

DANVILLE

VIRGINIA

CITY GOVERNMENT

COMPREHENSIVE

ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR
JULY 1, 2011 TO JUNE 30, 2012

CITY OF DANVILLE, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2012

Prepared by:

The Department of Finance
City of Danville, Virginia



**City of Danville, Virginia
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012**

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CITY OF DANVILLE, VIRGINIA

Introductory Section

For the Year Ended June 30, 2012



City of Danville Virginia

November 30, 2012

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

State law requires all local governments to file, annually with the Auditor of Public Accounts, a detailed statement prepared according to the Auditor's specifications showing the amount of revenues, expenditures, and fund balances of the locality for the preceding fiscal year, accompanied by the locality's audited financial report. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Danville, Virginia for the fiscal year ended June 30, 2012.

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

Dixon Hughes Goodman LLP, licensed certified public accountants, has audited the City of Danville's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. Tests were made of the City's internal control structure and of its compliance with applicable laws and regulations. The audit of the financial statements of the City of Danville for the fiscal year ended June 30, 2012, disclosed no material internal control weaknesses or material violations of laws and regulations.

The City of Danville is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996, U. S. Office of Management and Budget's Circular A-133, and the specifications of *Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned cost are included in the single audit section of this report.

Governmental Accounting Standards Board Statement No. 34 requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The purpose of the transmittal letter is to complement the MD&A and should be read in conjunction with it. The City's MD&A starts on page 26 of this report.

Profile of the Government

The City of Danville was founded in 1793, chartered in 1830, and is located on the Dan River in the southern part of the state. The City covers an area of approximately 44 square miles and has a population of approximately 43,332.

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

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

The City of Danville's annual budget serves as the foundation for financial planning and control. The object of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Departments are required to submit requests for appropriations to the Budget Director by mid-January of each year. The Budget Director uses these requests as a starting point for developing a work budget. The Budget Director and Finance Director then present this work budget to the City Manager. Once the City Manager approves the work budget, he presents his recommended budget to the City Council by April 1 for review and deliberation. After City Council's approval, an introduction budget is prepared and presented to them by May 1. The introduction budget contains all changes and amendments made by the City Council during its budget review. It is the introduction budget that is submitted for public hearing. City Council is required to adopt a final budget by June 30 each year.

Activities of the General Fund are included in the annual appropriations budget. Project-length budgets are adopted for management control for the Enterprise and Internal Service Funds. The City Manager has the authority to transfer appropriations within funds. Inter-

fund transfers and appropriations from fund balance/net assets require City Council approval. The General Fund is the only governmental fund that has a legally adopted budget; therefore, a budget-to-actual comparison is provided.

Local Economy

Danville's economy showed positive signs of improvement during FY 2012. Since the last annual report, there have been eight announcements, creating 560 jobs and capital investments of \$22.5 million:

Date	Company	Sector	Type	Jobs	Investment
August 2011	GSO Aviation	Repair and overhaul of electro-mechanical and hydraulic aircraft components	New	15	\$1 million
October 2011	Engineered BioPharmaceuticals, Inc.	Develops dry-powder pharmaceuticals for vaccines	New	100	-
April 2012	Jarrett Welding and Machine Inc.	Custom wrought iron and design-build structural steel	Exp.	11	-
April 2012	Virdia	Cellulosic sugars and lignin for use in the renewable chemicals, bio-energy, and nutrition industries	New	34	\$10 million
May 2012	Web Parts LLC	Computer programming, applications, and data center operation	New	260	\$10 million
May 2012	Hybrid Vehicles	Manufacturer of hybrid vehicle solutions	New	150	\$1.5 million
		TOTAL		560	\$22.5 million

GSO Aviation officially opened the doors to its new aircraft parts repair facility in Airside Industrial Park. GSO Aviation is a Federal Aviation Administration certified company specializing in the repair and servicing of hydraulic components used on aircrafts. This company plans to bring fifteen new jobs to Danville.

In October 2011, The Office of Economic Development formally announced the location of Engineered BioPharmaceuticals Inc. (EBI) in the Dan River Business Development Center. EBI is a state-of-the-art pharmaceutical processing company embarking on a novel method of converting solutions of vaccines and therapeutic drugs into dry powder that will offer significant cost savings to the public.

Virdia, a California-based company that develops cellulosic sugars for chemicals and biofuels, will open a technology center and demonstration facility on the campus of Danville's Institute for Advanced Learning and Research. Virdia's facility in Danville will be

established with the hiring of 34 employees. The company expects to hire as many as 50 individuals as it fully develops its local operation.

