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

FINANCIAL REPORT

June 30, 2018

CONTENTS

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

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, 2018, 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.

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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, 2018, 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.

Change in Accounting Principle

As described in Notes 12 and 18 to the financial statements, in 2018 the Schools adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require 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 the 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 28, 2018 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 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 28, 2018

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

DANVILLE PUBLIC SCHOOLS

STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents (Note 3)	$ 462,925
Cash held by custodian in escrow (Notes 3 and 7)	1,152,701
Investments (Note 3)	849,005
Due from other governments (Note 4)	2,515,818
Due from primary government	5,061,228
Other receivables (Note 8)	544,256
Inventories	53,025
Prepaid expenses	156,344
Capital assets: (Note 6)	
Non-depreciable	6,728,170
Depreciable, net	7,206,249
Total assets	24,729,721
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions (Notes 9, 10, and 11)	5,998,068
Deferred outflows related to other postemployment benefits (Note 12)	560,953
Total deferred outflows of resources	6,559,021
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	1,936,051
Accrued salaries and payroll taxes	2,257,329
Unearned grants	20,255
Long-term liabilities:	
Net pension liability (Notes 9, 10, and 11)	48,567,004
Net other postemployment benefit liability (Note 12)	7,749,000
Other long-term liabilities due within one year (Notes 7 and 13)	1,427,629
Other long-term liabilities due in more than one year (Notes 7 and 13)	5,543,418
Total liabilities	67,500,686
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension (Notes 9, 10, and 11)	11,189,732
Deferred inflows related to other postemployment benefits (Note 12)	639,000
Total deferred inflows of resources	11,828,732
NET POSITION	
Net investment in capital assets	9,692,419
Restricted for scholarships	125,377
Unrestricted	(57,858,472)
Total net position	$ (48,040,676)

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

EXHIBIT 2

DANVILLE PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		Program Revenues			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Position**
Governmental Activities					
Instructional services:					
General instruction	$ 44,843,456	$ 48,552	$ 23,154,449	$ -	$ (21,640,455)
Support services:					
Administration, attendance, and health	4,200,986	-	394,736	-	(3,806,250)
Pupil transportation	2,460,119	-	-	-	(2,460,119)
Operations and maintenance	7,786,532	-	-	-	(7,786,532)
Noninstructional services:					
Technology	3,277,855	-	492,515	-	(2,785,340)
Facilities	1,432,716	-	-	-	(1,432,716)
Cafeteria	4,570,375	213,238	4,082,857	-	(274,280)
Lease purchase issuance costs	84,677	-	-	-	(84,677)
Total governmental activities	$ 68,656,716	$ 261,790	$ 28,124,557	$ -	(40,270,369)
	General revenues:				
	Appropriation from the City of Danville				20,444,279
	Noncategorical state aid				23,883,614
	Investment income				184,957
	Miscellaneous				876,190
	Total general revenues				45,389,040
	Change in net position				5,118,671
	Net position – beginning, as restated (Note 18)				(53,159,347)
	Net position – ending				$ (48,040,676)

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

EXHIBIT 3

DANVILLE PUBLIC SCHOOLS

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2018

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
ASSETS						
Cash and cash equivalents	$ 2,009	$ 80	$ -	$ 460,836	$ -	$ 462,925
Cash held by custodian in escrow	-	-	-	-	1,152,701	1,152,701
Investments	-	125,377	427,451	296,177	-	849,005
Due from other funds (Note 5)	-	-	2,673,236	854,684	1,479	3,529,399
Due from other governments	859,537	1,656,281	-	-	-	2,515,818
Due from primary government	4,386,270	-	-	-	674,958	5,061,228
Other receivables	543,320	-	-	936	-	544,256
Inventories	-	-	-	53,025	-	53,025
Prepaid expenses	156,222	122	-	-	-	156,344
Total assets	$ 5,947,358	$ 1,781,860	$ 3,100,687	$ 1,665,658	$ 1,829,138	$14,324,701
LIABILITIES						
Accounts payable and other liabilities	$ 641,367	$ 67,220	$ -	$ 9,808	$ 1,217,656	$ 1,936,051
Accrued salaries and payroll taxes	2,038,215	182,653	1,468	34,993	-	2,257,329
Due to other funds (Note 5)	2,068,564	1,460,835	-	-	-	3,529,399
Unearned grants	-	20,255	-	-	-	20,255
Total liabilities	4,748,146	1,730,963	1,468	44,801	1,217,656	7,743,034
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	268,431	-	-	-	-	268,431
FUND BALANCES						
Nonspendable	156,222	122	-	53,025	-	209,369
Restricted	-	125,377	-	-	611,482	736,859
Assigned	774,559	-	3,099,219	1,567,832	-	5,441,610
Unassigned	-	(74,602)	-	-	-	(74,602)
Total fund balances	930,781	50,897	3,099,219	1,620,857	611,482	6,313,236
Total liabilities, deferred inflows of resources, and fund balances	$ 5,947,358	$ 1,781,860	$ 3,100,687	$ 1,665,658	$ 1,829,138	$14,324,701

