

**DANVILLE PUBLIC SCHOOLS**  
**(A Component Unit of the City of Danville, Virginia)**

**FINANCIAL REPORT**

**June 30, 2019**



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## **FINANCIAL SECTION**

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**The Financial Section contains  
the Basic Financial Statements.**

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the  
School Board  
Danville Public Schools  
Danville, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Danville Public Schools (the "Schools"), a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the 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.

#### *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 *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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Schools' 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 Schools' 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.

## **Report on the Financial Statements (Continued)**

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Schools as of June 30, 2019, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion of the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019 on our consideration of the Schools' internal control over financial reporting and on our tests of their 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 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 Schools' internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 25, 2019

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# **BASIC FINANCIAL STATEMENTS**

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**EXHIBIT 1****DANVILLE PUBLIC SCHOOLS****STATEMENT OF NET POSITION****June 30, 2019**

	<b>Governmental Activities</b>
<hr/>	
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents (Note 3)	\$ 663,278
Investments (Note 3)	869,578
Due from other governments (Note 4)	4,109,881
Due from primary government	3,164,274
Other receivables (Note 8)	555,515
Inventories	83,384
Prepaid expenses	166,736
<b>LONG TERM ASSETS:</b>	
Net pension asset (Notes 9,10, and 11)	362,167
Non-depreciable (Note 6)	3,127,241
Depreciable, net (Note 6)	13,667,837
Total assets	<hr/> 26,769,891 <hr/>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions (Notes 9, 10, and 11)	6,273,767
Deferred outflows related to other postemployment benefits (Note 12)	768,421
Total deferred outflows of resources	<hr/> 7,042,188 <hr/>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and other liabilities	756,199
Accrued salaries and payroll taxes	2,884,158
Accrued interest	70,588
Unearned grants	69,706
Long-term liabilities due within one year (Notes 7 and 13)	1,310,776
<b>LONG-TERM LIABILITIES:</b>	
Net pension liability (Notes 9, 10, and 11)	45,360,000
Net other postemployment benefit liability (Note 12)	7,601,000
Other long-term liabilities due in more than one year (Notes 7 and 13)	4,955,643
Total liabilities	<hr/> 63,008,070 <hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pension (Notes 9, 10, and 11)	9,745,622
Deferred inflows related to other postemployment benefits (Note 12)	714,000
Total deferred inflows of resources	<hr/> 10,459,622 <hr/>
<b>NET POSITION</b>	
Net investment in capital assets	12,694,078
Restricted for scholarships	128,415
Unrestricted	(52,478,106)
Total net position	<hr/> \$ (39,655,613) <hr/>

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

## DANVILLE PUBLIC SCHOOLS

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
<b>Governmental Activities</b>					
Instructional services:					
General instruction	\$ 47,681,503	\$ 47,994	\$ 25,434,059	\$ -	\$ (22,199,450)
Support services:					
Administration, attendance, and health	4,683,292	-	315,793	-	(4,367,499)
Pupil transportation	2,591,226	-	-	-	(2,591,226)
Operations and maintenance	7,687,057	-	-	-	(7,687,057)
Noninstructional services:					
Technology	3,182,283	-	461,600	-	(2,720,683)
Facilities	1,474,752	-	-	-	(1,474,752)
Cafeteria	4,621,691	231,897	4,045,311	-	(344,483)
Lease purchase issuance costs and interest	168,861	-	-	-	(168,861)
<b>Total governmental activities</b>	<b>\$ 72,090,665</b>	<b>\$ 279,891</b>	<b>\$ 30,256,763</b>	<b>\$ -</b>	<b>(41,554,011)</b>
General revenues:					
Appropriation from the City of Danville					24,356,301
Noncategorical state aid					24,971,919
Investment income					164,471
Miscellaneous					446,383
Total general revenues					49,939,074
<b>Change in net position</b>					8,385,063
<b>Net position – beginning</b>					(48,040,676)
<b>Net position – ending</b>					<b>\$ (39,655,613)</b>

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

## DANVILLE PUBLIC SCHOOLS

**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2019**

	<u>General</u>	<u>Special Grants</u>	<u>Textbooks</u>	<u>Cafeteria</u>	<u>Capital Projects</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 5,995	\$ -	\$ -	\$ 657,283	\$ -	\$ 663,278
Investments	-	128,415	437,809	303,354	-	869,578
Due from other funds (Note 5)	-	-	2,842,806	320,343	-	3,163,149
Due from other governments	1,319,485	2,788,891	-	1,505	-	4,109,881
Due from primary government	3,107,580	-	-	-	56,694	3,164,274
Other receivables	551,156	-	165	4,194	-	555,515
Inventories	-	-	-	83,384	-	83,384
Prepaid expenses	166,736	-	-	-	-	166,736
Total assets	<u>\$ 5,150,952</u>	<u>\$ 2,917,306</u>	<u>\$ 3,280,780</u>	<u>\$ 1,370,063</u>	<u>\$ 56,694</u>	<u>\$12,775,795</u>
<b>LIABILITIES</b>						
Accounts payable and other liabilities	\$ 439,750	\$ 207,195	\$ 32,955	\$ 19,605	\$ 56,694	\$ 756,199
Accrued salaries and payroll taxes	2,586,090	258,920	1,036	38,112	-	2,884,158
Due to other funds (Note 5)	835,600	2,327,549	-	-	-	3,163,149
Unearned grants	-	69,706	-	-	-	69,706
Total liabilities	<u>3,861,440</u>	<u>2,863,370</u>	<u>33,991</u>	<u>57,717</u>	<u>56,694</u>	<u>6,873,212</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue	<u>583,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>583,637</u>
<b>FUND BALANCES</b>						
Nonspendable	166,736	-	-	83,384	-	250,120
Restricted	-	128,415	-	-	-	128,415
Assigned	539,139	-	3,246,789	1,228,962	-	5,014,890
Unassigned	<u>-</u>	<u>(74,479)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,479)</u>
Total fund balances	<u>705,875</u>	<u>53,936</u>	<u>3,246,789</u>	<u>1,312,346</u>	<u>-</u>	<u>5,318,946</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,150,952</u>	<u>\$ 2,917,306</u>	<u>\$ 3,280,780</u>	<u>\$ 1,370,063</u>	<u>\$ 56,694</u>	<u>\$12,775,795</u>

