installments during July, August, and November each year; therefore, are shown as uncollected at June 30.

(5) Personal property tax rate shown is for personal property which is the largest portion of the tax levy. However, data includes:

Machinery and Tools (\$1.50 per \$100)

Mobile Home (\$0.73 per \$100 for years prior to 2018 and \$0.80 per \$100 effective with FY 2018)

Aircraft (\$0.30 per \$100)

TABLE 12

CITY OF DANVILLE, VIRGINIA

**RATIOS OF BONDED DEBT TO ASSESSED VALUES AND BONDED DEBT PER CAPITA
FOR THE LAST TEN YEARS
(Unaudited)**

Fiscal Year Ended June 30,	Population	Assessed Value	Bonded Debt		Ratio of Bonded Debt To Assessed Value		Bonded Debt Per Capita	
		Real and Personal Property	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities
2011	42,918	\$ 2,660,962,178	\$ 29,882,557	\$ 58,776,721	1.12 %	2.21 %	\$ 696.27	\$ 1,369.51
2012	43,332	2,702,338,379	31,756,730	55,924,755	1.18	2.07	732.87	1,290.61
2013	43,400	2,675,917,254	31,523,096	57,637,831	1.18	2.15	726.34	1,328.06
2014	42,912	2,689,711,757	34,379,976	55,712,660	1.28	2.07	801.17	1,298.30
2015	42,975	2,692,400,532	35,893,854	51,844,337	1.33	1.93	835.23	1,206.38
2016	42,544	2,710,763,341	40,692,518	51,156,794	1.50	1.89	956.48	1,202.44
2017	41,898	2,719,983,192	44,302,180	46,345,271	1.63	1.70	1,057.38	1,106.15
2018	41,358	2,783,286,689	47,086,136	51,863,973	1.69	1.86	1,138.50	1,254.03
2019	40,590	2,796,386,777	45,379,138	47,365,047	1.62	1.69	1,117.99	1,166.91
2020	40,044	2,797,711,046	48,729,288	54,393,579	1.64	1.78	1,146.11	1,241.25

TABLE 13

CITY OF DANVILLE, VIRGINIA

**RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Bond Debt Per Capita	Ratio of Bond Debt to Danville MSA Personal Income (1)
	General Obligation Bonds	Lease Revenue Bonds	Capital Leases	Revenue Bonds	General Obligation Bonds	Capital Leases			
2011	\$ 29,882,557	\$ 3,681,077	\$ -	\$ 3,440,544	\$ 55,336,177	\$ -	\$ 92,340,355	\$ 2,152	2.90 %
2012	31,756,730	-	-	2,862,396	53,062,359	-	87,681,485	2,023	2.70
2013	31,523,096	-	-	2,276,945	55,360,887	-	89,160,928	2,054	2.70
2014	34,600,414	-	-	1,683,940	54,764,742	-	91,049,096	2,122	2.70
2015	36,062,098	-	-	1,318,940	51,177,687	-	88,558,725	2,061	2.53
2016	40,692,518	-	102,480	953,940	50,202,854	164,632	92,116,424	2,165	2.59
2017	44,302,180	-	382,310	588,940	45,756,331	133,511	91,163,272	2,176	2.56
2018	47,086,136	-	274,209	223,940	51,640,033	131,498	99,355,816	2,402	2.79
2019	45,384,496	-	162,276	-	47,359,689	198,705	93,105,166	2,294	2.51
2020	45,896,814	-	293,141	-	49,697,330	843,182	96,730,467	2,416	2.47

(1) Danville MSA includes Danville and Pittsylvania County.