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

EXHIBIT 4

DANVILLE PUBLIC SCHOOLS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balances – Governmental Funds		$ 6,313,236
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.		13,934,419
Receivables on the Statement of Net Position that do not provide current financial resources are reported as deferred inflows of resources in the funds.		268,431
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	$ 5,998,068	
Other postemployment benefits	560,953	
Deferred inflows related to:		
Pensions	(11,189,732)	
Other postemployment benefits	(639,000)	
Net pension liability	(48,567,004)	
Other postemployment benefits	(7,749,000)	
		(61,585,715)
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	(4,242,000)	
Entering retirement in phases plan	(1,525,402)	
Compensated absences	(1,203,645)	
		(6,971,047)
Net Position – Governmental Activities		$ (48,040,676)

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

EXHIBIT 5

DANVILLE PUBLIC SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
REVENUES						
Charges for services	$ 48,532	$ -	$ 20	$ 213,238	$ -	$ 261,790
Revenue from the use of money and property	169,099	1,836	6,259	4,472	3,291	184,957
Miscellaneous	723,681	144,790	-	7,719	-	876,190
Intergovernmental:						
City of Danville	18,896,473	-	-	-	1,547,806	20,444,279
Commonwealth of Virginia	39,933,807	1,112,191	446,607	127,991	-	41,620,596
Federal government	468,058	6,349,529	-	3,954,866	-	10,772,453
Total revenues	60,239,650	7,608,346	452,886	4,308,286	1,551,097	74,160,265
EXPENDITURES						
Instructional services:						
General instruction	41,417,453	7,953,299	45,508	-	-	49,416,260
Support services:						
Administration, attendance, and health	4,235,285	217,831	-	-	-	4,453,116
Pupil transportation	2,986,006	128,675	-	-	-	3,114,681
Operations and maintenance	7,816,032	113,943	-	-	-	7,929,975
Noninstructional services:						
Technology	2,518,073	31,147	-	-	-	2,549,220
Facilities	1,156,334	446,991	-	-	5,098,416	6,701,741
Cafeteria	-	166,685	-	4,864,646	-	5,031,331
Debt service:						
Lease purchase issuance costs	-	-	-	-	84,678	84,678
Total expenditures	60,129,183	9,058,571	45,508	4,864,646	5,183,094	79,281,002
Excess (deficiency) of revenues over expenditures	110,467	(1,450,225)	407,378	(556,360)	(3,631,997)	(5,120,737)
OTHER FINANCING SOURCES (USES)						
Proceeds from lease purchase	-	-	-	-	4,242,000	4,242,000
Transfers in (Note 5)	-	1,452,060	160,699	-	-	1,612,759
Transfers out (Note 5)	(1,612,759)	-	-	-	-	(1,612,759)
Total other financing sources (uses)	(1,612,759)	1,452,060	160,699	-	4,242,000	4,242,000
Net change in fund balances	(1,502,292)	1,835	568,077	(556,360)	610,003	(878,737)
FUND BALANCES – beginning	2,433,073	49,062	2,531,142	2,177,217	1,479	7,191,973
FUND BALANCES – ending	$ 930,781	$ 50,897	$ 3,099,219	$ 1,620,857	$ 611,482	$ 6,313,236