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

## DANVILLE PUBLIC SCHOOLS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
June 30, 2019**

**Total Fund Balances – Governmental Funds** \$ 5,318,946

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

Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds. 16,795,078

Receivables on the Statement of Net Position that do not provide current financial resources are reported as deferred inflows of resources in the funds. 583,637

Financial statement elements related to other postemployment benefits and pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows related to:

Pensions	\$ 6,273,767
Other postemployment benefits	768,421

Deferred inflows related to:

Pensions	(9,745,622)	
Other postemployment benefits	(714,000)	
Net pension asset	362,167	
Net pension liability	(45,360,000)	
Other postemployment benefits liability	(7,601,000)	(56,016,267)

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Lease purchase agreement	(4,101,000)	
Accrued interest	(70,588)	
Entering retirement in phases plan	(820,184)	
Compensated absences	(1,345,235)	(6,337,007)

**Net Position – Governmental Activities** \$ (39,655,613)

## DANVILLE PUBLIC SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2019**

	<u>General</u>	<u>Special Grants</u>	<u>Textbooks</u>	<u>Cafeteria</u>	<u>Capital Projects</u>	<u>Total</u>
<b>REVENUES</b>						
Charges for services	\$ 47,829	\$ -	\$ 165	\$ 231,897	\$ -	\$ 279,891
Revenue from the use of money and property	139,445	3,038	10,358	7,298	4,332	164,471
Miscellaneous	357,329	84,861	-	4,193	-	446,383
Intergovernmental:						
City of Danville	21,085,710	-	-	-	3,270,591	24,356,301
Commonwealth of Virginia	41,777,842	1,244,894	403,969	132,617	-	43,559,322
Federal government	394,203	7,047,258	-	3,912,694	-	11,354,155
<b>Total revenues</b>	<u>63,802,358</u>	<u>8,380,051</u>	<u>414,492</u>	<u>4,288,699</u>	<u>3,274,923</u>	<u>80,160,523</u>
<b>EXPENDITURES</b>						
Instructional services:						
General instruction	45,433,508	7,796,238	366,247	-	-	53,595,993
Support services:						
Administration, attendance, and health	4,582,196	275,027	-	-	-	4,857,223
Pupil transportation	2,931,618	154,058	-	-	-	3,085,676
Operations and maintenance	7,605,163	22,427	39,620	-	-	7,667,210
Noninstructional services:						
Technology	2,741,277	282	-	-	-	2,741,559
Facilities	360,800	10,817	-	-	3,880,888	4,252,505
Cafeteria	-	118,163	-	4,597,210	-	4,715,373
Debt service:						
Lease payments	141,000	-	-	-	-	141,000
Interest payments	92,757	-	-	-	5,517	98,274
<b>Total expenditures</b>	<u>63,888,319</u>	<u>8,377,012</u>	<u>405,867</u>	<u>4,597,210</u>	<u>3,886,405</u>	<u>81,154,813</u>
Excess (deficiency) of revenues over expenditures	<u>(85,961)</u>	<u>3,039</u>	<u>8,625</u>	<u>(308,511)</u>	<u>(611,482)</u>	<u>(994,290)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in (Note 5)	-	-	138,945	-	-	138,945
Transfers out (Note 5)	(138,945)	-	-	-	-	(138,945)
<b>Total other financing sources (uses)</b>	<u>(138,945)</u>	<u>-</u>	<u>138,945</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(224,906)	3,039	147,570	(308,511)	(611,482)	(994,290)
<b>FUND BALANCES – beginning</b>	<u>930,781</u>	<u>50,897</u>	<u>3,099,219</u>	<u>1,620,857</u>	<u>611,482</u>	<u>6,313,236</u>
<b>FUND BALANCES – ending</b>	<u>\$ 705,875</u>	<u>\$ 53,936</u>	<u>\$ 3,246,789</u>	<u>\$ 1,312,346</u>	<u>\$ -</u>	<u>\$ 5,318,946</u>

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

## DANVILLE PUBLIC SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2019**

**Net Change in Fund Balances – Total Governmental Funds** \$ (994,290)

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 depreciation \$(1,403,743) exceeds capital outlays \$(4,264,402).

2,860,659

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

315,205

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.

Employer pension contributions	\$ 5,697,432	
Pension expense	(408,452)	
	(408,452)	

5,288,980

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

Employer other postemployment benefit contributions	629,421	
Other postemployment benefit expense	(348,953)	
	(348,953)	

280,468

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

Lease purchase principal	141,000	
Change in accrued interest	(70,587)	
	(70,587)	

70,413

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.

