Financial Statements
Year Ended
June 30, 2013

Danville Public Schools
City of Danville, Virginia

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Danville Public Schools
City of Danville, Virginia

Contents

	Page
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 9
Financial Statements	
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds	
Balance Sheet	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	15
Fiduciary Funds	
Statement of Fiduciary Net Position	16
Notes to the Financial Statements	17 - 33

Danville Public Schools
City of Danville, Virginia

Contents

	Page
Required Supplementary Information	
Schedule I	
Comparative Schedule of Revenues and Expenditures - Budget and Actual - General Fund	34
Schedule II	
Comparative Schedule of Revenues and Expenditures - Budget and Actual - Textbooks Fund	35
Schedule III	
Schedule of Funding Progress - Defined Benefit Pension Plan and Notes to the Required Schedules	36 - 37
Schedule IV	
Schedule of Funding Progress - Other Postemployment Benefits and Notes to the Required Schedules	38 - 39
Other Supplementary Information	
Nonmajor Governmental Fund - Capital Projects	
Schedule V	
Balance Sheet - Nonmajor Governmental Fund - Capital Projects	40
Schedule VI	
Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Fund - Capital Projects	41
Compliance Reports	
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	42 - 43
Report on Compliance with Commonwealth of Virginia's Laws, Regulations, Contracts and Grants	44 - 45

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

School Board
Danville Public Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Danville Public Schools***, a component unit of the City of Danville, Virginia, as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the ***Danville Public Schools'*** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Danville Public Schools*** as of June 30, 2013, and the respective changes in financial position, 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.

Correction of Error

As discussed in Note 15 to the financial statements, the 2012 financial statements have been restated to correct an error in accounting for certain revenues. 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 Management's Discussion and Analysis on pages 4 through 9 and the other required supplementary information on pages 34 through 39, respectively, 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 provided us will sufficient evident to express and opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ***Danville Public Schools'*** basic financial statements. The nonmajor governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The nonmajor governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance 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 fund financial statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013 on our consideration of ***Danville Public Schools***' 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ***Danville Public Schools***' internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News Virginia
October 14, 2013

Danville Public Schools
City of Danville, Virginia
Management's Discussion and Analysis
Year Ended June 30, 2013

This section of the financial report presents our discussion and analysis of ***Danville Public Schools'*** (DPS), Danville, Virginia financial performance during the fiscal year that ended June 30, 2013. The intent of this discussion and analysis is to look at DPS's financial performance as a whole. Please read it in conjunction with the financial statements.

Financial Highlights

Government-wide statements

General revenues accounted for $42.5 million in revenues or 60 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for $28.3 million or 40 percent of total revenues of $70.8 million.

The school division had $70.3 million in expenses related to governmental activities, of which only $28.3 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily transfers from the City of Danville and Commonwealth of Virginia) were adequate to provide for these programs.

Fund Statements

Among major funds, the general fund had $60.0 million in revenues and transfers in and $57.7 million in expenditures and transfers out. There were no significant increases in fund balances.

Using this report

This report consists of two parts - Management's Discussion and Analysis and the basic financial statements (including required supplementary information,). The first two statements - *Statement of Net Position* and *Statement of Activities* are government-wide financial statements that provide information about the activities of DPS as a whole and present a longer-term view of its finances. The remaining financial statements are fund financial statements that focus on the major individual funds of DPS, reporting operations in more detail than the government-wide statements. The financial statements also include notes that explain some of the information in the financial statements. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide Statements - Statement of Net Assets and Statement of Activities

The government-wide statements report information about DPS as a whole using accounting methods similar to those used by private-sector companies. While this document contains a number of funds used by DPS to provide programs and activities, the view of DPS as a whole looks at all financial transactions and asks the question, "How did we do financially during FY2013?" The Statement of Net Position and Statement of Activities answer this question. These statements report all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report DPS's net position and changes in those assets. The change in net assets is important because it tells the reader whether, for DPS as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include limited property tax base, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, DPS reports only activities related to governmental activities since it has no business-type activities. DPS's governmental activities include instruction, administration, attendance and health, pupil transportation, operation and maintenance of school buildings, summer school, adult education, food services and community services.

Fund Financial Statements

The fund financial statements provide more detailed information about DPS's most significant funds not the school division as a whole. Funds are accounts that DPS uses to keep track of specific sources of funding and spending for particular purposes.

DPS utilizes two types of funds:

Governmental Funds: Most of DPS's activities are reported in governmental funds, which focus on how much money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of DPS's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Government-wide *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds: DPS is a trustee, or fiduciary, for school activity funds monies. All of the fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from DPS's government-wide statements because DPS cannot use these assets to finance its operations.

Financial Analysis of DPS as a Whole

Net position. The *Statement of Net Position* provides the perspective of DPS as a whole. The following provides a summary of DPS's net assets as of June 30, 2013, 2012 and 2011.

Net Position

	Governmental Activities		
	2013	**2012**	**2011**
Assets			
Current and other assets	$ 13,230,234	$ 12,056,177	$ 14,852,486
Capital assets - net	20,118,793	20,057,023	16,545,895
Total assets	$ 33,349,027	$ 32,113,200	$ 31,398,381
Liabilities			
Current liabilities	$ 3,456,131	$ 3,120,801	$ 5,198,582
Long-term liabilities outstanding	7,142,300	6,709,826	6,390,023
Total liabilities	$ 10,598,431	$ 9,830,627	$ 11,588,605
Net Position			
Invested in capital assets	$ 20,118,793	$ 20,057,023	$ 16,545,895
Unrestricted	2,631,803	2,225,550	3,263,881
Total net position	$ 22,750,596	$ 22,282,573	$ 19,809,776

Total assets represent equity in pooled cash and investments, due from other governments, prepaid items and net capital assets. The net assets of DPS either are unrestricted or are invested in capital assets (buildings, land, furniture and equipment). The unrestricted net assets show a surplus of approximately $2,632,000, $2,226,000 and $3,264,000 for years ended June 30, 2013, 2012 and 2011, respectively.

Changes in net assets. The following shows the changes in net assets for FY 2013, 2012 and 2011.