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, 2018

Net Change in Fund Balances – Total Governmental Funds		$ (878,737)
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 $(2,124,511) exceeds capital outlays $(7,830,418).		5,705,907
The net effect of transactions involving capital assets (loss on disposition of assets) that do not provide or use current financial resources and are not reported as revenue or expenditures in the governmental funds.		(3,411)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		(384,877)
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	$ 5,211,119	
Pension expense	(1,389,237)	
		3,821,882
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	560,953	
Other postemployment benefit expense	(398,638)	162,315
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 agreement		(4,242,000)
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	16,651	
Entering retirement in phases plan	920,941	
		937,592
Change in Net Position – Governmental Activities		$ 5,118,671

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, 2018

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
REVENUES				
Charges for services	$ 73,500	$ 73,500	$ 48,532	$ (24,968)
Revenue from the use of money and property	97,000	97,000	169,099	72,099
Miscellaneous	485,122	485,122	723,681	238,559
Intergovernmental:				
City of Danville	24,392,144	24,392,144	18,896,473	(5,495,671)
Commonwealth of Virginia	41,020,168	41,020,168	39,933,807	(1,086,361)
Federal government	250,000	250,000	468,058	218,058
Total revenues	66,317,934	66,317,934	60,239,650	(6,078,284)
EXPENDITURES				
Instructional services:				
General instruction	46,362,771	42,785,919	41,417,453	1,368,466
Support services:				
Administration, attendance, and health	4,995,148	4,732,413	4,235,285	497,128
Pupil transportation	2,942,198	3,593,126	2,986,006	607,120
Operations and maintenance	7,726,608	8,202,928	7,816,032	386,896
Noninstructional services:				
Technology	2,922,939	3,215,464	2,518,073	697,391
Facilities	22,142	301,764	1,156,334	(854,570)
Contingency	1,185,428	3,325,620	-	3,325,620
Total expenditures	66,157,234	66,157,234	60,129,183	6,028,051
Excess of revenues over expenditures	160,700	160,700	110,467	(50,233)
OTHER FINANCING USES				
Transfers out	(160,699)	(160,699)	(1,612,759)	(1,452,060)
Net change in fund balance	$ 1	$ 1	$ (1,502,292)	$ (1,502,293)

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

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)

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)

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

Prepaids represent costs applicable to future periods.

(Continued)

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.

Note 2. Summary of Significant Accounting Policies (Continued)

J. Deferred Outflows/Inflows of Resources

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

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors as well as changes in actuarial assumptions in the measurement of the total pension or OPEB 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.

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)

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)

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 statues, 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 million 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 14th Street, Richmond, VA 23219.

The Schools' money market investment held in escrow consists of a stable value fund reported at amortized cost, where the fund's net asset value is maintained at $1.00 per unit.

Deposits and investments consist of the following:

Petty cash	$ 1,255
Money market fund – held by custodian in escrow	1,152,701
Deposits	461,670
Virginia LGIP	849,005
	$ 2,464,631
Statement of net position:	
Cash and cash equivalents	$ 462,925
Cash held by custodian in escrow	1,152,701
Investments	849,005
	$ 2,464,631

(Continued)

Note 4. Due From Other Governments

Due from other governments consists of the following:

	General Fund	Special Grants Fund	Governmental Activities
Commonwealth of Virginia:			
Sales tax	$ 829,350	$ -	$ 829,350
Other	30,187	-	30,187
State operated detention home	-	225,045	225,045
Federal government:			
Title I – local education agencies	-	635,946	635,946
Title VI-B	-	266,757	266,757
Title II – Part A	-	174,343	174,343
Perkins CTE secondary program	-	159,922	159,922
Other	-	194,268	194,268
	$ 859,537	$ 1,656,281	$ 2,515,818

Note 5. Interfund Transactions

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

Due To (Fund)	Due From (Fund)		
	General Fund	Special Grants Fund	Total
Special Grants Fund	$ (1,460,835)	$ 1,460,835	$ -
Textbooks Fund	2,673,236	-	2,673,236
Cafeteria Fund	854,684	-	854,684
Capital Projects Fund	1,479	-	1,479
	$ 2,068,564	$ 1,460,835	$ 3,529,399