Compensated absences	(141,590)	
Entering retirement in phases plan	705,218	
	705,218	

563,628

**Change in Net Position – Governmental Activities**

\$ 8,385,063

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

## DANVILLE PUBLIC SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Charges for services	\$ 62,500	\$ 62,500	\$ 47,829	\$ (14,671)
Revenue from the use of money and property	98,000	98,000	139,445	41,445
Miscellaneous	491,387	491,387	357,329	(134,058)
Intergovernmental:				
City of Danville	24,862,395	24,641,395	21,085,710	(3,555,685)
Commonwealth of Virginia	42,216,156	42,216,156	41,777,842	(438,314)
Federal government	300,000	300,000	394,203	94,203
Total revenues	68,030,438	67,809,438	63,802,358	(4,007,080)
<b>EXPENDITURES</b>				
Instructional services:				
General instruction	48,022,605	46,183,591	45,433,508	750,083
Support services:				
Administration, attendance, and health	5,462,109	5,157,068	4,582,196	574,872
Pupil transportation	2,951,213	2,978,254	2,931,618	46,636
Operations and maintenance	7,891,924	7,860,587	7,605,163	255,424
Noninstructional services:				
Technology	3,042,062	3,275,435	2,741,277	534,158
Facilities	24,450	18,733	360,800	(342,067)
Contingency	263,373	1,963,068	-	1,963,068
Debt service:				
Lease payments	-	-	141,000	(141,000)
Interest payments	-	-	92,757	(92,757)
Total expenditures	67,657,736	67,436,736	63,888,319	3,548,417
Excess of revenues over expenditures	372,702	372,702	(85,961)	(458,663)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(372,702)	(372,702)	(138,945)	233,757
Net change in fund balance	\$ -	\$ -	\$ (224,906)	\$ (224,906)

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



**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 1. Organization and Nature of Operations**

Financial reporting entity

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

The Schools receive 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 (the “Council”) and other state funding sources. The Schools themselves have no power to levy and collect taxes or to increase the budget. The Council annually appropriates funds to the Schools for educational expenditures, levies taxes, and issues debt on behalf of the Schools. The legal liability for general obligation debt remains with the City. Because of this relationship, the Schools are considered a component unit of the City.

**Note 2. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

*Government-wide Financial Statements:* The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Schools. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. The Schools do not operate any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function, and 3) capital grants and contributions, including special assessments that are clearly identifiable with a specific function. Other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements:* The accounts of the Schools are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, 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.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**A. Basis of Presentation (Continued)**

The Schools report the following major governmental funds:

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

Special Grants Fund: A special revenue fund used to account for revenue sources (other than those for capital projects) that are legally restricted to expenditures for specific purposes. The primary source of grant funding is the Federal Government with the majority of the remainder coming from the Commonwealth of Virginia.

Textbooks Fund: A special revenue fund used to account for revenue legally restricted to expenditures for textbooks and related items.

Cafeteria Fund: A special revenue fund used to account for revenue legally restricted to expenditures for the Schools' cafeteria operations.

Capital Projects Fund: Used to account for activity in capital projects.

During the course of operations, the Schools have 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, they are eliminated from the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. While the fund financial statements report these amounts as transfers in and out, they are eliminated from the government-wide financial statements.

**B. Measurement Focus and Basis of Accounting**

"Measurement focus" refers to what is reported; "basis of accounting" refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**B. Measurement Focus and Basis of Accounting (Continued)**

Governmental fund financial statements use 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 Schools consider revenues to be available if collected within 45 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 expenditures related to compensated absences, post-employment benefits, claims and judgments, and retirement benefits are recorded only when payment is due.

**C. Encumbrances**

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, Cafeteria, Textbook, and Special Grants Funds. Encumbrances outstanding at year end 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. Annual appropriations that are not spent, encumbered, or designated at year end lapse.

**D. Cash, Cash Equivalents, and Investments**

Cash balances include demand deposits and cash on hand. Investments include amounts in investment pools which are carried at amortized cost, i.e. a stable net asset value.

**E. Due from Primary Government**

Amounts due from the primary government represent the Schools expenditures for the current fiscal year requested but not yet received from the City.

**F. Inventories**

Inventories consist of various consumable supplies and food commodities maintained by the Food Nutrition Service office. Commodities received from the USDA are valued at estimated fair value while other inventories are carried at cost.

**G. Prepaid Expenses**

Prepays represent costs applicable to future periods.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**H. Capital Assets**

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). Donated capital assets are recorded at fair value as of the date received. The Schools do 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.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Furniture and equipment	3-20 years

Local governments in Virginia may have a tenancy in common with their school systems whenever the locality incurs a financial obligation, excluding capital leases, for school property which is payable over more than one fiscal year. The City reports this debt in its financial statements. The capital assets acquired by such debt are reported by the City until such time as the outstanding indebtedness is retired, at which time, the net book value is transferred to and reported by the Schools.

**I. Compensated Absences**

The Schools' 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 in the government-wide financial statements. Expenditures are recorded in governmental funds when the obligation is due and payable.

The Schools record accrued sick leave at \$1.00 per day multiplied by the number of years the employee has in service with the Schools, up to a maximum of \$35 each day and 200 days. Accrued vacation is recorded based on the employees' current rate of pay. The maximum amount of accrued vacation an employee can accumulate is 30 days at which time it is rolled into sick leave. Sick leave is only paid out upon retirement or death. Therefore, the Schools only accrue sick leave for employees 50 years of age or older.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement that presents financial position reports 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 statement that presents financial position reports 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 Schools have the following items that qualify for reporting as deferred inflows or outflows:

- Contributions subsequent to the measurement date for pensions and other postemployment benefits (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 liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan 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.
- Unavailable revenue is reported only in the governmental funds balance sheet for receivables not collected within 45 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.

**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. Such estimates also affect the reported amounts of revenues and expenses reported. Actual results could differ from those estimates and assumptions.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**L. 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 Schools' Plans and the additions to/deductions from the Schools' Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). 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.

**M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Schools are bound to observe constraints imposed upon the use of the resources.

***Nonspendable*** – includes amounts associated with inventories and prepaids because they are not in a spendable form.

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

***Committed*** – amounts constrained to specific purposes by the School Board, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraints.