In May 2012, Web Parts LLC relocated its computer programming, applications, and data center operation to Danville from Guatemala. Web Parts LLC enhances and promotes the use of Open Source Software allowing delivery of superior software products and services at substantial savings to businesses and consumers. The company will start with 10 positions, but projects 260 new jobs within three years. The overall average annual wage of the jobs will be \$65,000. In the same month, Hybrid Vehicles of Danville, Inc., located in the former Wickes Lumber building just off Business 29 in West Danville, announced it will build and retrofit vehicles in Danville. This will result in the creation of 150 jobs within three years with plans to invest \$1.5 million.

To provide an update on the progress of some of the projects from last year, the following table shows some announcements included in the FY 2011 report.

Date	Company	Sector	Type	Jobs	Investment
October 2010	US Green Energy	Manufactures photovoltaic building materials	New	372	\$30 million
March 2011	CBN Secure Technologies	High-tech printing, security safeguards for VA driver's licenses	Exp.	25	\$1.1 million
May 2011	EIT	Full service electronic design and manufacturing firm	Exp.	50	\$5 million
June 2011	Noblis – Center for Applied High Performance Computing	High performance computing (Cray XMT supercomputer)	New	15	\$2.5 million
August 2011	GSO Aviation	Repair and overhaul of electro-mechanical and hydraulic aircraft components	New	15	\$1 million
		TOTALS		477	\$39.6 million

In February 2012, leaders from Noblis and Cray Inc. were joined by City, State, and Federal officials for a ribbon cutting at the new Center for Applied High Performance Computing. This innovative center is located in a former tobacco warehouse in the heart of the River District and is home to the Cray XMT2 Supercomputer – the first supercomputer located outside a federal lab or university.

Averett University opened its Riverview Campus in August 2012, at the former DIMON Headquarters. The Riverview Campus is now home to the university's newly instituted School of Nursing as part of the health science initiative. Averett has partnered with several community organizations. Hundreds of people in Danville helped to get the Riverview Campus completed. Offices for the Danville Regional Foundation are also housed in this building along the cobblestones of Bridge Street.

U.S. Green Energy (USGE) recently completed its Cane Creek facility and is producing solar products, especially for the military. USGE has hired 16 people, and is set to hire an additional 200 people in 2013. CBN Secure Technology has put in place its laminate machine for the expansion and hired the 25 employees as advertised. EIT completed its facility in May 2012, and have since hired 20 additional people.

The City continues progress in the River District with the removal of the Downtowner Motor Inn and the Main Streetscape in phase one. Danville's success in redeveloping the River District as a place to live, work, and shop has earned the City an award from Southern Economic Development Council (SEDC). The City was honored for best practices in competition with other communities with a population of 40,001 to 100,000. The River District continues to add new businesses and improvements, including two more residential buildings in 2013 in the Pemberton and Smith Seeds buildings.

The City is also focusing efforts of revitalizing Historic Downtown and Tobacco Warehouse Districts, now rebranded as the River District. The City has seen a lot of growth in this area. Since December 2010, there have been many announcements in this area. The Danville Industrial Development Authority (IDA) is playing a major role in the development of this historic district by purchasing and renovating buildings in efforts to attract more businesses to the area.

The Institute for Advanced Learning & Research (IALR) officially opened in June 2004. The IALR represents a regional collaboration of the City of Danville, Pittsylvania County, The Future of the Piedmont Foundation, Averett University, Danville Community College, and Virginia Tech. The IALR serves as a catalyst for economic and community transformation through developing the technologies, human infrastructures, and capital necessary to participate in the innovation economy. Virginia Tech is committed to developing a handful of key research areas. The IALR also houses the Piedmont Governor's School for Mathematics, Science, and Technology.

IALR, along with Virginia Tech, was selected as the first national award winner of the Peter McGrath/W.K. Kellogg Foundation Engagement Award awarded by the National Association of State Universities and Land-Grant Colleges (NASULGC). Established in 2006, the McGrath Award recognizes the outreach and engagement partnerships of four-year public universities. The award program seeks to identify colleges and universities that have redesigned their teaching, research, extension, and service functions to become even more sympathetically and productively involved with their communities. The award is named for C. Peter McGrath, who served as president of National Association of State Universities and Land-Grant Colleges from 1992-2005. This award provides compelling validation that IALR and Virginia Tech have developed an innovative and powerful integrated model of a university/community partnership to promote the economic development of a region.