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:

Transfer In Fund	Transfer Out Fund	Amount
Special Grants	General Fund	$ 1,452,060
Textbooks	General Fund	160,699
		$ 1,612,759

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:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 2,176,690	$ -	$ -	$ 2,176,690
Construction in progress	1,273,253	4,551,480	(1,273,253)	4,551,480
Total capital assets, nondepreciable	3,449,943	4,551,480	(1,273,253)	6,728,170
Capital assets, depreciable				
Buildings	45,814,439	2,225,437	-	48,039,876
Furniture and equipment	8,193,608	2,326,754	(408,479)	10,111,883
Total capital assets, depreciable	54,008,047	4,552,191	(408,479)	58,151,759
Less accumulated depreciation				
Buildings	43,629,589	1,263,762	-	44,893,351
Furniture and equipment	5,596,478	860,749	(405,068)	6,052,159
Total accumulated depreciation	49,226,067	2,124,511	(405,068)	50,945,510
Depreciable capital assets, net	4,781,980	2,427,680	(3,411)	7,206,249
Capital assets, net	$ 8,231,923	$ 6,979,160	$ (1,276,664)	$ 13,934,419

Note 6. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

General instruction	$ 89,015
Administration, attendance, and health	3,082
Pupil transportation	195,112
Operations and maintenance	14,644
Technology	722,267
Cafeteria	72,548
Facilities	1,027,843
	$ 2,124,511

Note 7. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	$ 1,220,296	$ 544,685	$ 561,336	$ 1,203,645	$ 553,675
Lease purchase agreement	-	4,242,000	-	4,242,000	141,000
ERIP (Note 13)	2,446,343	-	920,941	1,525,402	732,954
	$ 3,666,639	$ 4,786,685	$ 1,482,277	$ 6,971,047	$ 1,427,629

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 and provision of other services 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. As of June 30, 2018, there had been $3,089,299 in eligible disbursements from the escrow account with $542,699 in accounts payable at June 30, 2018. At June 30, 2018, there was $1,152,701 in cash held by the custodian in escrow to be used towards the equipment lease purchase. The obligation bears interest at 2.295% with principal and interest due annually from October 2018 through October 2032.

The lease purchase agreement is secured by the capital assets purchased. Capital assets of $3,550,611 are included in construction in progress as of June 30, 2018.

Note 7. Long-Term Liabilities (Continued)

Aggregate maturities are as follows:

Year Ending June 30,	Lease Purchase Agreement Principal	Interest
2019	$ 141,000	$ 92,757
2020	189,000	94,118
2021	204,000	89,780
2022	220,000	85,099
2023	236,000	80,050
2024-2028	1,449,000	310,950
2029-2032	1,803,000	128,771
	$ 4,242,000	$ 881,525

Note 8. Risk Management

Health benefits

On October 1, 2017, the Schools switched insurance providers and employees are now covered by a professionally administered risk sharing program which provides health coverage for employees of the Schools on a cost-reimbursement basis. Dependents are covered by the program provided they pay a premium to the Schools. Under the program, health insurance claims are separately rated from other groups, and the School claims experience is factored into the premiums assessed in subsequent periods. However, gains and losses resulting from the School claims experience is not settled directly with the Schools, but instead is shared by the pool. If the Schools were to exit the risk pool, it could be assessed a settlement charge that would not exceed any net loss resulting from the School's most recent year's claims experience. The Schools have no plans to exit the pool.

In prior years the Schools administered a self-insurance plan for employee medical and pharmacy insurance that was subject to the annual stop loss coverage in the amount of $100,000 per participant and approximately 120% in aggregate.

Changes in aggregate liabilities were as follows:

	Beginning of Year	Claims and Reserves	Claim Payments	End of Year
2017	$ 1,578,856	$ 3,982,115	$ 4,098,198	$ 1,462,773
2016	1,390,943	3,823,058	3,635,145	1,578,856
2015	1,492,245	3,293,027	3,394,329	1,390,943

Note 8. Risk Management (Continued)

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, 2018, the cumulative amount held in escrow amounted to $507,401. This amount is included on the Statement of Net Position with other receivables. During the current fiscal year, the Schools paid $201,633 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 $248,088.