***Assigned*** – amounts the School Board intends to use for a specified purpose; intent can be expressed by the governing body.

***Unassigned*** – includes the residual amounts for the general fund and includes all spendable amounts not contained in the other classifications.

The Schools establish (and modify or rescind) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendments of the budget. Assigned fund balance is established through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service, or for other purposes).

The Schools have a revenue spending policy that provides guidance for programs with multiple revenue sources. The Budget Manager will use resources in the following hierarchy: federal funds, state funds, local non-School funds, and School funds. The Budget Manager has the authority to deviate from this policy if it is considered to be in the best interest of the Schools.

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

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Summary of Significant Accounting Policies (Continued)**

**M. Fund Balance (Continued)**

The Schools consider 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, the Schools consider committed fund balance to be spent first, then assigned fund balance, and finally unassigned fund balance.

**N. Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding capital lease obligations. Net position is reported as restricted when there are limitations imposed on its use by grantors, laws, or regulations.

**O. Budgetary Information**

The majority of funding for the Schools is provided by the City, 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. The timeline for the budget is as follows:

- 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 April, the School Board adopts the operating budget and forwards it to the City Council for inclusion in the City's planning budget. The submission includes the general fund.
- In May, after public hearings, the City Council determines the level of funding for the Schools.
- Based on the approved funding level, the Schools make changes, if necessary, to the operating budget and approves the revised budget in June. The approved budget is the basis for operating the Schools in the next fiscal year. The legal level of budgetary control rests at the fund level; however, management control is exercised at the budgetary line item level.

The Schools use the following procedures in establishing the budgetary data reflected in the financial statements:

Budgets are adopted on a modified accrual basis of accounting. The general fund budget is legally adopted. Budgets for the special revenue funds are adopted only for management control. The Schools are authorized to transfer budgeted amounts from the general fund to the special grants fund for cash deficits in that fund. Budgeted amounts shown are as originally adopted, and as amended by the Schools 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.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 3. 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

The Schools' current investment policy limits investments to the Virginia Local Government Investment Pool (LGIP). All investments of the Schools were held at LGIP at June 30. The State Treasurer's Office of the Commonwealth of Virginia has regulatory oversight over the LGIP. The Schools' fair value of investment in the LGIP is the same as the pooled value of its shares. As required by State statutes, the Policy requires that commercial paper has a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard and Poor's and Fitch Investor's Services, provided that the issuing corporation has a net worth of at least \$50,000,000 and its long-term debt is rated "A" or better by Moody's and Standard and Poor's. Banker's acceptances and Certification of Deposits maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard and Poor's and "P-1" by Moody's Investor Service.

The Virginia LGIP issues a publicly available comprehensive annual financial report that includes basic financial statements and required supplementary information for LGIP. A copy of that report may be obtained from their website at <https://www.trs.virgina.gov/Cash/lgip.aspx> or by writing to the Virginia Department of the Treasury at 101 North 14<sup>th</sup> Street, Richmond, VA 23219.

Deposits and investments consist of the following:

Petty cash	\$ 1,175
Deposits	662,103
Virginia LGIP	<u>869,578</u>
	<u>\$ 1,532,856</u>
Statement of net position:	
Cash and cash equivalents	\$ 663,278
Investments	<u>869,578</u>
	<u>\$ 1,532,856</u>

(Continued)



# DANVILLE PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

### Note 4. Due From Other Governments

Due from other governments consists of the following:

	<u>General Fund</u>	<u>Special Grants Fund</u>	<u>Cafeteria Fund</u>	<u>Governmental Activities</u>
Commonwealth of Virginia:				
Sales tax	\$ 1,146,151	\$ -	\$ -	\$ 1,146,151
Other	151,600	101,242	-	252,842
State operated detention home	-	239,583	-	239,583
Federal government:				
Title I – local education agencies	-	1,458,475	-	1,458,475
Title VI-B	-	415,603	-	415,603
Title II – Part A	-	190,694	-	190,694
Perkins CTE secondary program	-	178,860	-	178,860
Other	21,734	204,434	1,505	227,673
	<u>\$ 1,319,485</u>	<u>\$ 2,788,891</u>	<u>\$ 1,505</u>	<u>\$ 4,109,881</u>

### Note 5. Interfund Transactions

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

	<u>Due From (Fund)</u>		
	<u>General Fund</u>	<u>Special Grants Fund</u>	<u>Total</u>
Special Grants Fund	\$ (2,327,549)	\$ 2,327,549	\$ -
Textbooks Fund	2,842,806	-	2,842,806
Cafeteria Fund	320,343	-	320,343
Capital Projects Fund	-	-	-
	<u>\$ 835,600</u>	<u>\$ 2,327,549</u>	<u>\$ 3,163,149</u>

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 5. Interfund Transactions (Continued)**

Interfund receivables and payables of individual funds result primarily from cash disbursements made by one fund for expenditures of another and to support operations of the Schools.

Interfund transfers are as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
Textbooks	General Fund	\$ 138,945
		<u>\$ 138,945</u>

The primary purpose of the interfund transfers are to provide operational support.