	Governmental Activities		
	2013	**2012**	**2011**
Revenues			
Program revenues			
Charges for service	$ 1,069,231	$ 1,130,525	$ 1,083,947
Operating grants and contributions	27,050,666	26,394,504	28,617,823
Capital grants and contributions	46,857	2,027,922	411,431
General revenues			
Transfers from the City of Danville	19,368,240	20,450,581	19,170,049
Commonwealth of Virginia	22,595,498	24,116,203	24,742,030
Investment income	2,128	1,749	2,079
Miscellaneous	625,927	2,284,580	274,182
Total revenues	$ 70,758,547	$ 76,406,064	$ 74,301,541
Expenses			
General instruction	$ 50,442,928	$ 54,174,006	$ 52,010,746
Administration, attendance, and health	3,696,916	3,955,288	3,081,344
Pupil transportation	2,298,807	2,389,967	2,288,851
Operation and maintenance	7,091,156	7,240,115	7,101,849
Technology	2,357,542	2,191,105	2,524,631
Cafeterias	3,845,612	3,434,962	3,210,102
Facilities	557,563	547,824	9,006
Total expenses	$ 70,290,524	$ 73,933,267	$ 70,226,529
Change in net position	$ 468,023	$ 2,472,797	$ 4,075,012

The change in net assets in FY13 is due primarily to an increase in the assets held by fiscal agents for insurance claims.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. For the years ended June 30, 2013, 2012 and 2011, the total cost of services and the net cost of services are listed as follows:

Governmental Activities

June 30, 2013

	Total Cost of Services	Net Expense
General instruction	$ 50,442,928	$ 23,311,770
Administration, attendance and health	3,696,916	3,696,916
Pupil Transportation	2,298,807	2,016,740
Operations and maintenance	7,091,156	7,091,156
Technology	2,357,542	2,357,542
Cafeterias	3,845,612	3,138,940
Facilities	557,563	510,706
Total expenses	$ 70,290,524	$ 42,123,770

Governmental Activities

June 30, 2012

	Total Cost of Services	Net Expense (Revenue)
General instruction	$ 54,174,006	$ 27,680,624
Administration, attendance and health	3,955,288	3,955,288
Pupil Transportation	2,389,967	2,070,424
Operations and maintenance	7,240,115	7,240,115
Technology	2,191,105	2,191,105
Cafeterias	3,434,962	2,722,858
Facilities	547,824	(1,480,098)
Total expenses	$ 73,933,267	$ 44,380,316

Governmental Activities

June 30, 2011

	Total Cost of Services	Net Expense (Revenue)
General instruction	$ 52,010,746	$ 25,957,229
Administration, attendance and health	3,081,344	3,081,344
Pupil Transportation	2,288,851	2,063,811
Operations and maintenance	7,101,849	7,101,849
Technology	2,524,631	2,524,631
Cafeterias	3,210,102	(213,111)
Facilities	9,006	(402,425)
Total expenses	$ 70,226,529	$ 40,113,328

The cost of all governmental activities this year was $70.3 million. The amount that the citizens of Danville paid for these activities through City taxes was $19.4 million.

Danville Public Schools Funds

Information about the DPS's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $70.8 million and expenditures of $69.9 million. The net change in fund balance was most significant in the Special Grants Fund with excess revenues over expenditures of approximately $650,000.

General Fund Budgetary Highlights

DPS's budget is prepared in accordance with Virginia School Laws. The most significant budgeted fund is the General Fund. During the course of fiscal year 2013, the General Fund transferred $541,041 for support of the Textbooks Fund

For the General Fund, revenue was $57.9 million, approximately $3.1 million below the original budget estimate but this amount was reappropriated for designated future expenditures for specific projects. This revenue will be received in FY2014.

Facilities Fund Budgetary Change

Carryover appropriations are designated throughout the year for board approved projects. During fiscal year 2013, the projects approved by the board consisted of completion of an addition to Johnson Elementary for a Pre-K building and purchase of additional school buses

Capital Assets

At the end of fiscal year 2013, DPS had $48.9 million invested in land, buildings, and furniture and equipment in governmental activities. However, due to legislation in Virginia, the School Board was required to transfer capital assets to the City of Danville to cover any outstanding long-term capital related debt (see Note 6 to the financial statements). The net balance of $20.1 million is recorded on the records of DPS. Fiscal years 2013, 2012, and 2011 balances net of accumulated depreciation after the transfer to the City of Danville are as follows:

Capital Assets at June 30
(Net of accumulated depreciation)

	Governmental Activities		
	2012	**2012**	**2011**
Land	$ 8,419,385	$ 8,372,885	$ 7,218,132
Buildings	29,570,946	29,653,106	27,005,912
Furniture and equipment	10,891,930	10,794,500	11,085,319
Totals	48,882,261	48,820,491	45,309,363
Transferred to the City of Danville to match long-term debt	(28,763,468)	(28,763,468)	(28,763,468)
Totals	$ 20,118,793	$ 20,057,023	$ 16,545,895

During FY2013, the additions to furniture and equipment were primarily computer related equipment and buses.

Long-term Debt

The City of Danville retains the liability for the portion of the general obligation bonds issued to fund capital projects of DPS.

Factors influencing future budgets:

Decrease in the Commonwealth of Virginia's aid allocation caused by a decrease in average daily enrollment. Decrease in Commonwealth of Virginia's basic aid allocation due to budget shortfalls. Cost of recruitment and retention of all staff levels.

These indicators were taken into account when adopting the General Fund budget for FY 2013. The Board approved a General Fund budget of $57.2 million.

Contacting the Danville Public Schools' Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of DPS's finances and to show DPS's accountability for the money it receives. If you have questions about this report or need additional information, contact Dr. Kathy Osborne, Assistant Superintendent for Administrative Services, P.O. Box 9600, Danville, VA 24540 or e-mail at kosborne@mail.dps.k12.va.us.

Danville Public Schools
City of Danville, Virginia

Statement of Net Position

June 30, 2013	Governmental Activities
Assets	
Current assets	
Cash and investments	$ 1,829,718
Cash held by fiscal agents	3,262,489
Due from City of Danville	4,138,237
Due from other governments	2,972,944
Other receivables	10,938
Inventories	879,341
Prepayments	136,567
Total current assets	13,230,234
Noncurrent assets	
Capital assets	
Land and construction in progress - nondepreciable	8,419,385
Other capital assets - depreciable - net	11,699,408
Total capital assets	20,118,793
	$ 33,349,027
Liabilities	
Current liabilities	
Accounts payable	$ 533,623
Accrued salaries	2,274,897
Accrued payroll taxes	174,228
Accrued health insurance	446,097
Unearned revenue	27,286
Current portion of long-term liabilities	1,910,721
Total current liabilities	5,366,852
Long-term liabilities	
Due in more than one year	5,231,579
Total liabilities	10,598,431
Net Position	
Net investment in capital assets	20,118,793
Unrestricted	2,631,803
Total net position	$ 22,750,596