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.

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees

Plan Description

All full-time, salaried permanent employees of the Schools, (the "Political Subdivision") are automatically covered by the VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the "System") along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at *http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf*.

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

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

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Hybrid Opt-In Election –** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

- **Creditable Service –** Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

- **Vesting –** Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

- **Calculating the Benefit –** The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Plan 1 (Continued)

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

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Plan 1 (Continued)

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

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

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

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Plan 2 (Continued)

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

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

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

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

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

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

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

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service –**
  - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
  - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	39
Inactive members:	
Vested inactive members	5
Non-vested inactive members	14
Inactive members active elsewhere in VRS	9
Total inactive members	28
Active members	56
Total covered employees	123

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Schools' contractually required contribution rate for the year ended June 30, 2018 was 4.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Schools' were $87,044 and $75,562 for the years ended June 30, 2018 and 2017, respectively.

Net Pension Liability

The Schools' net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions

The total pension liability for General Employees in the Schools' Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.50%
General employees – salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Actuarial Assumptions

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2016, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	$ 7,588,942	$ 7,461,090	$ 127,852
Changes for the year:			
Service cost	186,119	-	186,119
Interest	519,760	-	519,760
Changes in assumptions	(71,319)	-	(71,319)
Differences between expected and actual experience	116,563	-	116,563
Contributions – employer	-	75,562	(75,562)
Contributions – employee	-	85,108	(85,108)
Net investment income	-	902,372	(902,372)
Benefit payments, including refunds of employee contributions	(327,611)	(327,611)	-
Administrative expenses	-	(5,271)	5,271
Other changes	-	(800)	800
Net changes	423,512	729,360	(305,848)
Balances at June 30, 2017	$ 8,012,454	$ 8,190,450	$ (177,996)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net pension liability (asset)	$ 755,488	$ (177,996)	$ (968,058)

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

For the year ended June 30, 2018, the Schools' recognized pension expense (benefit) of $(195,516). At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 75,949	$ 156,124
Change in assumptions	-	46,469
Net difference between projected and actual earnings on pension plan investments	-	113,139
Employer contributions subsequent to the measurement date	87,044	-
	$ 162,993	$ 315,732

(Continued)

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees (Continued)

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

The $87,044 reported as deferred outflows of resources related to pensions resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2019	$ (214,155)
2020	49,991
2021	1,612
2022	(77,231)
2023	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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, 2018, approximately $6,743 was payable to the Virginia Retirement System for the legally required contributions related to the June 2018 payroll.

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 school divisions, including Danville Public Schools, (the "School Division"), are automatically covered by the VRS Teacher Retirement Plan upon employment. This 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 funded service.

(Continued)

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

General Information about the Teacher Cost Sharing Plan (Continued)

Plan Description (Continued)

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 described 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, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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 $5,124,075 and $4,510,278 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the school division reported a liability of $48,745,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.3964% as compared to 0.4142% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of $1,495,000. 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)

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, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,451,000
Change in assumptions	711,000	-
Net difference between projected and actual earnings on pension plan investments	-	1,771,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	5,652,000
Employer contributions subsequent to the measurement date	5,124,075	-
Total	$ 5,835,075	$ 10,874,000

The $5,124,075 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2019	$ (4,016,000)
2020	(1,869,000)
2021	(1,634,000)
2022	(2,210,000)
2023	(434,000)
Thereafter	-

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):

	Teacher Employee Retirement Plan
Total pension liability	$ 45,417,520
Plan fiduciary net position	33,119,545
Employers' net pension liability	$ 12,297,975
Plan fiduciary net position as a percentage of the total pension liability	72.92%

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	$ 72,793,000	$ 48,745,000	$ 28,853,000

(Continued)

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 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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, 2018, approximately $183,500 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 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.