**Note 6. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, nondepreciable				
Land	\$ 2,176,690	\$ -	\$ -	\$ 2,176,690
Construction in progress	<u>4,551,480</u>	<u>1,559,369</u>	<u>(5,160,298)</u>	<u>950,551</u>
Total capital assets, nondepreciable	<u>6,728,170</u>	<u>1,559,369</u>	<u>(5,160,298)</u>	<u>3,127,241</u>
Capital assets, depreciable				
Buildings	48,039,876	7,057,816	-	55,097,692
Furniture and equipment	<u>10,111,883</u>	<u>807,515</u>	<u>(331,548)</u>	<u>10,587,850</u>
Total capital assets, depreciable	<u>58,151,759</u>	<u>7,865,331</u>	<u>(331,548)</u>	<u>65,685,542</u>
Less accumulated depreciation				
Buildings	44,893,351	397,269	-	45,290,620
Furniture and equipment	<u>6,052,159</u>	<u>1,006,474</u>	<u>(331,548)</u>	<u>6,727,085</u>
Total accumulated depreciation	<u>50,945,510</u>	<u>1,403,743</u>	<u>(331,548)</u>	<u>52,017,705</u>
Depreciable capital assets, net	<u>7,206,249</u>	<u>6,461,588</u>	<u>-</u>	<u>13,667,837</u>
Capital assets, net	<u>\$ 13,934,419</u>	<u>\$ 8,020,957</u>	<u>\$ (5,160,298)</u>	<u>\$ 16,795,078</u>

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 6. Capital Assets (Continued)**

Depreciation was charged to governmental functions as follows:

General instruction	\$ 58,815
Administration, attendance, and health	2,036
Pupil transportation	128,918
Operations and maintenance	9,676
Technology	477,229
Cafeteria	47,935
Facilities	679,134
	<u>\$ 1,403,743</u>

**Note 7. Long-Term Liabilities**

The following is a summary of changes in long-term liabilities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 1,203,645	\$ 695,265	\$ 553,675	\$ 1,345,235	\$ 619,000
Lease purchase agreement	4,242,000	-	141,000	4,101,000	189,000
ERIP (Note 13)	1,525,402	-	705,218	820,184	502,776
	<u>\$ 6,971,047</u>	<u>\$ 695,265</u>	<u>\$ 1,399,893</u>	<u>\$ 6,266,419</u>	<u>\$ 1,310,776</u>

Long-term liabilities are liquidated using general fund, cafeteria fund, and special grants fund resources.

**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)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 7. Long-Term Liabilities (Continued)**

Aggregate maturities are as follows:

<b>Year Ending June 30,</b>	<b>Lease Purchase Agreement</b>	
	<b>Principal</b>	<b>Interest</b>
2020	\$ 189,000	\$ 94,118
2021	204,000	89,780
2022	220,000	85,099
2023	236,000	80,050
2024	253,000	74,633
2025-2029	1,519,000	277,695
2030-2033	1,480,000	87,394
	<u>\$ 4,101,000</u>	<u>\$ 788,769</u>

**Note 8. Risk Management**

Workers' compensation

The Schools 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, 2019, 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 \$196,046 in workers' compensation claims.

General liability and other

The Schools carry commercial insurance for all other risks of loss, including theft, auto liability, physical damage and general liability insurance. General liability and business automobile has a \$1,000,000 limit. Boiler and machinery coverage has a \$5,000,000 per accident limit and the blanket buildings and contents insurance has a \$207,000,000 limit. Crime coverage has a \$250,000 limit. The Schools maintain an additional \$5,000,000 umbrella policy over general liability. Total premiums for the current fiscal year were \$196,158.

There have been no significant reductions in insurance coverage since the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 9. Defined Benefit Pension Plan – School Nonprofessionals**

**Plan Description**

All full-time, salaried permanent non-professional employees (non-teachers) of the Danville Public Schools, (the “school division”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent 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 employer 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 – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

**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:

	<b><u>Number</u></b>
Inactive members or their beneficiaries currently receiving benefits	<u>39</u>
Inactive members:	
Vested inactive members	5
Non-vested inactive members	14
Inactive members active elsewhere in VRS	<u>8</u>
Total inactive members	<u>27</u>
Active members	<u>53</u>
Total covered employees	<u><u>119</u></u>

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 9. Defined Benefit Pension Plan – School Nonprofessionals (Continued)**

**Contributions**

The school division's contractually required contribution rate for the year ended June 30, 2019 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 \$86,013 and \$87,044 for the years ended June 30, 2019 and 2018, respectively.

**Changes in Net Pension Liability**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) – (b)</b>
Balances at June 30, 2017	\$ 8,012,454	\$ 8,190,450	\$ (177,996)
Changes for the year:			
Service cost	174,350	-	174,350
Interest	546,294	-	546,294
Benefit changes	-	-	-
Differences between expected and actual experience	(140,555)	-	(140,555)
Assumption changes	-	-	-
Contributions – employer	-	79,096	(79,096)
Contributions – employee	-	91,413	(91,413)
Net investment income	-	599,557	(599,557)
Benefit payments, including refunds of employee contributions	(416,515)	(416,515)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(5,276)	5,276
Other changes	-	(530)	530
Net changes	163,574	347,745	(184,171)
Balances at June 30, 2018	\$ 8,176,028	\$ 8,538,195	\$ (362,167)

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 9. Defined Benefit Pension Plan – School Nonprofessionals (Continued)**

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

The following presents the net pension liability of the school division using the discount rate of 7.00%, as well as what the net pension liability 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:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
School division's net pension liability (asset)	\$ 584,857	\$ (362,167)	\$ (1,165,186)

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

For the year ended June 30, 2019, the school division recognized pension expense (benefit) of \$(201,571). At June 30, 2019, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 35,335	\$ 89,629
Change in assumptions	-	21,619
Net difference between projected and actual earnings on pension plan investments	-	67,374
Employer contributions subsequent to the measurement date	86,013	-
	<u>\$ 121,348</u>	<u>\$ 178,622</u>

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 9. Defined Benefit Pension Plan – School Nonprofessionals (Continued)**

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

The \$86,013 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Reduction to Pension Expense</b>
2020	\$ (7,943)
2021	(44,099)
2022	(84,239)
2023	(7,006)
2024	-
Thereafter	-

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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, 2019, approximately \$8,105 was payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

(Continued)



**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 10. 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 9.

*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, 2019 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 \$5,611,419 and \$5,124,075 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the school division reported a liability of \$45,360,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. For the year ended June 30, 2018, the school division’s proportion was 0.3857% as compared to 0.3964% at June 30, 2017.