TABLE 14

CITY OF DANVILLE, VIRGINIA

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

(Unaudited)

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assessed Value:										
Real property	\$ 2,235,675,600	\$ 2,257,904,600	\$ 2,232,454,800	\$ 2,245,455,200	\$ 2,234,658,900	\$ 2,240,747,200	\$ 2,235,165,800	\$ 2,270,914,500	\$ 2,261,428,500	\$ 2,262,959,300
Public service – real property	49,603,302	46,416,815	45,836,076	46,088,538	46,088,538	46,435,219	46,338,884	48,933,178	60,158,435	45,916,643
Total assessed value	2,285,278,902	2,304,321,415	2,278,290,876	2,291,543,738	2,280,747,438	2,287,182,419	2,281,504,684	2,319,847,678	2,321,586,935	2,308,875,943
Debt limit per state (10% of assessed value – real property)	228,527,890	230,432,142	227,829,088	229,154,374	228,074,744	228,718,242	228,150,468	231,984,768	232,158,694	230,887,594
Gross bond debt	88,659,278	87,657,729	89,137,171	90,094,568	87,738,191	91,849,312	90,647,451	99,355,816	98,406,792	95,599,524
Less bond debt not applicable to limit:										
Revenue bonds	3,440,544	2,862,396	2,276,945	1,683,940	1,318,940	953,940	588,940	223,940	-	-
Total debt not applicable to limit	3,440,544	2,862,396	2,276,945	1,683,940	1,318,940	953,940	588,940	223,940	-	-
Total net debt applicable to state limit	85,218,734	84,795,333	86,860,226	88,410,628	86,419,251	90,895,372	90,058,511	99,131,876	98,406,792	95,599,524
Legal debt margin per state	\$ 143,309,156	\$ 145,636,809	\$ 140,968,862	\$ 140,743,746	\$ 141,655,493	\$ 137,822,870	\$ 138,091,957	\$ 132,852,892	\$ 133,751,902	\$ 135,288,070
Total net debt applicable to the limit as a percentage of debt limit	37.29%	36.80%	38.13%	38.58%	37.89%	39.74%	39.47%	42.73%	42.39%	41.41%
Total net debt applicable to the limit as a percentage of assessed value	3.73%	3.68%	3.81%	3.86%	3.79%	3.97%	3.95%	4.27%	4.24%	4.14%

TABLE 15

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF UTILITY REVENUE BOND COVERAGE
FOR THE LAST TEN YEARS
(Unaudited)

Fiscal Year Ended June 30,	Gross Revenue (1)		Direct Operating Expenses (2)		Net Revenue Available for Debt Service	Debt Service Requirements (3)			
						Principal	Interest	Total	Coverage
2011	\$	152,286,825	\$	115,389,621	\$ 36,897,204	\$ 571,087	\$ 152,103	\$ 723,190	51.02 %
2012		142,677,853		105,695,821	36,982,032	578,148	130,624	708,772	52.18
2013		140,480,644		105,273,005	35,207,639	585,451	108,903	694,354	50.71
2014		170,599,462		131,792,691	38,806,771	593,004	86,932	679,936	57.07
2015		159,980,502		121,029,290	38,951,212	365,000	66,516	431,516	90.27
2016		151,273,918		116,068,950	35,204,968	365,000	52,098	417,098	84.40
2017		157,807,454		126,093,439	31,714,015	365,000	37,681	402,681	78.76
2018		170,299,740		141,059,510	29,240,230	365,000	23,263	388,263	75.31
2019		162,929,973		132,277,681	30,652,292	223,940	8,846	232,786	131.68
2020		156,539,900		130,551,486	25,988,414	-	-	-	0.00

(1) Total revenue includes interest earned and other miscellaneous revenues.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of revenue bonds only. It does not include the general obligation bonds reported in the utility funds.