	Governmental Activities
Deferred outflows of resources:	
Difference between expected and actual experience	
VRS – nonprofessionals	$ 75,949
VRS Teacher cost sharing plan	-
Changes in assumptions	
VRS – nonprofessionals	-
VRS Teacher cost sharing plan	711,000
Contributions subsequent to measurement date	
VRS – nonprofessionals	87,044
VRS Teacher cost sharing plan	5,124,075
	$ 5,998,068
Net VRS liability (asset):	
VRS – nonprofessionals	$ (177,996)
VRS Teacher cost sharing plan	48,745,000
	$ 48,567,004

Note 11. Summary of VRS Pension Plans (Continued)

		Governmental Activities
Deferred inflows of resources:		
Difference between expected and actual experience		
VRS – nonprofessionals	$	156,124
VRS teacher cost sharing plan		3,451,000
Changes in assumptions		
VRS – nonprofessionals		46,469
VRS teacher cost sharing plan		-
Net difference between projected and actual earnings on pension plan investments		
VRS – nonprofessionals		113,139
VRS teacher cost sharing plan		1,771,000
Changes in proportion and related differences – cost sharing plans VRS Teacher cost sharing plan		5,652,000
	$	11,189,732

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

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, 2015. 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:	*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.
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, 2018 Contribution – general employees	$8,733
June 30, 2018 Contribution – teachers	$165,932
June 30, 2017 Contribution – general employees	$9,239
June 30, 2017 Contribution – teachers	$163,369

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

Contributions (Continued)

Teacher Health Insurance Credit Program

Governed by:	*Code of Virginia* 51.1-1401(E) and may be impacted as a result of funding provided to school divisions by the Virginia General Assembly.
Total rate:	1.23% of covered employee compensation.
June 30, 2018 Contribution	$386,288
June 30, 2017 Contribution	$348,030

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

The net OPEB liabilities were measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

General Employees

June 30, 2018 proportionate share of liability	$	145,000
June 30, 2017 proportion		0.00963%
June 30, 2016 proportion		0.00998%
June 30, 2018 expense	$	1,000

Teachers

June 30, 2018 proportionate share of liability	$	2,564,000
June 30, 2017 proportion		0.17032%
June 30, 2016 proportion		0.17608%
June 30, 2018 expense	$	13,000

Teacher Health Insurance Credit Program

June 30, 2018 proportionate share of liability	$	5,040,000
June 30, 2017 proportion		0.39729%
June 30, 2016 proportion		0.41421%
June 30, 2018 expense	$	382,000

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)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 4,000
Change in assumptions	-	7,000
Net difference between projected and actual earnings on OPEB plan investments	-	5,000
Changes in proportion	-	5,000
Employer contributions subsequent to the measurement date	8,733	-
Total	$ 8,733	$ 21,000

Group Life Insurance Program – Teachers

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 57,000
Change in assumptions	-	132,000
Net difference between projected and actual earnings on OPEB plan investments	-	96,000
Changes in proportion	-	85,000
Employer contributions subsequent to the measurement date	165,932	-
Total	$ 165,932	$ 370,000

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	52,000
Net difference between projected and actual earnings on OPEB plan investments	-	9,000
Changes in proportion	-	187,000
Employer contributions subsequent to the measurement date	386,288	-
Total	$ 386,288	$ 248,000

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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Increase (Reduction) to OPEB Expense		
Year Ending June 30,	Group Life Insurance Program – General Employees	Group Life Insurance Program – Teachers	Teacher Health Insurance Credit Program
2019	$ (4,000)	$ (75,000)	$ (38,000)
2020	(4,000)	(75,000)	(38,000)
2021	(4,000)	(75,000)	(38,000)
2022	(4,000)	(75,000)	(38,000)
2023	(3,000)	(51,000)	(36,000)
Thereafter	(2,000)	(19,000)	(60,000)

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, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

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. The mortality rates are discussed in detail at Note 9.

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

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, 2017, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program	Teacher Employee HIC OPEB Plan
Total OPEB Liability	$ 2,942,426	$ 1,364,702
Plan fiduciary net position	1,437,586	96,091
Employers' net OPEB liability (asset)	1,504,840	1,268,611
Plan fiduciary net position as a percentage of total OPEB liability	48.86%	7.04%

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.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS investments was determined using a log-normal distribution analysis as described in Note 9.

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.