For the year ended June 30, 2019, the school division recognized pension expense of \$465,000. 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.

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 10. 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)*

At June 30, 2019, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 3,878,000
Change in assumptions	541,000	-
Net difference between projected and actual earnings on pension plan investments	-	962,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,727,000
Employer contributions subsequent to the measurement date	5,611,419	-
	<u>\$ 6,152,419</u>	<u>\$ 9,567,000</u>

The \$5,611,419 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	<b>Reduction to Pension Expense</b>
2020	\$ (2,526,000)
2021	(2,278,000)
2022	(2,827,000)
2023	(1,089,000)
2024	(306,000)
Thereafter	-

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 10. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)**

**General Information about the Teacher Cost Sharing Plan (Continued)**

*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, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	<b>Teacher Employee Retirement Plan</b>
Total pension liability	\$ 46,679,555
Plan fiduciary net position	<u>34,919,563</u>
Employers' net pension liability	<u>\$ 11,759,992</u>
Plan fiduciary net position as a percentage of the total pension liability	74.81%

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.

*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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	<u>\$ 69,289,000</u>	<u>\$ 45,360,000</u>	<u>\$ 25,554,000</u>

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 10. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)**

**General Information about the Teacher Cost Sharing Plan (Continued)**

*Pension Plan Fiduciary Net Position*

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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, 2019, approximately \$185,744 was payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

**Note 11. Summary of VRS Pension Plans**

The Schools participate in two pension plans as described in Notes 9 and 10. Following is a summary of key pension-related financial statement elements lifted from those notes.

	<b><u>Governmental Activities</u></b>
<b>VRS asset:</b>	
VRS – nonprofessionals	\$ 362,167
<b>Deferred outflows of resources:</b>	
Difference between expected and actual experience	
VRS – nonprofessionals	\$ 35,335
Changes in assumptions	
VRS Teacher cost sharing plan	541,000
Contributions subsequent to measurement date	
VRS – nonprofessionals	86,013
VRS Teacher cost sharing plan	5,611,419
	<u>\$ 6,273,767</u>
<b>VRS liability (asset):</b>	
VRS Teacher cost sharing plan	\$ 45,360,000

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 11. Summary of VRS Pension Plans (Continued)**

	<u><b>Governmental Activities</b></u>
<b>Deferred inflows of resources:</b>	
Difference between expected and actual experience	
VRS – nonprofessionals	\$ 89,629
VRS teacher cost sharing plan	3,878,000
Changes in assumptions	
VRS – nonprofessionals	21,619
Net difference between projected and actual earnings on pension plan investments	
VRS – nonprofessionals	67,374
VRS teacher cost sharing plan	962,000
Changes in proportion and related differences – cost sharing plans VRS Teacher cost sharing plan	<u>4,727,000</u>
	<u><u>\$ 9,745,622</u></u>

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans**

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>

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)**

**Plan Descriptions (Continued)**

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.

**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 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.</i>
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, 2019 Contribution – general employees	\$9,978
June 30, 2019 Contribution – teachers	\$189,587
June 30, 2018 Contribution – general employees	\$8,733
June 30, 2018 Contribution – teachers	\$165,932

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)**

**Contributions (Continued)**

Teacher Health Insurance Credit Program

Governed by:	<i>Code of Virginia 51.1-1401(E)</i> 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, 2019 Contribution	\$429,856
June 30, 2018 Contribution	\$386,288

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

The net OPEB liabilities were measured as of June 30, 2018 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

General Employees

June 30, 2019 proportionate share of liability	\$ 154,000
June 30, 2018 proportion	0.01015%
June 30, 2017 proportion	0.00963%
June 30, 2019 expense	\$ 1,000

Teachers

June 30, 2019 proportionate share of liability	\$ 2,517,000
June 30, 2018 proportion	0.16574%
June 30, 2017 proportion	0.17032%
June 30, 2019 expense	\$ (10,000)

Teacher Health Insurance Credit Program

June 30, 2019 proportionate share of liability	\$ 4,930,000
June 30, 2018 proportion	0.38827%
June 30, 2017 proportion	0.39729%
June 30, 2019 expense	\$ 359,000

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)

**DANVILLE PUBLIC SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)**

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

Group Life Insurance Program – General Employees

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8,000	\$ 3,000
Change in assumptions		6,000
Net difference between projected and actual earnings on OPEB plan investments	-	5,000
Changes in proportion	8,000	4,000
Employer contributions subsequent to the measurement date	9,978	-
	<u>\$ 25,978</u>	<u>\$ 18,000</u>

Group Life Insurance Program – Teachers

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 123,000	\$ 45,000
Change in assumptions		105,000
Net difference between projected and actual earnings on OPEB plan investments	-	82,000
Changes in proportion	-	134,000
Employer contributions subsequent to the measurement date	189,587	-
	<u>\$ 312,587</u>	<u>\$ 366,000</u>

(Continued)