Long-term Financial Planning

The City prepares a five-year Capital Improvements Plan (CIP), with the first year funding appropriated and the remaining four years for planning purposes only. Project appropriations for the coming year include: General Fund Capital Improvements of \$9,890,000; Sewer and Wastewater Capital Improvements of \$2,000,000; Water and Gas Capital Improvements of \$3,325,500; and Electric and Telecom Capital Improvements of \$8,163,150. A pay-as-you-go philosophy has been in effect since FY 2002 for all funds other than Electric, with the exception of bonds issues in FY 2010 for construction of a new Fire Station Headquarters.

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

Also part of the Cyber Park is CBN Secure Technologies, Inc.; Electronic Instrumentation and Technology, LLC (EIT); and NextGen Aeronautics. CBN opened its high-security production facility in early 2009. This new facility produces driver's licenses and identification cards, under the new regulations, for the Virginia Department of Motor Vehicles. CBN announced an expansion in March 2011 to include 25 new jobs and an investment of \$1.1 million.

The AVRC building was constructed in 2009 for a small company called the Advanced Vehicle Research Center (AVRC) to relocate from Raleigh. The company operated as a research and design center for converting hybrid vehicles to plug-in hybrid electric vehicles until it closed due to unforeseen circumstances in 2012. NextGen Aeronautics, a California-headquartered company that is conducting research and development on a solar powered satellite system, is presently located in the AVRC building and employs six people.

A groundbreaking was held at the IALR in October, 2010, for a new research and development facility, the Sustainable Energy Technology Center (SEnTeC). SEnTeC will include approximately 25,000 square feet of research facilities and will develop enhanced bio-based fuels, among other research and development projects. EIT opened its second facility in Danville and first in the Cyber Park with the construction of a 60,000-square-foot facility, which was completed in May 2012. This expansion resulted in the creation of 50 new jobs and a capital investment of \$5 million. EIT provides printed circuit boards for military, information technology, and electrical contractors.

RIFA began developing a 1,000-acre industrial park in 2005, now called Cane Creek Centre (formerly Danville/Pittsylvania County Regional Industrial Park). Yorktowne Cabinetry (now Elkay) became the first company to locate in Cane Creek Centre, investing \$19 million and creating nearly 250 jobs, thus far, in its 240,000-square-foot facility. Elkay is a manufacturer of semi-custom cabinets. Elkay's first cabinet manufactured at the Cane Creek facility came off the line on March 14, 2006. In October 2006, Swedwood North

America announced it would invest \$281 million to locate its first U. S. manufacturing facility in Cane Creek Centre.

Swedwood North America is a furniture manufacturer and a subdivision of the IKEA Group. The company plans to create 740 new jobs over the next ten years with a nearly one-million-square-foot facility. Swedwood began manufacturing in early 2008. Currently, Swedwood has 380 employees and has made a capital investment close to \$100 million.

In June 2010, a groundbreaking ceremony was held for a new project in Cane Creek Centre to develop two building sites, a 33-acre lot with a 15-acre graded pad and a 64-acre lot with a 36-acre graded pad. The U.S. Economic Development Administration provided a \$1,800,000 net grant to grade both sites. This project will allow potential employers to begin operations with less transition time and costs and is expected to create between 500 to 800 jobs and an investment between \$27 and \$45 million. The site grading was completed in June 2012, and the sites are being actively marketed to clients.

In October 2010, United States Green Energy Corporation announced it will locate its headquarters and manufacturing operation in Cane Creek Centre, creating 372 jobs within three years of the start of operations and making a capital investment of \$30 million. USGE manufactures solar building materials, such as roofing and siding materials that offer the advantage of being as attractive as traditional building products. USGE's building was completed in October 2012, and the company is actively producing product, especially for the military. The company employs 16 people with plans to hire another 200 in 2013, since the company is receiving an infusion of capital to jumpstart the project.

In September 2012, GOK International, a Chinese furniture assembler, announced it will locate its assembly and showroom operations at the 40,000-square-foot Cane Creek shell building. The company committed to create 300 jobs within three years of the start of operations and will make a capital investment of \$12.5 million.