TABLE 16

CITY OF DANVILLE, VIRGINIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
FOR THE LAST TEN YEARS
(Unaudited)

Year	Population	Danville MSA Per Capita Income	Median Age	Percentage of Population with Bachelor's Degree or Higher	School Enrollment	Danville MSA Personal Income (thousands of \$)	Percentage of Unemployment Rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2011	42,918	\$ 30,092	42.6	15.7 %	6,120	\$ 3,184,116	12.00 %
2012	43,332	30,587	42.6	16.2	6,076	3,253,086	11.10
2013	43,400	31,297	42.6	16.8	6,362	3,307,949	11.00
2014	42,912	32,775	42.6	16.8	6,362	3,467,733	9.80
2015	42,975	33,244	42.6	16.8	6,391	3,501,737	8.60
2016	42,544	34,119	42.6	16.8	6,228	3,557,825	6.10
2017	41,898	34,119	42.6	16.4	5,956	3,557,825	6.50
2018	41,358	35,326	41.5	16.0	5,828	3,659,277	5.30
2019	40,590	37,053	40.6	18.9	5,731	3,705,300	4.90
2020	40,044	36,301	41.1	18.4	5,731	3,912,942	7.70

(1) Source: Weldon Cooper Center for Public Services, University of Virginia estimated population for 2003-2009 and 2011-2020.
U.S. Census Bureau actual count for 2010.

(2) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
Danville MSA includes Danville and Pittsylvania County.

(3) Source: U.S. Census Bureau. Profile of Selected Social characteristics.

(4) Source: U.S. Census Bureau. Profile of Selected Social characteristics.
Percent based on population 25 years and over.

(5) Source: 2010-2011 through Weldon Cooper Center for Public Services, University of Virginia.
2012-2019 provided by Danville City Schools.

(6) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
Danville MSA includes Danville and Pittsylvania County.

(7) Source: Virginia Employment Commission at June 2020.

NOTE: Data is most current available at June 30. Prior years is previously published data.

TABLE 17

CITY OF DANVILLE, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago
(Unaudited)

Employer	2020			2011		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees (1)	Rank	Percentage of Total City Employment (2)
Goodyear Tire & Rubber Co.	2,117	1	11.20%	2,250	2	12.48%
City of Danville	1,926	2	10.19%	2,381	1	13.20%
Sovah Health – Danville	1,150	3	6.08%	1,294	3	7.18%
Buitoni (Nestle Refrigerated Food)	534	4	2.82%	600	5	3.33%
American National Bank	350	5	1.85%	-		0.00%
Roman Eagle Memorial Home	348	6	1.84%	-		0.00%
Essel Propack	278	7	1.47%	-		0.00%
EBI	260	8	1.38%	550	7	3.05%
Averett University	263	9	1.39%	550	6	3.05%
CIT	200	10	1.06%	-		0.00%
Wal-Mart	-			474	8	2.63%
Telvista	-			780	4	4.33%
Food Lion	-			376	9	2.09%
Swedwood	-			375	10	2.08%

(1) Source: City of Danville, Office of Economic Development.

(2) Source: Virginia Employment Commission – employed civilian labor force for June 2020 (18,909) and June 2011 (18,033).

TABLE 18

CITY OF DANVILLE, VIRGINIA

OPERATING INDICATORS AND CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years
(Unaudited)

Date of Incorporation: 1830
Form of Government: Council / Manager
Area in Square Miles: 44