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

Danville Public Schools
City of Danville, Virginia

Statement of Activities

Year Ended June 30, 2013

Governmental Activities	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants	Net (Expense) Revenue and Change in Net Position
Instructional service					
General instruction	$ 50,442,928	$ 80,492	$ 27,050,666	$ -	$ (23,311,770)
Support services					
Administration, attendance and health	3,696,916	-	-	-	(3,696,916)
Pupil transportation	2,298,807	282,067	-	-	(2,016,740)
Operations and maintenance	7,091,156	-	-	-	(7,091,156)
Operation of noninstructional services					
Technology	2,357,542	-	-	-	(2,357,542)
Cafeterias	3,845,612	706,672	-	-	(3,138,940)
Facilities	557,563	-	-	46,857	(510,706)
Total governmental activities	$ 70,290,524	$ 1,069,231	$ 27,050,666	$ 46,857	(42,123,770)

General revenues	
Transfers from the City of Danville	19,368,240
State aid	22,595,498
Investment income	2,128
Miscellaneous	625,927
Total general revenues	42,591,793
Change in net position	468,023
Net position - beginning, previously reported	20,103,418
Prior period adjustment (Note 15)	2,179,155
Net position - beginning, restated	22,282,573
Net position - end of year	$ 22,750,596

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

Danville Public Schools
City of Danville, Virginia

Balance Sheet - Governmental Funds

June 30, 2013

	General	Special Grants	Textbooks	Cafeteria Fund	Nonmajor - Capital Projects	Total
Assets						
Cash and investments	$ 946,942	$ 121,958	$ 415,795	$ 345,023	$ -	$ 1,829,718
Cash held by fiscal agents	3,262,489	-	-	-	-	3,262,489
Due from City of Danville	4,138,237	-	-	-	-	4,138,237
Due from other funds	-	1,158,891	1,235,960	1,464,580	39,667	3,899,098
Due from other governments	1,015,373	1,917,699	-	39,872	-	2,972,944
Other receivables	10,028	-	-	910	-	10,938
Inventories	-	-	847,301	32,040	-	879,341
Prepayments	135,350	1,217	-	-	-	136,567
Total assets	$ 9,508,419	$ 3,199,765	$ 2,499,056	$ 1,882,425	$ 39,667	$ 17,129,332
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 193,487	$ 11,468	$ 318,886	$ 3,282	$ 6,500	$ 533,623
Accrued salaries	1,999,971	246,851	2,240	25,835	-	2,274,897
Accrued payroll taxes	153,198	18,883	171	1,976	-	174,228
Accrued health insurance reserve	446,097	-	-	-	-	446,097
Unearned revenues	-	27,286	-	-	-	27,286
Due to other funds	3,899,098	-	-	-	-	3,899,098
Total liabilities	6,691,851	304,488	321,297	31,093	6,500	7,355,229
Fund Balances						
Nonspendable						
Inventories	-	-	847,301	32,040	-	879,341
Prepayments	135,350	1,217	-	-	-	136,567
Assigned for						
Special grants	-	2,894,060	-	-	-	2,894,060
Insurance claims						
Workmen's compensation	500,972	-	-	-	-	500,972
Health insurance	2,761,517	-	-	-	-	2,761,517
Asbestos removal	-	-	-	-	33,167	33,167
Textbooks	-	-	1,330,458	-	-	1,330,458
Cafeteria	-	-	-	1,819,292	-	1,819,292
Unassigned	(581,271)	-	-	-	-	(581,271)
Total fund balances	2,816,568	2,895,277	2,177,759	1,851,332	33,167	9,774,103
Total liabilities and fund balances	$ 9,508,419	$ 3,199,765	$ 2,499,056	$ 1,882,425	$ 39,667	$ 17,129,332

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

Danville Public Schools
City of Danville, Virginia

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2013

Total fund balances - governmental funds		$	9,774,103
Amounts reported for governmental activities in the statement of net position are different because:			
The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as expenditures in governmental funds. The Statement of Net Position includes those capital assets among the assets of DPS as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect the financial resources, it is not reported in governmental funds. The State of Virginia via Bill 276 has mandated the School Board to transfer capital assets related to long-term debt to the City of Danville.			
Capital Assets	$ 103,180,428		
Less - accumulated depreciation	(54,298,167)		
	48,882,261		
Less - cumulative cost of capital assets transferred	(28,763,468)		
			20,118,793
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of compensated absences (vacation pay and sick pay), retirement obligations and other postemployment benefits. All liabilities are reported in the Statement of Net Position.			
Early leave benefit plans	$ (5,502,797)		
Compensated absences	(1,350,590)		
OPEB liability	(288,913)		
			(7,142,300)
Total net position - governmental activities		$	22,750,596

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

Danville Public Schools
City of Danville, Virginia

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2013

	General	Special Grants	Textbooks	Cafeteria Fund	Nonmajor - Capital Projects	Total
Revenues						
Intergovernmental						
City of Danville	$ 19,368,240	$ -	$ -	$ -	$ -	$ 19,368,240
Commonwealth of Virginia	37,722,615	1,742,400	-	81,306	-	39,546,321
Federal government	403,412	6,616,735	-	3,126,553	-	10,146,700
Charges for services	79,387	-	1,105	706,672	-	787,164
Revenue from the use of money and property	281,896	-	1,672	627	-	284,195
Miscellaneous	107,355	518,572	-	-	-	625,927
Total revenues	57,962,905	8,877,707	2,777	3,915,158	-	70,758,547
Expenditures						
Current						
Instructional service						
General instruction	41,748,398	7,502,108	713,735	-	-	49,964,241
Support services						
Administration, attendance, and health	3,573,838	121,540	-	-	-	3,695,378
Pupil transportation	2,641,477	97,432	-	-	-	2,738,909
Operations and maintenance	7,012,324	87,608	-	-	-	7,099,932
Operation of noninstructional services						
Technology	1,759,029	280,164	-	-	-	2,039,193
Facilities	371,988	139,215	-	-	10,700	521,903
Cafeteria	-	-	-	3,860,264	-	3,860,264
Total expenditures	57,107,054	8,228,067	713,735	3,860,264	10,700	69,919,820
Excess (deficiency) of revenues over expenditures	855,851	649,640	(710,958)	54,894	(10,700)	838,727
Other financing sources (uses)						
Transfers in	-	-	541,041	-	-	541,041
Transfers out	(541,041)	-	-	-	-	(541,041)
Total other financing sources (uses)	(541,041)	-	541,041	-	-	-
Net change in fund balances	314,810	649,640	(169,917)	54,894	(10,700)	838,727
Fund balances - beginning, as previously reported	2,501,758	66,482	2,347,676	1,796,438	43,867	6,756,221
Prior period adjustment (Note 15)	-	2,179,155	-	-	-	2,179,155
Fund balances - beginning, as restated	2,501,758	2,245,637	2,347,676	1,796,438	43,867	8,935,376
Fund balances - end of year	$ 2,816,568	$ 2,895,277	$ 2,177,759	$ 1,851,332	$ 33,167	$ 9,774,103

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

Danville Public Schools
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, 2013

Net change in fund balances - total governmental funds		$ 838,727
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital assets acquired	$ 1,194,211	
Depreciation expense	(1,132,441)	61,770
Some expenses reported in the Statement of Activities, such as compensated absences and retirement obligations do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		
Early leave benefit plans	$ (239,420)	
Compensated absences	(9,109)	
OPEB liability	(183,945)	
		(432,474)
Change in net position of governmental activities		$ 468,023

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

Danville Public Schools
City of Danville, Virginia

Statement of Fiduciary Net Position

June 30, 2013

	Agency Fund
Assets	
Cash held on behalf of student activity funds	$ 283,032
Liabilities	
Due to student activity funds	$ 283,032

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

1. Organization and Nature of Operation

Reporting Entity

Danville Public Schools (DPS***)*** is organized as an independently governed school system for the operation of the public schools in the City of Danville, Virginia (City). School Board members are elected as authorized by the City charter.