**DANVILLE PUBLIC SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)**

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

Teacher Health Insurance Credit Program

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 24,000
Change in assumptions	-	43,000
Net difference between projected and actual earnings on OPEB plan investments	-	4,000
Changes in proportion	-	259,000
Employer contributions subsequent to the measurement date	429,856	-
	<u>\$ 429,856</u>	<u>\$ 330,000</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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ending June 30,</b>	<b>Increase (Reduction) to OPEB Expense</b>		
	<b>Group Life Insurance Program – General Employees</b>	<b>Group Life Insurance Program – Teachers</b>	<b>Teacher Health Insurance Credit Program</b>
2020	\$ (2,000)	\$ (65,000)	\$ (56,000)
2021	(2,000)	(65,000)	(56,000)
2022	(2,000)	(65,000)	(56,000)
2023	(1,000)	(42,000)	(54,000)
2024	1,000	(9,000)	(54,000)
Thereafter	4,000	3,000	(54,000)

(Continued)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (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, 2017, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

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	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation	7.00%

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, 2018, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	<b><u>Group Life Insurance Program</u></b>	<b><u>Teacher Employee HIC OPEB Plan</u></b>
Total OPEB Liability	\$ 3,113,508	\$ 1,381,313
Plan fiduciary net position	1,594,773	111,639
Employers' net OPEB liability (asset)	1,518,735	1,269,674
Plan fiduciary net position as a percentage of total OPEB liability	51.22%	8.08%

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)

**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)**

**Long-Term Expected Rate of Return**

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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
GLI Net OPEB liability – general employees	\$ 201,000	\$ 154,000	\$ 116,000
GLI Net OPEB liability – teachers	3,290,000	2,517,000	1,890,000
Teacher HIC Net OPEB liability	5,507,000	4,930,000	4,440,000

**OPEB Plan Fiduciary Net Position**

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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**

At June 30, 2019, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

• Group Life Insurance – general employees	\$ 2,329
• Group Life Insurance – teachers	8,546
• Teacher Employee Health Insurance Credit	10,542

(Continued)

# DANVILLE PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

### Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

#### Payables to the OPEB Plan (Continued)

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

	<u>Governmental Activities</u>
<b>Deferred outflows of resources</b>	
OPEB contributions subsequent to measurement date:	
GLI – general employees	\$ 9,978
GLI – teachers	189,587
HIC – teachers	429,856
Changes in proportion and related differences – cost sharing plans:	
GLI – general employees	8,000
Difference between expected and actual experience:	
GLI – general employees	8,000
GLI – teachers	123,000
	<u>\$ 768,421</u>
<b>Net OPEB liability</b>	
GLI – general employees	\$ 154,000
GLI – teachers	2,517,000
HIC – teachers	4,930,000
	<u>\$ 7,601,000</u>
<b>Deferred inflows of resources</b>	
Difference between expected and actual experience:	
GLI – general employees	\$ 3,000
GLI – teachers	45,000
HIC – teachers	24,000
Changes in assumptions	
GLI – general employees	6,000
GLI – teachers	105,000
HIC – teachers	43,000
Net difference between projected and actual earnings on OPEB plan investments:	
GLI – general employees	5,000
GLI – teachers	82,000
HIC – teachers	4,000
Changes in proportion and related differences – cost sharing plans:	
GLI – general employees	4,000
GLI – teachers	134,000
HIC – teachers	259,000
	<u>\$ 714,000</u>

(Continued)

# DANVILLE PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

### Note 13. Entering Retirement In Phases Plan

Effective January 1, 2007, the Board replaced an existing early leave benefit plan with an Entering Retirement in Phases Plan (ERIP). ERIP is only available to individuals who were full-time employees on June 30, 2007. Each employee's date of birth and years of full-time service as of July 1, 2007 determined that employee's ERIP group. The benefits and requirements of each group were revised on July 16, 2015, and are now as follows:

#### ERIP Qualifications and Benefits by Group

Group	Qualifications For ERIP	Benefits Under ERIP	Requirements To Earn Benefits Under ERIP	Years After Initial Qualification Each Individual May Delay Taking ERIP
A	Age 50+, 10+ years DPS (last 5 consecutive) and 25+ years VRS	4 years, 15% of final compensation	Work 15% no sick leave buy-out allowed	15 years, or July 1, 2008, whichever occurs later for an individual
B	Age 53+ and 15+ years DPS (last 5 consecutive)	3 years, 15% of final compensation	Work 15% no sick leave buy-out allowed	12 years
C	Age 55+ and 15+ years DPS (last 5 consecutive)	35 years, 15% of final compensation	Work 15%, no buy-out allowed	10 years
D	Age 55+ and 20+ years DPS (last 5 consecutive)	2 years, 10% of final compensation	Work 10%, no buy-out allowed	10 years

Prior to the July 16, 2015 revision the plan allowed participants to use sick leave to "buy out" the work requirement. This created a future benefit for these individuals, i.e. a liability for the future payouts. The plan no longer allows new participants entering the plan (retiring) to use sick leave to eliminate the work requirement, thus effectively freezing the plan. The liability, with a calculated discount rate of 3.50%, was \$820,184 at June 30, 2019 and will continue to decline each year as participants who had retired and entered the plan prior to July 16, 2015 continue to receive their final pay-outs.

### Note 14. Commitments and Contingencies

The Schools receive 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 the Schools' management, no material refunds will be required as a result of expenditures disallowed (if any) by the grantor agencies.

(Continued)

# DANVILLE PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

### Note 14. Commitments and Contingencies (Continued)

The Schools are subject to occasional litigation in the course of business. At this time the Schools are unable to estimate the amount of loss, if any that may occur from events during or subsequent to year end.

During April of 2016 the Schools entered into a five year operating lease for the administration building. The minimum yearly lease payments through the end of the term are \$233,520.

### Note 15. Retirement Plan

The Schools have a 403(b) retirement plan which covers substantially all employees. Under the plan, employees may elect to defer a portion of their compensation up to the maximum amount allowed by the *Internal Revenue Code*. The Schools have not elected to make any contributions to this plan on behalf of their employees.