Another collaborative effort of RIFA has been the creation of the Berry Hill Mega Park located west of Danville in the Berry Hill community of Pittsylvania County. RIFA sees this mega-site project as the next stage in its economic development efforts to transform the region and its work force. The Mega Site has approximately 3,500 acres, and is the largest site in Virginia and fifth largest on the East Coast. RIFA is working in concert with Eden and Rockingham, North Carolina, to extend the sewer line to the state border where the City will continue this line to the site. In recent history, Eden lost a lot of textile operations and has an oversupply of sewer capacity that would be best served by cooperating on the Mega Site, since a proportion of workers may come from North Carolina to work at the future plants. This arrangement is a true partnership between localities in two states that are choosing to ignore politically-drawn lines. RIFA is in the process of working with engineers to submit an application to grade approximately 400 acres on two sites, so clients can be shown "shovel ready" sites. The City anticipates it will take one to two years to obtain the necessary permits from federal and state regulatory agencies before grading can begin. Based on this time schedule, the Mega Site is expected to be certified in two years. Even though this project is in its early stages, RIFA has already seen some interest from companies wanting to invest at the mega site.

FY 2012 proved to be an exciting and transformational year in the River District. The momentum in this district continues to be seen as mixed-use development, along with high technology firms and small businesses, grows in this area. The redevelopment efforts began in FY 2011 when City officials and representatives from the Danville Regional Foundation (DRF) visited Greenville, South Carolina, and observed how Greenville transformed its city core by focusing on its biggest asset – the river. The group learned, in order to transform downtown Danville, an initial effort should be made to revitalize the downtown core and then work outward.

Soon after this trip, the DRF provided a grant to the City for \$75,000 to hire a national urban design firm to develop a master plan that would be used as the basis for redefining the new River District and revitalizing the area. The City issued RFPs and collected 22 responses from across the country. Six firms were interviewed with three finalists making a presentation to a selected group of stakeholders.

BBP, a Maryland firm, in partnership with Allison Platt and Associates, was selected from the group of finalists. This group held several community forums, interviews, and workshops to gather a variety of ideas about how the River District should be redeveloped. With this data, a final document was created which included site plans, renderings, tools, strategies, funding opportunities, programs, and development opportunities throughout the River District. The focus of the plan was to concentrate on good urban design, the historic character of the district, pedestrian friendliness, vehicular access, development opportunities, and public spaces. Some projects suggested in the plan can be implemented quickly, while some may take up to 10 years to realize.

Now in the second year of this development project, the City is in the process of developing design guidelines for the look and feel of the district. The Design Guidelines list appropriate materials, outline procedures, and explain what types of architectural elements are expected for the district's existing buildings and new construction. To guide this project, the City has hired urban design architect Allison Platt of Goldsboro, North Carolina. The guidelines are anticipated to go into effect towards the beginning of 2013.

In addition, the first phase of the Main Street Streetscape Improvement Plan along portions of Main Street and Union Street is under construction. The first phase focuses on Main Street from Memorial Drive and Craghead Street to Floyd Street and on North Union Street from Main Street to Spring Street. Funds are being used to widen existing sidewalks, install brick pavers, create more visible and safer pedestrian crossings, and provide amenities such as outdoor café space, trees, benches, and new lighting. The primary goals are enhancing the character of those blocks and facilitating business there.

The second phase of streetscape improvements is currently under design. Land Planning & Design Associates, a landscape architecture and planning company, is guiding the project. Final designs are expected to be presented in November to City Council for its approval.

Another major project in FY 2012 was the purchase and demolition of the former Downtowner Motor Inn by the IDA. Built in 1963, this hotel was once a thriving anchor to Historic Downtown Danville. Since its closing in the 1980s, this structure has changed owners several times and has never reopened for business. After the last owner's attempt to create student housing in this facility (without the proper funding or architectural help),

the City knew it had to find a way to purchase and demolish this eyesore. The Danville Regional Foundation provided funding for this project. Currently, a strategy is being formulated for the redevelopment of this property.

Renewed interest and investment in the River District has been a catalyst for job creation and capital investment, which are important indicators of the health and vibrancy of a district. The following River District announcements were made in FY 2012:

- Meredith Gravely School of Dance opened its second location at 411 Main Street. This new location allows for improved teaching hours and additional classes such as Adult Jazz, Zumba, Skills Classes for the more advanced dancer, and weekday Hip Hop Classes.
- The Danvillian Gallery opened the doors to its new home located at 210 North Union Street. This gallery features monthly showings of local, regional, and international visual artists and will also offer art classes.
- Web Parts LLC relocated its computer programming, applications, and data center operation to Danville from Guatemala and will invest \$10 million. Web Parts LLC enhances and promotes the use of Open Source Software allowing delivery of superior software products and services at substantial savings to businesses and consumers. The company will start with 10 positions, but projects to provide 260 new jobs within three years with an overall average wage of \$65,000.
- Melissa Charles opened the Union Street Theatre in the River District. This black box theatre is a venue for performing arts and special events with a focus on family entertainment. The Union Street Theatre is located at 107 South Union Street.
- Our Common Ground, LLC, a company owned by Danvillian Barry Koplen and former Danvillian Sarah Lee Michaels, purchased the Franklin Discount Company building, located at 212 North Union Street. This company has renovated the retail space into 7,056 square feet of office spaces that will be available for the general public to lease. The building features 14 offices, shared meeting space, a conference room, reception area, and more.
- The City of Danville won the 2012 Community Economic Development Award for communities with a population of 40,001 to 100,000. The award, given by the Virginia Economic Developers Association, recognizes outstanding communities in the Commonwealth for their efforts in advancing the economic viability of their community through economic and community development. The City of Danville's Office of Economic Development submitted the winning application, focusing on the River District revitalization effort and its impact on community development, business attractions, and community involvement.
- Japan Tobacco International made a \$400,000 grant to the City of Danville to be used to design and build a fountain that will serve as the focal point for the entrance to the Tobacco Warehouse District. This very visible feature, at the intersection of the Downtown District and the Tobacco Warehouse District, will

highlight the renovated area along the Dan River that is the lynch pin of the River District.

- Adam and Lauren Jones opened The Brick, a running and athletic shoe store, in the former Frances Kahn building located at 410-A Main Street. This store carries over 70 styles of shoes catering to wide variety groups—from walkers to joggers to Marathon runners. This company received a \$20,000 Downtown Enhancement Grant from the City of Danville.
- The YMCA started construction on its new \$13.5 million facility in the River District. The new 46,269-square-foot facility will be located on the former Long Mill property, along the Riverwalk Trail. This expansion will give each of the Y's programs 30% more space. In addition to this, the Danville Regional Medical Center will also have a 2,500-square-foot space that will offer physical therapy and cardiac rehabilitation programs.

One of the goals of the master plan is to continue to create a critical mass of people living and working in the River District. Currently, there are 173 residential units in the River District. A brief overview is offered below:

- The Burton – a \$4 million adaptive-reuse project transforming the former Davis Warehouse #6 into 28 market-rate condominiums with 12 unique designs. To date, the project boasts a 100% occupancy rate.
- Lindsay Lofts – a \$5 million mixed-use project featuring 21 market-rate lofts with a commercial component on the ground floor. All residential units have been leased or sold and only one commercial space remains vacant.
- Lynn Street Lofts – a \$6.2 million mixed-use project transforming a former warehouse into 37 working-family loft apartments was completed in the spring of 2008. Currently 28 of 37 units are occupied.
- Crossing Apartments – a \$9.5 million mixed-age/mixed-income project that features 74 units and has been at 100% occupancy since its completion in 2006. This is an adaptive-reuse project turning a former cigar factory into a residential project.
- Ferrell Historic Lofts – a mixed-use development featuring 13 market-rate apartments and 5,000 square feet of commercial space was completed in January 2012. This \$1 million project turned a blighted building, located in the heart of the River District, into a showcase that will act as a catalyst for further redevelopment efforts. All of the residential units are full and one of two commercial spaces is occupied.

There are two other residential projects that are in the process of being development that will add an additional 121 residential units to the district:

- Smith Seeds – an adaptive-reuse project turning a former seed and supply building into 20 market-rate residential units, in addition to commercial space on the lower level. This project will be completed by the beginning of spring in 2013.

- Pemberton Lofts – a mixed-use project turning a former tobacco warehouse into 101 market-rate residential units and two restaurant spaces.

One of the past challenges has been absentee ownership for key buildings in the district. The IDA realized the importance of gaining control over strategic buildings and has purchased several buildings in the River District. The IDA intends to purchase, redevelop, and enter into a lease or lease/purchase agreement with an attractive end user. The IDA has made the following purchases in their effort to become a major stakeholder in the redevelopment of the River District:

- 231 Main Street – Lou’s Antiques
- 322 – 328 Main Street – former Wise-Hundley building
- 525 Lynn Street – former Durham Hosiery building
- 321 Craghead Street – Acres Warehouse (which will be converted into a parking complex for a medical project that was announced in FY 2013)
- 512 Bridge Street – former DIMON Headquarters building
- 527 Bridge Street – Old Belt No.1 (this building now houses the Center for Applied High Performance Computing, AxNano, LiFeBATT, and GOK International)
- Corner of Main Street and South Union Street – Masonic Building Parking Lot
- 527 – 529 Main Street
- 310 – 312 Main Street – (this now houses Vintages by the Dan – a gourmet food, wine, and beer store)
- 500 Main Street – former Downtowner Motor Inn (now demolished)
- 415 Main Street
- 104 Colquhoun Street – (now demolished)
- 410 Main Street – former Frances Kahn building (now home to The Brick Running Store)
- 554 Craghead Street – former Piedmont Hardware

In terms of incentives, there are several opportunities for Local, State, and Federal assistance. These incentives play a major role in the recruitment of new projects to the districts. Incentives include:

- Real Estate Tax Abatement Program – A local incentive where the real estate exemption shall be equal to the increase in assessed value, resulting from rehabilitation and shall be for a period of up to 5 years for commercial buildings and 15 years for residential buildings.
- VA Enterprise Zone Program – A Commonwealth of Virginia program that provides grants for job creation and building improvements.
- Local Enterprise Zone Program – A local program used to complement and enhance the State's program. Incentives include: exemption from permit fees, job grants, Industrial Investment Grant, a cash grant of up to \$5,000 to the qualifying company to help offset tap fees, and rebates on business license fees.
- State and Federal Historic Rehabilitation Tax Credits – Tax credits for improvements made to historic structures.
- SBA Hubzone – An initiative through the Small Business Administration to promote job growth, capital investment, and economic development to historically underutilized business zones, referred to as Hubzones, by providing contracting assistance to small businesses located in these economically distressed communities.
- New Markets Tax Credits – special tax credits available for business ventures which are choosing to locate within the City's River District.
- RBEG loan – a low-interest loan provided to small businesses at 4% for 3-5 years. This program is administered by the IDA.
- Downtown Enhancement Grant – grants given to businesses to locate within the River District. Applicants must sign a Performance Agreement.

The Utilities Department conducted its biennial rate study for the City's water, wastewater, gas, and electric utilities during 2011. The study recommended no base rate adjustments be made for the study period, which included 2012, because existing rates are generally projected to be adequate to cover the revenue requirements over the study period.

The Electric Division continues to collaborate with our rate consultant and advisors with American Municipal Power, Inc. to build a portfolio of short-term block purchases at below-market prices and participation in generation projects coupled with direct-market purchases to enable us to stabilize electric rates in the future. During 2012, the Electric Division invested in technology to better serve our customer base and monitor our system and assets. The Utilities operations purchased a new Interactive Voice Response System to handle customer calls in high call volume periods, upgraded the Supervisory Control and Data Acquisition system to improve system monitoring, and upgraded the Outage Management System (OMS) to allow the power loss and power restore information from the automated meter information system to flow automatically into the OMS to identify

power outages almost instantly. In addition, the Utilities Department has invested in an intrusion detection system coupled with a high definition camera system to assist in combating the increased number of copper thefts around the system.

In 2007, Danville Utilities entered into a 20-year prepaid natural gas contract with MuniGas that has provided a discount on our wholesale gas purchases. This discount produced a cost savings of over \$890,000 in 2012, which was passed on to customers.

The Water & Gas Division personnel installed new gas mains on all or portions of Kemper Road, Hughes Street, West Hampton Avenue, Edmonds Street, Reed Street, Boswell Street, Lanier Avenue, and Gay Street. Personnel also installed water mains on Virginia Avenue, Carolina Avenue, Gay Street, and Claiborne Street. Phase 11 of the Gas Pipeline Replacement Program was completed by outside contractors under the guidance of Water & Gas Engineering and engineering for Phase 12 was also completed.

At the Northside Wastewater Treatment Plant, the construction of the Phase I Improvements as set forth in preliminary engineering reports is almost complete. There are only two remaining items to be addressed: adjustment of three of the security cameras and repair of the third blower. The conversion from the use of pure oxygen to ambient air has already been completed and all pure oxygen equipment has been raised. This conversion should save the City about \$100,000 in electrical power costs each year. In addition to the Phase I Improvements which cost about \$2,400,000, several other tasks have been accomplished: rehabilitation of two of the four final clarifiers (cost of about \$562,000), rebuild of all three influent bar screens, new meters for the waste sludge and return sludge flow lines, SCADA to monitor and control the three blowers, and new influent valves and scum valves for each of the four final clarifiers. In FY 2013, conversion of the dissolved air flotation units to high rate primary clarifiers will be done at a cost of about \$1,400,000.