DPS receives funding from taxes collected and allocated by the City; tuition and fees; and state and federal aid. School construction projects are funded by general obligation bonds approved by the Danville City Council (Council) and other state funding sources. The School Board itself has no power to levy and collect taxes or to increase the budget. The Council annually appropriates funds to DPS for educational expenditures, levies taxes and issues debt on behalf of DPS. The legal liability for general obligation debt remains with the City. Because of this relationship with the City, DPS is considered a component unit of the City of Danville, Virginia.

2. Summary of Significant Accounting Policies

The financial statements of DPS have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of DPS's accounting policies are described below.

A. Government-wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on DPS as a whole) and fund accounting financial statements with focuses is on either DPS as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as governmental. In the government-wide Statement of Net Position, the governmental column is (a) presented on a consolidated basis by column, and (b) is reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and other obligations. DPS generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. DPS may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities is reported using the economic resources measurement focus and the accrual basis of accounting which reflects both the gross and net cost per functional category, which are otherwise being supported by general revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function. DPS does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental fund's statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements with the government-wide presentation.

Governmental funds - Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of DPS's expendable financial resources and the related liabilities are accounted for through governmental funds. The focus of measurement is the determination of changes in financial position, rather than net income. The difference between governmental fund assets and liabilities is reported as fund balance. DPS's main operating fund is reported as a major fund. Major funds are determined based on the ratio of each fund compared to the fund category total. The following are DPS's major governmental funds:

- ***General Fund*** - The General Fund is the general operating fund of DPS. It is used to account for all financial resources except those required to be accounted for in another fund.

- ***Special Grants Fund*** - The Special Grants Fund is used to account for revenue sources (other than those for Capital Projects) that are legally restricted to expenditures for specific purposes.

- ***Textbooks Fund*** - The Textbooks Fund is used to account for revenue sources that are legally restricted to expenditures for specific purposes.

- ***Cafeteria Fund*** - The Cafeteria Fund is used to account for revenue sources that are legally restricted to expenditures for specific purposes.

DPS has only one nonmajor governmental fund:

- ***Capital Projects Fund*** - The Capital Projects Fund is used to account for activity in capital projects.

Fiduciary funds - The Agency Fund is used to account for assets held by DPS as an agent for others.

- ***Agency Fund*** - The Agency Fund accounts for student activity monies held by the school principals of the schools in the district for the benefit of the students.

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and fiduciary funds use the accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. DPS considers all revenues available if they are collected within 45 days after year end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences, along with the related share of employer's social security taxes, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable financial resources.

State aid is recorded at the time of receipt or earlier if the specific criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant proceeds received before the eligibility requirements are met are recorded as unearned revenues.

Expenses are recognized at the time they are incurred under the modified accrual basis of accounting.

The fair value of donated commodities used during the year is reported in the statement of activities as revenue when received and expenses as used.

Major additions, including those that significantly prolong a capital asset's economic life or expand its usefulness, are capitalized. Normal repairs that merely maintain the asset in its present condition are recorded as expenditures/expenses and are not capitalized.

Depreciation expense for capital assets is identified with a function and is included as a direct expense. Unallocated depreciation expense, if any, is reflected as a separate expense line item in the Statement of Activities.

C. Budgets and Budgetary Accounting

The majority of current funding for DPS is provided by the City of Danville, the Commonwealth of Virginia, and the federal government. The Code of Virginia requires the Superintendent to submit a budget to the City Council, after approval by the School Board. In January, the Superintendent submits a proposed budget to the School Board. The proposed budget is discussed in a series of work sessions, regular School Board meetings and public hearings. In February, the School Board adopts the operating budget and forwards it to the City Council for inclusion in the City's planning budget. The submission also includes the budgets for nonmajor governmental funds. In May, after public hearings, the City Council determines the level of funding for DPS. Based on the approved funding level, the School Board makes changes, if necessary, to the operating budget and approves the revised budget in June. The approved budget is the basis for operating DPS in the next fiscal year. The legal level of budgetary control rests at the fund level; however, management control is exercised over the budget at the budgetary line item level.

DPS used the following procedures in establishing the budgetary data reflected in the financial statements:

Budgets are adopted on a modified accrual basis of accounting. An annual operating budget is adopted by the School Board for the General Fund. An annual budget for the Textbooks Fund is adopted for management control. Effective budgetary control is achieved for the Capital Projects Fund and Special Grants Fund on a project-by-project basis when funding sources become available.

DPS is authorized to transfer budgeted amounts from the General Fund to Special Grants Fund for cash deficits in those funds. Budgeted amounts shown are as originally adopted, or as amended by DPS during the course of the year. Appropriations within the Capital Projects Funds or Special Grants Fund are continued until completion of applicable projects or grants, even when such projects or grants extend more than one fiscal year. All other appropriations lapse at year end.

Encumbrance accounting, which is the recording of purchase orders, contracts, and other monetary commitments in order to reserve the applicable portion of an appropriation, is used as an extension of formal budgetary control in the General, Capital Projects, and Special Grants Funds. Encumbrances outstanding at year end in the General and Capital Projects Funds are reported as an assignment of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances outstanding in the Nonmajor Funds are eliminated for financial statement presentation. Annual appropriations that are not spent, encumbered, or designated at year end lapse.

Capital projects are funded primarily by the City. Funds are budgeted and appropriated on a project basis annually. Capital projects funds do not lapse at the end of the year but may be expended until project completion.

Program revenues are financed by those who use the services of the program or from grants and contributions from parties outside DPS, which are restricted for use in the specific program. These revenues reduce the cost of the functions to be financed from DPS's general revenues. Charges for services include adult education tuition, cafeteria sales, lease of facilities and summer school tuition. Program-specific operating grants and contributions revenues include United States Department of Agriculture (USDA) lunch fund and other federal grants reimbursements.