### Note 16. Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Schools are bound to observe constraints imposed upon the use of the resources as presented below:

	General Fund	Special Grants Fund	Textbooks Fund	Cafeteria Fund	Capital Projects Fund
Fund Balances:					
Nonspendable:					
Prepaid expenses	\$ 166,736	\$ -	\$ -	\$ -	\$ -
Inventories	-	-	-	83,384	-
Restricted:					
Educational scholarships	-	128,415	-	-	-
Assigned:					
Instructional services:					
General instruction	174,221	-	3,246,789	-	-
Support services:					
Administration,					
attendance, and health	306,608	-	-	-	-
Pupil transportation	38,086	-	-	-	-
Operations and					
maintenance	13,337	-	-	-	-
Operation of noninstructional					
services:					
Technology	5,913	-	-	-	-
Facilities	974	-	-	-	-
Cafeteria	-	-	-	1,228,962	-
Unassigned	-	(74,479)	-	-	-
Total fund balances	<u>\$ 705,875</u>	<u>\$ 53,936</u>	<u>\$ 3,246,789</u>	<u>\$ 1,312,346</u>	<u>\$ -</u>

(Continued)

## DANVILLE PUBLIC SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

#### Note 17. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. 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 periods beginning after December 15, 2018. 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.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. 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, 2020.

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

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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## DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS –**  
**NONPROFESSIONAL EMPLOYEES**  
**June 30, 2019**

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

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

## DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS –  
NONPROFESSIONAL EMPLOYEES  
June 30, 2019**

<b>School Division Fiscal Year Ended June 30,</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
<b>Schools – Nonprofessional Employees</b>					
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

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.

## DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY –**  
**VRS TEACHER RETIREMENT PLAN**  
**June 30, 2019**

<b>School Division Fiscal Year Ended June 30,</b>	<b>Employer's Proportion of the Net Pension Liability</b>	<b>Employer's Proportionate Share of the Net Pension Liability</b>	<b>Employer's Covered Employee Payroll</b>	<b>Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
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

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.

## DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS –  
VRS TEACHER RETIREMENT PLAN  
June 30, 2019**

<b>School Division Fiscal Year Ended June 30,</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contributions as a Percentage of Covered Employee Payroll</b>
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

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.

## DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY**  
**June 30, 2019**

<b>School Division</b>	<b>Employer's</b>	<b>Employer's</b>		<b>Employer's</b>	<b>Plan Fiduciary</b>
<b>Fiscal Year</b>	<b>Proportion of</b>	<b>Proportionate</b>	<b>Employer's</b>	<b>Proportionate</b>	<b>Net Position as</b>
<b>Ended June 30,</b>	<b>the Net OPEB</b>	<b>Share of the</b>	<b>Covered</b>	<b>Share of the</b>	<b>a Percentage of</b>
<b></b>	<b>Liability</b>	<b>Net OPEB</b>	<b>Payroll</b>	<b>Net OPEB</b>	<b>the Total</b>
<b></b>	<b></b>	<b>Liability</b>	<b></b>	<b>Liability as a</b>	<b>OPEB Liability</b>
<b></b>	<b></b>	<b></b>	<b></b>	<b>Percentage of</b>	<b></b>
<b></b>	<b></b>	<b></b>	<b></b>	<b>its Covered</b>	<b></b>
<b></b>	<b></b>	<b></b>	<b></b>	<b>Payroll</b>	<b></b>
<b>Virginia Retirement System – Health Insurance Credit – Teachers</b>					
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
<b>Virginia Retirement System – Group Life Insurance – General Employees</b>					
2019	0.0102 %	\$ 154,000	\$ 1,927,099	7.99	51.22 %
2018	0.0096	145,000	1,763,226	8.22	48.86
<b>Virginia Retirement System – Group Life Insurance – Teachers</b>					
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

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.

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

## DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF OPEB CONTRIBUTIONS**

**June 30, 2019**

<b>School Division Fiscal Year Ended June 30,</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
<b>Virginia Retirement System – Health Insurance Credit – Teachers</b>					
2019	\$ 429,856	\$ 429,856	\$ -	\$ 35,879,963	1.20 %
2018	386,288	386,288	-	31,410,746	1.23
<b>Virginia Retirement System – Group Life Insurance – General Employees</b>					
2019	\$ 9,978	\$ 9,978	\$ -	\$ 2,249,743	0.44 %
2018	8,733	8,733	-	1,927,099	0.45
<b>Virginia Retirement System – Group Life Insurance – Teachers</b>					
2019	\$ 189,587	\$ 189,587	\$ -	\$ 35,879,963	0.53 %
2018	165,932	165,932	-	31,410,746	0.53

Schedule is intended to show information for 10 years. Since 2018 is 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 entity's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

## DANVILLE PUBLIC SCHOOLS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2019

#### **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.

##### Other Postemployment Benefits (OPEB)

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, GLI OPEB, and LODA OPEB

(Continued)



**DANVILLE PUBLIC SCHOOLS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2019**

**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
- Applicable to: Pension, GLI OPEB, and HIC 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
- Applicable to: Pension, GLI OPEB, and LODA 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, GLI OPEB, and HIC OPEB

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## **COMPLIANCE SECTION**

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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  
School Board  
Danville Public Schools  
Danville, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the 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 accompanying financial statements of the governmental activities and each major fund of Danville Public Schools (the "Schools"), a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements, and have issued our report thereon dated November 25, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schools' financial statements are free from material misstatement, we performed tests of 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*.**

## 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 School'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 Schools' 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  
November 25, 2019

**DANVILLE PUBLIC SCHOOLS**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2019**

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 Schools' 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  
Procurement Laws

*State Agency Requirements*

Education  
Virginia Retirement System