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of Employees (Full & Part-Time)	1,235	1,222	1,220	1,233	1,210	1,257	1,222	1,227	1,231	1,231
<u>Name of Government Facilities and Services:</u>										
Miles of streets	318	318	318	318	318	316	316	316	316	316
Number of street lights	8,822	8,827	8,827	8,827	8,827	8,340	8,344	8,349	8,349	8,349
<u>Culture and Recreation:</u>										
Recreation centers	8	8	8	8	8	7	9	9	9	9
Number of parks	11	12	12	12	12	16	18	18	18	21
Park acreage	575	680	680	680	680	751	922	922	922	843
Number of trails	8	6	6	6	6	6	16	16	19	19
Trail mileage	38	41	41.5	41.5	41.5	46	47	47	49	49
Number of athletic fields	31	22	22	22	22	22	22	22	22	21
Athletic field acreage	49	46	46	46	46	46	46	46	46	48
Number of playgrounds	21	16	14	14	14	20	20	20	20	17
Playground acreage	74	64	64	64	64	1.3	1.3	1.3	1.3	1.3
Number of outdoor basketball courts	10	10	10	10	10	10	10	10	15	15
Number of tennis courts	21	19	19	19	19	10	10	10	16	14
<u>Fire Protection:</u>										
Number of stations	7	7	7	7	7	7	7	7	7	7
Number of fire personnel and officers	123	122	123	123	123	121	121	121	121	121
Number of calls answered	6,326	6,432	6,609	6,703	7,321	8,132	8,419	8,047	8,424	8,415
Number of inspections conducted	997	1,042	1,541	1,043	1,288	1,337	1,424	1,223	1,101	784
<u>Police Protection:</u>										
Number of stations	2	2	2	2	2	2	3	3	3	3
Number of police officers	133	133	133	133	131	131	131	131	131	131
Number of police vehicles and trailers	54	56	56	56	56	56	26	63	75	73
Number of law violations:										
Criminal arrests	8,183	9,188	8,994	7,911	7,196	6,649	4,888	4,911	4,818	2,939
Traffic violations	8,190	7,447	6,224	7,251	8,019	8,083	5,531	6,825	7,460	3,544
Parking violations	2,374	2,537	1,504	1,390	1,395	1,508	1,213	1,387	1,307	507

(Continued)

TABLE 18

CITY OF DANVILLE, VIRGINIA

OPERATING INDICATORS AND CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years
(Unaudited)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<u>Sewerage System:</u>										
Miles of sanitary sewers	385	385	386	386	386	394	395	395	395	395
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	16,511	16,663	16,335	16,235	16,258	16,296	16,195	16,147	16,147	16,094
Average daily treatment	6.47	6.70	6.51	7.34	7.86	8.40	8.10	8.10	9.64	8.49
Maximum daily capacity of treatment	24	24	20	20	20	20	20	20	20	20
<u>Water System:</u>										
Miles of water mains	331	337	340	342	344	346	347	331	331	331
Active number of service connections	17,426	17,837	17,712	17,780	17,481	17,652	17,374	17,616	16,820	16,838
Number of fire hydrants	2,065	2,073	2,081	2,107	2,107	2,209	2,208	2,079	2,075	2,078
Average daily consumption - MGD	5.40	5.30	4.93	5.19	5.39	4.86	4.98	4.90	4.73	4.67
Maximum daily capacity of treatment	18	18	18	18	18	18	18	18	18	18
<u>Electric Distribution System:</u>										
Square miles of service	500	500	500	500	500	500	500	500	500	500
Number of distribution stations	17	17	17	17	17	17	17	17	17	17
<u>Facilities and services not included in the primary government:</u>										
<u>Education:</u>										
Number of preschools	1	1	2	2	2	2	2	2	2	2
Number of elementary schools	9	9	8	6	6	6	6	6	6	6
Number of intermediate schools	0	0	0	0	0	0	0	0	1	1
Number of middle schools	3	3	3	2	2	2	2	2	2	2
Number of high schools	2	2	2	2	2	2	2	2	2	2
Number of alternative schools	1	1	1	1	1	1	1	1	1	1
Number of preschool instructors	21	21	21	21	22	23	23	22	21	21
Number of elementary school instructors	251	251	228	223	216	209	204	198	225	215
Number of middle school instructors	125	125	123	111	107	102	97	88	99	97
Number of high school instructors	175	175	167	152	140	138	131	130	131	151
<u>Facilities and services not included in the reporting entity:</u>										
<u>Hospitals:</u>										
Number of hospitals	1	1	1	1	1	1	1	1	1	1
Number of patient beds	290	290	250	250	250	250	250	250	250	250

COMPLIANCE SECTION



CITY OF DANVILLE, VIRGINIA

Compliance Reports

Year Ended June 30, 2020

CITY OF DANVILLE, VIRGINIA
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June 30, 2020