Expenses are grouped in three broad categories: instructional, support services and operation of non-instructional services. Some functions classified under support services include expenses that are, in essence, indirect expenses of instructional functions. However, DPS does not allocate those indirect expenses to the instructional functions.

D. Cash and Investments

DPS cash balances include amounts in demand deposits and cash on hand. Investments include amounts in investment pools which are carried at fair value, based on quoted market prices, at year end. The cash in the Agency Fund represents the student activity fund cash balances in separate bank accounts maintained by the individual schools. Cash held by fiscal agents represents funds held by fiscal agents for self-insurance and workers compensation.

E. Due from City of Danville

Amounts due from the City of Danville represent DPS expenditures for 2013 support of the schools requested but not yet received at June 30, 2013.

F. Due from other Governments

Amounts due from other governments consist primarily of receivables from state entitlements, and federal and state reimbursements of grant expenditures.

G. Inventories

Inventories consist of various consumable supplies and food commodities maintained by the Food Nutrition Service office. Inventory records are using periodic verification based on physical count. Commodities received from the United States Department of Agriculture are valued at fair market value and recognized as revenue when received. The costs of consumable supplies are recorded as expenditures when purchased. Reported inventories in the Textbooks and Cafeteria Funds are equally offset within fund balance.

H. Prepayments

Prepayments, at June 30, 2013, consist primarily of program fees and liability insurance.

I. Capital Assets

Capital assets have been acquired for general school purposes. Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent capitalization thresholds have been met.

All capital assets over the $5,000 capitalization threshold are recorded at historical cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. DPS does not possess any infrastructure. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extended an asset's life are expensed, not capitalized.

All reported capital assets, except for land, are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings	40 years
Building improvements	20 years
Furniture and equipment	3 – 20 years

J. Compensated Absences

DPS employees are entitled to certain compensated absences (vacation and sick pay) based on length of employment. Compensated absences either vest or accumulate and are accrued when they are earned. Expenditures are recorded in governmental funds when the obligation is paid. Current obligations are not recorded as liabilities of the General Fund since they will not be paid from expendable available financial resources.

DPS records accrued sick leave at a rate of $15 a day for any days accrued at June 30. Accrued vacation is recorded based on the employees' current rate of pay and the full amount is recorded. This is the amount the School Board pays out upon termination or retirement. The entire compensated absence liability is reported in the government-wide financial statements.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

L. Fund Balance

DPS considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balances are available unless prohibited by legal constraints or contracts. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, DPS considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

***Nonspendable* -** fund balance category includes amounts associated with inventories and prepayments because they are not in a spendable form.

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

***Committed* -** fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

***Assigned* -** fund balance category includes amounts intended to be used by the School Board 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.

***Unassigned* -** fund balance category includes the residual amounts for the School Board's general fund and includes all spendable amounts not contained in the other classifications.

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

M. Net Position

Net position represents the difference between assets, liabilities and deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation. The debt assumed for the original acquisition of school's property debt is assumed by the City of Danville, Virginia and is shown as a component of their outstanding debt. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by grantors or laws or regulations of other governments.

N. Interfund Receivables, Payables and transfers

Interfund receivables and payables of individual funds result primarily from cash disbursements made by one fund for expenditures of another. These balances are summarized as follows:

	Due from other funds	Due to other funds
General fund	$ -	$ 3,899,098
Special Grants fund	1,158,891	-
Textbooks fund	1,235,960	-
Nonmajor fund:	1,464,580	-
Capital Projects fund	39,667	-
	$ 3,899,098	$ 3,899,098

Interfund receivables for the special grants, textbooks, cafeteria, and capital projects funds represent funds to support the operations of DPS through the general fund.

Interfund transfers are summarized below:

Transfer of $541,041 from the General Fund to the Textbooks Fund to provide operational support.

O. Subsequent Events

In preparing these financial statements, DPS has evaluated events and transactions for potential recognition or disclosure through October 14, 2013, the date the financial statements were available to be issued.

3. Deposits

As of June 30, 2013, the carrying value of DPS's deposits was $1,002,564 and the bank balance was $2,264,561. DPS had $1,300 in petty cash funds at June 30, 2013. The carrying value of DPS's student activity deposits was $283,032 and the bank balance was $301,164. The entire bank balances for these accounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act provides for the pooling of collateral pledged to the Treasurer of Virginia to secure public deposits as a class. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by banks and saving and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance.

If any member institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. Funds deposited in accordance with the requirements of the Act are considered fully collateralized and thus are not categorized.

4. Investments

Statutes authorize DPS to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or p-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk - DPS's current investment policy limits investments to the LGIP (a 2a-7 like pool, rated 'AAAm' by Standard & Poor's rating service) and the length of the investment was less than 90 days. Although the LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, it operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 and in accordance with the Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, definition of "2a-7 like pools." Copies of the LGIP report can be obtained from the Virginia Department of the Treasury, 101 North 14th Street, Richmond, VA 23219.

Investments were as follows:

Investment		Fair Value
LGIP	$	825,854

5. Due From Other Governments

Due from other governments represents accrued revenue consisting of the following:

Federal government	$	2,025,726
Commonwealth of Virginia		947,218
	$	2,972,944

6. Capital Assets

The following is a summary of the changes in capital assets:

	Balance July 1, 2012	Additions	Retirements/ Transfers	Balance June 30, 2013
Capital assets not being depreciated:				
Land and construction in process	$ 8,372,885	$ 525,203	$ (478,703)	$ 8,419,385
Other capital assets:				
Buildings	70,038,989	478,703	-	70,517,692
Furniture and equipment	23,969,597	669,008	(395,254)	24,243,351
Total other capital assets	94,008,586	1,147,711	(395,254)	94,761,043
Less - accumulated depreciation				
Buildings	(40,385,883)	(560,863)	-	(40,946,746)
Furniture and equipment	(13,175,097)	(571,578)	395,254	(13,351,421)
Total accumulated depreciation	(53,560,980)	(1,132,441)	395,254	(54,298,167)
Depreciable capital assets - net	40,447,606	15,270	-	40,462,876
Assets transferred to City of Danville to match long-term debt	(28,763,468)	-	-	(28,763,468)
Total other capital assets - depreciable	11,684,138	15,270	-	11,699,408
	$ 20,057,023	$ 540,473	$ (478,703)	$ 20,118,793

Depreciation was charged to government functions as follows:

General instruction	$ 46,213
Administration, attendance and health	1,538
Pupil transportation	89,857
Operations and Maintenance	7,053
Technology	388,361
Cafeteria	38,556
Facilities	560,863
	$ 1,132,441

Included in miscellaneous revenues is approximately $195,000 of insurance recoveries for the loss of certain computer equipment.