The Water Treatment Plant has contracted the painting of several of the system tank exteriors. Currently, the staff is working on actions to reduce the high total trihalomethanes (THM) in the system. This may involve aeration or mixing of some of the City system tanks. This will also improve water quality and provide better control of chlorine residuals. Other projects recently completed include the following: improving the SCADA systems, making the filter air backwash system more reliable, and inserting a 24-inch diameter valve in the high service line to Ballou Park while the line was in service.

The nDanville Fiber To The Home (FTTH) project started connecting homes in the Averett community in FY 2012. Residents in this neighborhood now have access to ultra-high speed Internet service at speeds never before seen to residential customers in this region. They are also being offered IP Television and Telephone. The FTTH expansion will continue to use current funds available. The neighborhood expansion will be sized accordingly based on these funds. Utilities plans to continue to use the "pay-as-you-go" concept to be able to expand the fiber network each year.

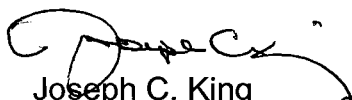
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Danville for its comprehensive annual financial report, for the fiscal year ended June 30, 2011. This was the twenty-sixth consecutive year the City of Danville has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

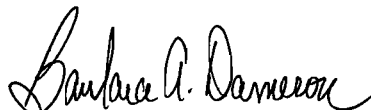
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

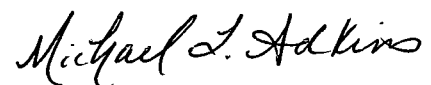
Respectfully submitted,



Joseph C. King
City Manager



Barbara A. Dameron
Director of Finance



Michael L. Adkins
Deputy Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Danville
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