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

To the Honorable Members of the City Council and the City Manager
City of Danville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *the Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Danville, Virginia (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 14, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.**

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters identified as items 2020-002, 2020-003, and 2020-004 in the accompanying schedule of findings and questioned costs that are required to be reported under *Government Auditing Standards*.**

City of Danville, Virginia's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
March 25, 2021

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

To the Honorable Members of the City Council and the City Manager
City of Danville, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Danville, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, the terms and conditions to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Danville, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 14, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
March 25, 2021

CITY OF DANVILLE, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS June 30, 2020

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Comprehensive Services Act
Uniform Disposition of Unclaimed Property Act
Sheriff Internal Controls
Fire Programs Aid to Localities

State Agency Requirements

Education
Social Services
Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Passthrough ID Numbers	Passed-Through to Subrecipient	Federal Expenditures
<u>Primary Government</u>				
Department of Agriculture				
Passed through Commonwealth of Virginia:				
Department of Social Services:				
Supplemental Nutrition Assistance Program	10.561			\$ 860,723
National School Lunch Program	10.555			54,067
Department of Health and Human Services				
Passed through Commonwealth of Virginia:				
Department of Social Services:				
Special Programs for the Aging – Title III, Part B – Grants for Supportive				
Services and Senior Centers	93.044			25,880
Minority Health & Health Disparities Research	93.307			48,907
Family Preservation and Support	93.556			40,689
TANF Block Grant	93.558			601,063
Refugee and Entrant Assistance State – Administered Programs	93.566			896
Low Income Energy Assistance	93.568			117,598
Child Care Development Fund	93.596			115,767
Chafee Education and Training Vouchers Program (ETV)	93.599			7,195
Child Welfare Services	93.645			1,556
Foster Care – Title IV-E	93.658			809,255
Adoption Assistance	93.659			281,780
Social Services Block Grant	93.667			537,367
Independent Living	93.674			9,520
Children's Insurance Program	93.767			13,793
Medicaid Assistance	93.778			880,329
Department of Housing and Urban Development				
Direct Payments:				
Community Development Block Grant Program, Entitlement Grants	14.218		129,662	615,088
Home Investment Partnership Program	14.239			443,083
Community Development Block Grant Program, Special Purpose Grants	14.225			17,460
Department of Justice				
Direct Payments:				
Bulletproof Vest Partnership	16.607			12,375
Passed through Commonwealth of Virginia:				
Department of Criminal Justice Services:				
Crime Victim Assistance	16.575			118,910
State Criminal Alien Assistance Program	16.606			894
Byrne Memorial Justice Assistance Grant	16.738			142,005
Department of Homeland Security				
Direct Payments:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036			1,306,222

(Continued)

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Passthrough ID Numbers	Passed-Through to Subrecipient	Federal Expenditures
Department of Transportation				
Passed through Commonwealth of Virginia:				
Highway Planning and Construction	20.205	60955, 61011, 61124		\$ 384,154
Passed through Commonwealth of Virginia:				
Federal Transit:				
Formula Grants for Rural Areas	20.509	42516, 42015, 42016		1,481,600
Passed through Commonwealth of Virginia:				
Department of Motor Vehicles:				
Alcohol Impaired Driving Grants	20.600			7,066
Alcohol Open Container Requirements	20.607			7,877
Department of the Interior				
Direct Payments:				
Brownfields Multipurpose, Assessment, Revolving Loan Fund, and Cleanup Cooperative	66.818			88,497
Passed through Commonwealth of Virginia:				
Historic Preservation Fund Grants-In-Aid	15.904			3,875
Department of the Treasury				
Passed through Commonwealth of Virginia:				
Coronavirus Relief Fund	21.019			550,143
Federal Aviation Administration				
Direct Payments:				
Department of Aviation:				
Airport Improvement Program	20.106			3,126,502
Passed through Commonwealth of Virginia:				
Department of Aviation:				
Airport Improvement Program – CARES	20.106			69,000
Federal Emergency Management Agency				
Direct Payments:				
Department of Homeland Security:				
Emergency Communications	97.042			27,013
Passed through Commonwealth of Virginia:				
Department of Emergency Management:				
State Homeland Security Program Grant	97.067			56,430
<u>Component Unit – Danville Schools</u>				
Department of Agriculture				
Passed through Commonwealth of Virginia:				
Department of Education:				
National School Lunch Program	10.555			1,961,576
National School Lunch Program – CARES	10.555			138,048
National School Breakfast Program	10.553			962,743