7. Risk Management

Self-Insurance Coverage

In October 2005, DPS entered into an agreement with Anthem Blue Cross Blue Shield (Anthem) to administer a self-insurance plan for employee medical and pharmacy insurance. DPS's contingent liability is limited to an annual stop loss amount of $100,000 per participant. The escrow balance of $2,761,517 is the balance of premiums paid net of claims received by Anthem and is included on the Statement of Net Position as cash held by fiscal agents. Estimated claims incurred but not paid as of June 30, 2013, for this self-insurance plan was $446,097.

The Town carries commercial coverage for all other risks or losses. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. Changes in the balances of claims liabilities during the past two years are as follows:

Unpaid claims - beginning of fiscal year	$ 475,805
Incurred claims (including IBNRs)	4,555,184
Increase in claims reserve	58,265
Claim payments	(4,643,157)
Unpaid claims - end of fiscal year	$ 446,097

Workers Compensation

DPS is a member of the School Systems of Virginia Group Self-Insurance Association (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 DPS entered the pool in 1982. DPS has elected to have the Association hold the Board's dividends in escrow as a reserve against possible future claims. At June 30, 2013, the cumulative amount held in escrow by the Association for DPS amounted to $500,972. The escrow is included on the Statement of Net Position as cash held by fiscal agents.

Other Risks

DPS carries commercial insurance for all other risks of loss, including property insurance, theft, auto liability, physical damage and general liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage and there have been no significant reductions in insurance coverage from the prior year.

8. Accrued Salaries

Teachers' payroll is prorated over 10, 11, or 12 months based on teacher elections rather than the 10 month school year in an effort to assist employees in financial planning. Consequently, accrued salaries at June 30, 2013, include salaries earned prior to year end but not distributed until the month of July 2013.

9. Defined Benefit Pension Plan

Virginia Retirement System:

(a) Plan Description

DPS contributes to the Virginia Retirement System (VRS or the System), an agent and cost-sharing multiple employer, defined benefit pension plan administered by the System. All full-time, salaried permanent professional employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit.

Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan. VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least ten years of service credit.

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 60 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500 or downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward retirement. All or part of the 5% member contribution has been assumed by the DPS. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, DPS is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The DPS' contribution rate for the fiscal year ended June 30, 2013 was 9.53% of annual covered payroll.

The following table relates to the DPS's contribution rate for professional employees:

	Annual required contributions	**Actual amount contributed**	**Amount contributed in percent**
2013	$4,028,446	$4,028,446	100.0%
2012	3,964,564	3,964,564	100.0%
2011	3,156,512	3,156,512	100.0%

(b) Annual Pension Cost

For fiscal year 2013, the Schools' annual pension cost of $185,993 for nonprofessional employees was equal to the Schools' required and actual contributions. The required contributions were determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases of 3.0%, (c) 2.5% per year COLA adjustment for Plan 1 members, and (d) 2.25% per year COLA for Plan 2 members. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Schools' assets is equal to the five-year smoothed market value. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five year period. The Schools' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over 29 years, decreasing by one each year in subsequent valuations until reaching 20 years. The Schools did not have a net pension obligation as determined by GASB Statement No. 27, *Accounting for Pension by State and Local Government Employers.*

The three-year trend information for the Schools' nonprofessional employees is as follows:

	Annual pension cost (APC)	**Percentage of APC contributed**	**Net pension obligation**
June 30, 2013	$ 185,993	100.0%	-
June 30, 2012	205,519	100.0%	-
June 30, 2011	197,148	100.0%	-

(c) Funded Status and Funding Progress

As of December 19, 2012, the most recent actuarial valuation date for fiscal year ending June 30, 2012, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$	7,199,779
Less actuarial value of plan assets		(5,702,375)
Unfunded actuarial accrued liability (UAAL)		1,497,404
Funded ratio (actuarial value of plan assets/AAL)		79.20%
Covered Payroll	$	1,809,238
UAAL as a percentage of covered payroll		82.76%

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10. Other Postemployment Benefits

DPS allows employees who participate in the Supplemental Retirement Plan to continue coverage under the DPS's health insurance program, but the retiree must pay the entire premium. See Note 13 for more information regarding this benefit plan.

Retirees who qualify to receive VRS retirement benefits may continue in the VRS group life insurance program. The VRS does not charge a premium for this coverage.

11. Long-Term Liabilities

The changes in DPS's long-term liabilities during the year consist of the following:

	Balance July 1, 2012	Additions	Reductions	**Balance June 30, 2013**	**Due Within 1 Year**
January 1, 2007 early leave benefit plan (A)	$ 4,764,361	$ 1,599,705	$ (1,019,648)	$ 5,344,418	$ 1,250,342
July 1, 1997 early leave benefit plan (B)	499,016	-	(340,637)	158,379	158,379
Accrued vacation pay (C)	771,115	380,718	(426,722)	725,111	430,000
Vested sick leave (D)	570,366	127,575	(72,462)	625,479	72,000
OPEB (See Note 13)	104,968	593,155	(409,210)	288,913	-
	$ 6,709,826	$ 2,701,153	$ (2,268,679)	$ 7,142,300	$ 1,910,721

A. Effective January 1, 2007, the Board replaced the 1997 early leave benefit plan with the new Entering Retirement in Phases Plan (ERIP). An employee's years of full-time service as of July 1, 2007 and year of birth will determine that employee's ERIP group. ERIP is only available to individuals who are full-time employees on June 30, 2007. All full-time employees at June 30, 2007 are eligible for benefits at four levels ranging from minimum age of 50 with 10 more years of service (last 5 consecutive) and 25 years of VRS service for level 1 to level 4 employees with a minimum age of 55 and 20 years of service (last 5 consecutive). Benefits based on these levels range from 7 years at 20% of employee's final salary to 4 years at 10% of your final salary. The Board maintains the right to terminate this benefit.

B. Effective July 1, 1997, the Board implemented an early leave benefit retirement plan. Employees must be in a full-time VRS covered position, have at least ten years full employment with Danville Public Schools, including the five years immediately preceding retirement, have at least 20 years in VRS and be age 55 on or before August 31, 1997. Annual benefits (payable over 7 years) are based on 20% of final salary before retirement. Payments due under this plan were discounted at 5%. Fiscal year 2007 additions are to record the additional obligations pursuant to this amendment.

C. Vacation pay accumulates to a maximum of 30 days, and may be used by employees to retire early. Vacation pay is not paid at retirement. Only an employee's wages are used to calculate monthly benefits. An estimate of the current portion of accrued vacation pay based on prior years' records has been made.

D. Accumulated sick leave is not paid to employees upon termination of employment prior to retirement. Employees who retire with 5 or more years of service are paid $15 per day for unused sick leave accumulated at the time of retirement. An estimate of the current portion of vested sick leave payable based on prior years' records has been made.