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

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability – general employees	$ 188,000	$ 145,000	$ 111,000
GLI Net OPEB liability – teachers	3,316,000	2,564,000	1,954,000
Teacher HIC Net OPEB liability	5,625,000	5,040,000	4,542,000

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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, 2018, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

• Group Life Insurance – general employees	$ 2,183
• Group Life Insurance – teachers	11,114
• Teacher Employee Health Insurance Credit	10,461

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

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

	Governmental Activities
Deferred outflows of resources:	
OPEB contributions subsequent to measurement date	
GLI – general employees	$ 8,733
GLI – teachers	165,932
HIC – teachers	386,288
	$ 560,953
Net OPEB liability:	
GLI – general employees	$ 145,000
GLI – teachers	2,564,000
HIC – teachers	5,040,000
	$ 7,749,000
Deferred inflows of resources:	
Difference between expected and actual experience	
GLI – general employees	$ 4,000
GLI – teachers	57,000
HIC – teachers	-
Changes in assumptions	
GLI – general employees	7,000
GLI – teachers	132,000
HIC – teachers	52,000
Net difference between projected and actual earnings on OPEB plan investments:	
GLI – general employees	5,000
GLI – teachers	96,000
HIC – teachers	9,000
Changes in proportion and related differences – cost sharing plans	
GLI – general employees	5,000
GLI – teachers	85,000
HIC – teachers	187,000
	$ 639,000

(Continued)

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 $1,525,402 at June 30, 2018 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.

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	$ 156,222	$ 122	$ -	$ -	$ -
Inventories	-	-	-	53,025	-
Restricted:					
Unspent lease purchase proceeds	-	-	-	-	611,482
Educational scholarships	-	125,377	-	-	-
Assigned:					
Instructional services:					
General instruction	141,708	-	3,099,219	-	-
Support services:					
Administration, attendance, and health	609,017	-	-	-	-
Pupil transportation	9,381	-	-	-	-
Operations and maintenance	13,701	-	-	-	-
Operation of noninstructional services:					
Technology	236	-	-	-	-
Facilities	516	-	-	-	-
Cafeteria	-	-	-	1,567,832	-
Unassigned	-	(74,602)	-	-	-
Total fund balances	$ 930,781	$ 50,897	$ 3,099,219	$ 1,620,857	$ 611,482

(Continued)

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. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

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. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

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 the reporting for a majority equity interest in a legally separate organization.

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.

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

(Continued)

Note 18. Adoption of New Standard and Prior Period Restatement

In the current year the Schools adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 75:

	Governmental Activities
Net position July 1, 2017, as previously reported	$ (45,169,985)
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75	(7,989,362)
Net position July 1, 2017, as restated	$ (53,159,347)

REQUIRED
SUPPLEMENTARY INFORMATION

EXHIBIT 8

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS – NONPROFESSIONAL EMPLOYEES
June 30, 2018

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

EXHIBIT 9

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
NONPROFESSIONAL EMPLOYEES
June 30, 2018

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

EXHIBIT 10

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY – VRS TEACHER RETIREMENT PLAN
June 30, 2018

School Division Fiscal Year Ended June 30,	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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, 2018

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

EXHIBIT 12

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2018

Entity Fiscal Year Ended June 30,	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Health Insurance Credit – Teachers					
2018	0.4000 %	$ 5,040,000	$ 31,339,331	16.08 %	7.04 %
Virginia Retirement System – Group Life Insurance – General Employees					
2018	0.0096	145,000	1,763,226	8.22	48.86
Virginia Retirement System – Group Life Insurance – Teachers					
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.

EXHIBIT 13

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System – Health Insurance Credit – Teachers					
2018	$ 386,288	$ 386,288	$ -	$ 31,410,746	1.23 %
Virginia Retirement System – Group Life Insurance – General Employees					
2018	8,733	8,733	-	1,927,099	0.45
Virginia Retirement System – Group Life Insurance – Teachers					
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.

Note 1. Changes of Benefit Terms

<u>Pension</u>

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

<u>Other Postemployment Benefits (OPEB)</u>

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 ending 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

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

(Continued)

Note 2. Changes of Assumptions (Continued)

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

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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, 2018, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements, and have issued our report thereon dated November 28, 2018.

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.**

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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 28, 2018

DANVILLE PUBLIC SCHOOLS

SUMMARY OF COMPLIANCE MATTERS
June 30, 2018

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