(Continued)

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Passthrough ID Numbers	Passed-Through to Subrecipient	Federal Expenditures
<u>Component Unit – Danville Schools (Continued)</u>				
Department of Agriculture (Continued)				
Passed through Commonwealth of Virginia: (Continued)				
Department of Education: (Continued)				
National School Breakfast Program – CARES	10.553		\$	66,073
Fresh Fruit and Vegetables	10.582			139,581
Summer Feeding Program	10.559			209,842
Summer Feeding Program – CARES	10.559			723,176
Department of Education				
Passed through Commonwealth of Virginia:				
Title I – Educationally Deprived Children - LEA	84.010			3,226,299
Title I – Detention Home 14	84.013			10,377
Title VI-B - Special Education	84.027			1,394,196
Special Education Preschool Grants	84.173			45,646
English Language Acquisition State Grants	84.365			27,034
Title II – Part A Funds	84.367			420,889
School Improvements Grants	84.377			365,152
Basic Grants to States – Adult Education	84.048			130,196
Title VI Part Rural and Low Income Schools	84.358			222,072
Student Support and Academic Enrichment Grants	84.424			228,070
Education Stabilization Fund – CARES	84.425			779,383
TOTAL			\$	<u>23,914,932</u>
				<u>Donated Food Received</u>
<u>Primary Government</u>				
Department of Agriculture				
Passed through Commonwealth of Virginia:				
Department of Social Services:				
W W Moore Jr. Detention Home (Commodities)	10.555		\$	3,226
<u>Component Unit – Danville Schools</u>				
Department of Agriculture				
Passed through Commonwealth of Virginia:				
Department of Education:				
National School Lunch Program (Commodities)	10.555			331,891
TOTAL			\$	<u>335,117</u>

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2020

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Subrecipients

The City provided the following amounts to subrecipients during fiscal year 2020:

<u>Program Title</u>	<u>CFDA</u>	<u>Amount</u>
Department of Housing and Urban Development Community Development Block Grant Program	14.218	\$ 129,662

Indirect Cost Rate

The City did not elect to utilize the 10 percent de minimis indirect cost rate.

Outstanding Loan Balances

At June 30, 2020, the City had no outstanding loan balances requiring continuing disclosure.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

Name of Program	CFDA #
Supplemental Nutrition Assistance Program	10.561
Medicaid Assistance	93.778
Airport Improvement Program	20.106
Title VI-B – Special Education	84.027
Special Education Preschool Grant	84.173
Education Stabilization Fund – CARES	84.425
Child Nutrition Cluster:	
National School Breakfast Program	10.553
National School Breakfast Program – CARES	10.553
National School Lunch Program	10.555
National School Lunch Program – CARES	10.555
Summer Food Service Program for Children	10.559
Summer Food Service Program for Children – CARES	10.559

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The City of Danville was **not** determined to be a **low-risk auditee**.

(Continued)

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001: Accounting for Grants (Material Weakness)

Condition:

During the current audit we noted that certain grant revenue related to Federal Emergency Management Agency (FEMA) and Highway Maintenance funds expended as part of the Hurricane Michael recovery project was not properly recorded. Receivables related to FEMA had been overstated by approximately \$2,600,000 and those related to Highway Maintenance funds had been understated by approximately \$1,800,000 as of June 30, 2020. Additionally, a receivable of approximately \$1,800,000 related to Highway Maintenance funds had not been recorded for the expenditure of those funds as of June 30, 2019, and the 2019 schedule of expenditures of federal awards did not report the expenditure of those funds. All of these amounts have been corrected in the accompanying financial statements.