E. Annual requirements to amortize supplemental retirement obligations and the related interest are as follows:

	July 1, 1997 Incentive Program for Early Retirement		**January 1, 2008 Incentive Program for Early Retirement**	
	Principal	**Interest**	**Principal**	**Interest**
2014	$ 158,379	$ 49,426	$ 1,250,342	$ 120,371
2015	-	-	1,176,560	167,572
2016	-	-	1,010,982	182,466
2017	-	-	848,894	183,263
2018	-	-	567,748	134,378
2019 - 2020	-	-	489,892	139,365
	$ 158,379	$ 49,426	$ 5,344,418	$ 927,415

Amounts due for accrued vacation pay and vested sick leave are not included above, since there is no fixed payment schedule. Compensated absences will be paid from the General Fund.

12. Commitments and Contingencies

DPS receives financial assistance from numerous federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability in the General Fund or applicable grants. In the opinion of DPS's management, no material refunds will be required as a result of expenditures disallowed (if any) by the grantor agencies.

13. Employment Benefits Other Than Pensions

In accordance with governmental accounting standards, DPS recorded the liability for non-pension postemployment benefits, chiefly the health care premiums for retirees. In accordance with these standards, DPS's liability was recorded using the June 30, 2012, valuation. A separate, audited GAAP-basis postemployment benefit plan report is not available. Disclosures concerning participation are outlined as follows:

A. Plan Description

In addition to providing the pension benefits described above, DPS provides post-employment healthcare (OPEB) for retired employees and spouses through a single-employer defined benefit plan. The benefit levels, employee contributions and employer contributions are governed by DPS and can be amended by DPS through its personnel manual.

Participants are eligible for the plan when they are eligible to retire under the provisions of the Virginia Retirement System. The earliest retirement would be at age 50 with 10 years of service.

At retirement, retirees may stay in a medical plan. This plan, a KeyCare 1000 Plan is offered by the School System through Anthem and has office visit co-pays and cover prescription drugs. Retirees and their spouses may be covered by the plans until age 65 or until they become eligible for Medicare.

If a retiree dies before age 65, the spouse may stay in the plan by paying the full "rate" as described below.

Membership at June 30, 2012, membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	58
Active Employees	822
Total	880

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward retirement. All or part of the 5% member contribution has been assumed by the DPS. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, DPS is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The DPS' contribution rate for the fiscal year ended June 30, 2013, was 9.53% of annual covered payroll.

C. Summary of Significant Accounting Policies

Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside on pay benefits and administration costs. These expenditures are paid as they come due.

D. Annual OPEB Costs and Net OPEB Obligation

The net OPEB obligation as of June 30, 2013, was calculated as follows:

	2013	2012	2011
Annual Required Contribution	$ 583,119	$ 569,675	$ 569,675
Interest on Net OPEB Obligation	4,199	2,609	22,787
Adjustment to Annual Required Contribution	5,837	3,627	31,677
Annual OPEB Cost	593,155	575,911	624,139
Contributions Made	(409,210)	(536,167)	(740,313)
Increase in Net OPEB Obligation	183,945	39,744	(116,174)
Net OPEB Obligation - beginning of year	104,968	65,224	181,398
Net OPEB Obligation - end of year	$ 288,913	$ 104,968	$ 65,224

The three-year trend information for the Schools' OPEB plan is as follows:

	Annual OPEB Cost	Actual contribution	Percentage of Annual OPEB cost contributed	Net OPEB obligation
June 30, 2013	$ 593,155	$ 409,201	$ 68.9%	$ 288,913
June 30, 2012	575,911	536,167	93.1%	104,968
June 30, 2011	624,139	740,313	118.6%	65,224

E. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date for fiscal year ending June 30, 2012, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	$ 4,612,557
Less actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 4,612,557
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll	$ 37,809,845
UAAL as a percentage of covered payroll	12.20%

F. Actuarial Methods and Assumptions

The valuation of the liabilities as of June 30, 2012, is based on a closed group. Current employees and retirees only are considered; no provision is made for future hires. For the five-year projection, we have assumed one new entrant will enter the plan for every active employee who either retires or terminates from Danville Public Schools. Therefore, the active population will remain at a constant level based on the June 30, 2012, count.

In the June 30, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 10% reduced by 1% each year to arrive at an ultimate healthcare cost trend rate of 5%. Both rates include a 4% inflation assumption. The actuarial accrued liability was $4,612,557. The plan's unfunded actuarial accrued liability is being amortized over 30 years as of June 30, 2012.

14. Change in Accounting Principles

DPS implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position.

15. Restatement

During the fiscal year ended June 30, 2013, DPS determined that certain intergovernmental revenues in the Special Grants Fund were incorrectly deferred as of June 30, 2012. The revenues should have been recognized as revenue in prior years as all requirements for revenue recognition had been met. Therefore, an adjustment to beginning fund balance has been recorded to account for these deferred revenues, the net effect of which increased beginning fund balance by $2,179,155. The change in fund balance for the Special Grants Fund decreased from $189 to ($424,591) in fiscal 2012.

The above correction also resulted in an increase in net position of $2,179,155, as the revenues were originally deferred on the government-wide statements as well. The change in net position for fiscal 2012 decreased from $2,897,577 to $2,472,797 as a result of this correction.

* * * * *

Danville Public Schools
City of Danville, Virginia

Required Supplementary Information

Danville Public Schools
City of Danville, Virginia

Schedule I

Comparative Schedule of Revenues and Expenditures - Budget and Actual - General Fund

Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental				
City of Danville	$ 21,866,629	$ 21,866,629	$ 19,368,240	$ (2,498,389)
Commonwealth of Virginia	38,298,944	38,298,944	37,722,615	(576,329)
Federal government	430,000	430,000	403,412	(26,588)
Charges for services	85,000	85,000	79,387	(5,613)
Revenue from the use of money and property	190,000	190,000	281,896	91,896
Miscellaneous	206,800	206,800	107,355	(99,445)
Total revenues	61,077,373	61,077,373	57,962,905	(3,114,468)
Expenditures				
Current				
Instructional service				
General instruction	43,820,067	42,325,052	41,748,398	576,654
Support services				
Administration, attendance, and health	3,667,728	3,973,511	3,573,838	399,673
Pupil transportation	2,148,244	3,078,625	2,641,477	437,148
Operations and maintenance	7,421,579	7,217,096	7,012,324	204,772
Operation of noninstructional services				
Technology	1,737,199	2,104,732	1,759,029	345,703
Facilities	255,352	674,957	371,988	302,969
Contingency	1,956,561	1,559,862	-	1,559,862
Total expenditures	61,006,730	60,933,835	57,107,054	3,826,781
Excess of revenues under expenditures	70,643	143,538	855,851	712,313
Other financing uses				
Transfer to textbook fund	(70,643)	(143,538)	(541,041)	(397,503)
Net change in fund balance	$ -	$ -	314,810	$ 314,810
Fund balance - beginning of year			2,501,758	
Fund balance - end of year			$ 2,816,568	

See independent auditor's report.