Criteria:

Internal controls should be in place to provide reasonable assurance that grant receivables are properly recorded and that federal expenditures are correctly reported on the schedule of expenditures of federal awards.

Cause:

We noted that there was not an overall process to appropriately monitor the recording of revenue associated with these grants, or to ensure that the amounts expended were correctly reported on the schedule of expenditures of federal awards (SEFA). The responsibility for tracking and accounting for the Hurricane Michael recovery project was assigned to the Public Works department; although expenditure records were maintained there in spreadsheet form, they were not being reconciled to the general ledger accounts.

Effect:

Absent appropriate controls, errors such as those described above could occur and not be detected.

Recommendation:

We recommend that management develop a process that ensures that all federal grants are monitored in such a way that an inventory of such grants can be readily accessed, and not simply manually prepared at the end of the year. Use of a specific series of revenue object codes in the general ledger could be one way to accomplish this objective. We also recommend that a process be implemented to ensure that there is monitoring and oversight of the accounting for each grant at the finance department level – in other words, compliance and reporting requirements at the grant level should not simply be performed by one individual without review from others with the appropriate knowledge and understanding of the grant requirements. Grant expenditures should also be regularly agreed to the general ledger.

(Continued)

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2020-001: Accounting for Grants (Material Weakness) (Continued)

Views of Responsible Officials:

Management plans to utilize functionality in the accounting system to identify, maintain, and monitor all federal grants. This will enable improved reporting and ongoing monitoring throughout the fiscal year. Management will begin a quarterly review of all federal grants by Finance Department staff, with appropriate oversight and review.

C. FINDINGS – COMMONWEALTH OF VIRGINIA

2020-002: VIEW and SNAPET Gift Cards Issued – Department of Social Services

Condition:

We noted instances where gift cards were issued for the VIEW and SNAPET program. Cards issued to participants of these programs should be limited to gas purchases only. Since these cards are gift cards, it is not possible to limit the usage to only gas.

Recommendation:

We recommend that City obtain gas cards that are limited to only the purchase of gas.

Management's Response:

Management has removed the gift cards from Social Services. Social Services will be giving vouchers to their clients to be used at the services stations preapproved by Social Services.

2020-003: Commonwealth of Virginia Disclosure Statements

Condition:

Five City officials filed a statement of economic interest as required by the *Code of Virginia* after the February 1, 2020 deadline, and six officials did not file their statement of economic interest.

Recommendation:

Steps should be taken to ensure that these statements are filed and in a timely manner.

Management's Response:

The auditee concurs with the recommendation.

(Continued)

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

C. FINDINGS – COMMONWEALTH OF VIRGINIA (Continued)

2020-004: Annual Review of System Access – Department of Social Services

Condition:

The Virginia Department of Social Services requires all local departments of social services to remove system access of terminated employees within three days subsequent to the employee's termination. We noted in our testing that access removal was not completed within three days for three of the five terminated employees tested.

Recommendation:

Procedures should be in place to ensure that employee's access is removed within three days subsequent to their departure.

Management's Response:

Management will implement procedures to ensure employee access is timely removed.

D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CITY OF DANVILLE, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2020

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2019-001: Accounting for Grants (Material Weakness)

Condition:

During the Fiscal Year 2020 audit we noted that certain grant revenue related to Highway Maintenance funds expended as part of the Hurricane Michael recovery project was not properly recorded in Fiscal Year 2019. Receivables related to Highway Maintenance funds had been understated by approximately \$1,800,000 as of June 30, 2019 and the 2019 schedule of expenditures of federal awards did not report the expenditure of those funds. All of these amounts have been restated in the accompanying financial statements for the year ended June 30, 2019.

Status:

See Current Year Comment 2020-001 for update. Additionally, the 2019 audit was re-issued to correct these matters.