Danville Public Schools
City of Danville, Virginia

Schedule II

Comparative Schedule of Revenues and Expenditures - Budget and Actual - Textbooks Fund

Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Charges for services				
Recovery of lost and damaged textbooks	$ 2,500	$ 2,500	$ 1,105	$ (1,395)
Revenue from the use of money and property:				
Sale of textbooks	-	-	993	993
Interest income on cash and investments	900	900	679	(221)
Total revenue from the use of money and property	900	900	1,672	772
Total revenues	3,400	3,400	2,777	(623)
Expenditures				
Instructional service				
General instruction				
Clerical	-	-	7	(7)
Salaries	26,913	26,913	22,265	4,648
Repairs and maintenance	1,000	1,000	423	577
Refunds of lost textbooks	1,000	1,000	-	1,000
Purchase of new textbooks	700,000	1,062,903	680,644	382,259
Mathematics textbooks	65,000	65,000	-	65,000
Software	8,081	9,579	10,396	(817)
Total expenditures	801,994	1,166,395	713,735	452,660
Excess of revenues over expenditures	(798,594)	(1,162,995)	(710,958)	452,037
Other financing sources				
Transfer from general fund	461,490	461,490	541,041	79,551
Appropriated from fund balance	337,104	701,505	-	(701,505)
Net change in fund balance	$ -	$ -	(169,917)	$ (169,917)
Fund balance - beginning of year			2,347,676	
Fund balance - end of year			$ 2,177,759	

See independent auditor's report.

Danville Public Schools
City of Danville, Virginia

Schedule III

Schedule of Funding Progress - Defined Benefit Pension Plan

Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) ¸ (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) ¸ (c)
6/30/12	$ 5,702,375	$ 7,199,779	$ 1,497,404	79.20%	$ 1,809,238	82.8%
6/30/11	5,700,193	6,918,158	1,217,965	82.39%	1,842,908	66.1%
6/30/10	5,550,187	6,430,420	880,233	86.31%	1,764,491	49.9%
6/30/09	5,456,196	5,771,480	315,284	94.54%	1,752,370	18.0%
6/30/08	5,344,343	5,409,356	65,013	98.80%	1,610,061	4.0%

See independent auditor's report.

Schedule of Funding Progress - Defined Benefit Pension Plan

Year Ended June 30, 2013

Year Ended June 30	Annual Required Contribution	Annual Percentage Contributed
2013	$ 4,028,446	100%
2012	3,964,564	100%
2011	3,156,512	100%

Notes to the Required Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay open
Remaining amortization period	29 years
Asset valuation method	Fiver-Year Smoothed Market Value
Actuarial assumptions:	
Investment rate of return *	7.00%
Projected Salary Increases*	
Non-LEO Members	3.75% - 5.60%
LEO Members	3.50% - 4.75%
Cost-of-living adjustment	
Prior Plan Members	2.50%
New Plan Members	2.25%
* Includes inflation at:	2.50%

Schedule of Funding Progress - Other Postemployment Benefits

Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) , (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b) - (a)) , (c)
6/30/12	$ -	$ 4,612,557	$ 4,612,557	0.00%	$ 37,809,845	12.2%
6/30/11	-	4,487,363	4,487,363	0.00%	38,826,790	11.6%
6/30/10	-	4,487,363	4,487,363	0.00%	38,826,790	11.6%
6/30/09	-	4,264,380	4,264,380	0.00%	38,826,790	11.0%

See independent auditor's report.

Schedule of Funding Progress - Other Postemployment Benefits

Year Ended June 30, 2013

Year Ended June 30	Annual Required Contribution	Annual Percentage Contributed
2013	$ 593,155	68.9%
2012	575,911	93.1%
2011	624,139	118.6%

Notes to the Required Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	10.0% - 5.0%
Year of ultimate trend rate	2017
* Includes inflation at:	4.00%

Danville Public Schools
City of Danville, Virginia

Other Supplementary Information

Danville Public Schools
City of Danville, Virginia

Schedule V

Balance Sheet - Nonmajor Governmental Fund - Capital Projects

June 30, 2013

	Capital Projects
Assets	
Due from other funds	$ 39,667
Total assets	$ 39,667
Liabilities	
Accounts payable	$ 6,500
Accrued payroll taxes	-
Total liabilities	6,500
Fund Balance	
Assigned for:	
Asbestos removal	33,167
Total fund balance	33,167
Total liabilities and fund balance	$ 39,667

See independent auditor's report.

Danville Public Schools
City of Danville, Virginia

Schedule VI

Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Fund - Capital Projects

Year Ended June 30, 2013

	Capital Projects
Revenues	
Intergovernmental revenue	$ -
Interest income	-
Total revenues	-
Expenditures	
Current	
Capital projects	10,700
Excess (deficiency) of revenues over expenditures	(10,700)
Other financing sources	
Transfers in from general fund	-
Net change in fund balance	(10,700)
Fund balance - beginning of year	43,867
Fund balance - end of year	$ 33,167

See independent auditor's report.

Danville Public Schools
City of Danville, Virginia

Compliance Reports

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

School Board
Danville Public Schools

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

Internal Control Over Financial Reporting

Management of ***Danville Public Schools*** is responsible for establishing and maintaining effective control over financial reporting. In planning and performing our audit of the financial statements, we considered the ***Danville Public Schools'*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ***Danville Public Schools'*** internal control. Accordingly, we do not express an opinion on the effectiveness of the Schools' 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.

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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

We noted certain matters that we reported to management of ***Danville Public Schools***, in a separate letter dated October 14, 2013.

Purpose of this Report

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

Dixon Hughes Goodman LLP

Newport News Virginia
October 14, 2013

Report on Compliance with Commonwealth of Virginia's Laws, Regulations, Contracts and Grants

School Board
Danville Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of ***Danville Public Schools*** as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the ***Danville Public Schools'*** basic financial statements, and have issued our report thereon dated October 14, 2013.

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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the ***Danville Public Schools***' compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions, and accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia State Agency

Requirements

Budget and Appropriation Laws Retirement Education
Cash and Investments Procurement
Conflicts of Interest Unclaimed Property

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph.

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

This report is intended solely for the information and use of the ***Danville Public Schools***, management, the Auditor of Public Accounts and applicable State agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News,Virginia
October 14, 2013