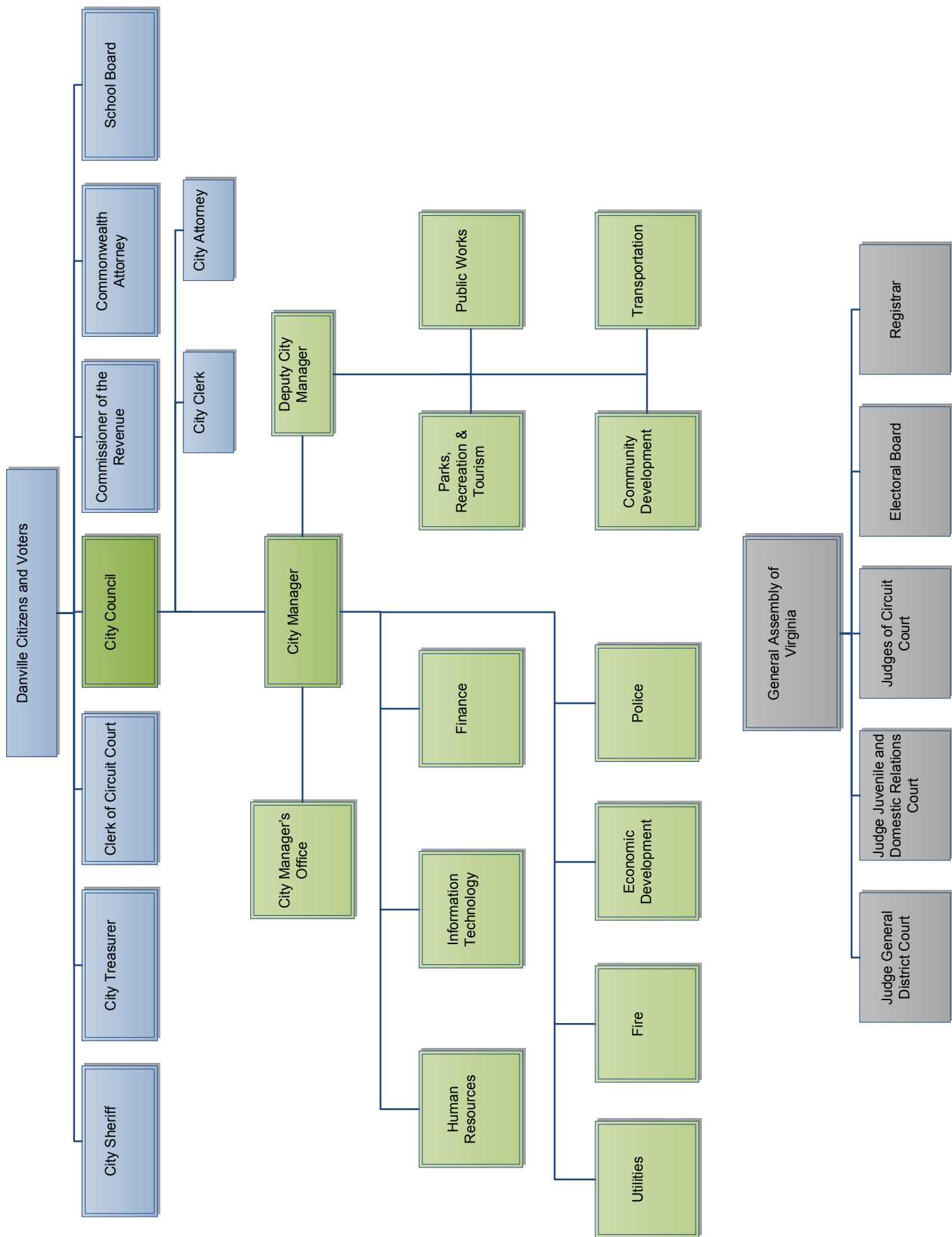


Linda C. Danison

President

Jeffrey R. Enen

Executive Director



CITY OF DANVILLE
OFFICIAL DIRECTORY

CITY COUNCIL

Sherman M. Saunders
Mayor
L.G. “Larry” Campbell, Jr.

Alonzo L. Jones
Albert K. “Buddy” Rawley Jr.
Adam J. Tomer

T. David Luther
Vice Mayor (until June 30, 2012)
John B. Gilstrap
Gary P. Miller, MD
Vice Mayor (effective July 1, 2012)
Fred O. Shanks III
J. Lee Vogler (effective July 1, 2012)

LEGISLATIVE STAFF

W. Clarke Whitfield Jr.
Susan M. DeMasi

City Attorney
City Clerk

ADMINISTRATIVE OFFICIALS

Joseph C. King
David A. Parrish
Cynthia L. Thomasson
Jeremy A. Stratton
Marc D. Adelman
Barbara A. Dameron
Richard I. Drazenovich
Earl B. Reynolds, Jr.
Inez J. Harville
David R. Eagle
Philip A. Broadfoot
Sara B. Weller
William O. Sgrinia
Jim K. Kendrick
Steven G. Saum
2012)

City Manager
Deputy City Manager
Budget Director
Director of Economic Development
Director of Transportation Services
Director of Finance
Director of Public Works
Director of Community Development
Director of Information Technology
Fire Chief
Chief of Police
Director of Human Resources
Director of Parks, Recreation, and Tourism
Director of Utilities (until May 18, 2012)
Director of Utilities (effective October 1,

CONSTITUTIONAL OFFICERS

Michael S. Mondul
Michael J. Newman
Gerald A. Gibson
James M. Gillie
Lynwood L. Barbour

City Sheriff
Commonwealth Attorney
Clerk of Circuit Court
Commissioner of the Revenue
City Treasurer

SCHOOL OFFICIALS

SCHOOL BOARD

George M. Wilson
Chairman

Edward C. Polhamus
Vice Chairman

Malcom W. Huckabee

O. Renee' Hughes

Rebecca L. Bolton

Dr. Philip W. Campbell

Millie Dunston

ADMINISTRATIVE OFFICIALS

Dr. Sue B. Davis

Superintendent

Dr. Kathy J. Osborne

Assistant Superintendent for
Administrative Services

Carrie H. Merricks

Clerk of School Board

Dr. Juliet C. Jennings

Assistant Superintendent for Human
Resource Services

Andrew W. Tyrrell

Assistant Superintendent for
Instruction

EMPLOYEES' RETIREMENT SYSTEM OFFICIALS

BOARD OF TRUSTEES

City Employee Members

David H. Patterson
Vice-Chairman
Captain, Fire Department

D. Joyce Obstler
Assistant Director, Information Technology Department

Sandra M. Stevens
Lieutenant, Police Department

Citizen Members

T. Wayne Oakes
Chairman
Retired, DIMON Incorporated

Lenard D. Lackey, Jr.
Retired, Danville/Pittsylvania Cty Service Bd

Jeffrey V. Haley
President & CEO, American National Bank

EX-OFFICIO MEMBERS

Sherman M. Saunders
Mayor

Joseph C. King
City Manager

Barbara A. Dameron
Director of Finance



CITY OF DANVILLE, VIRGINIA

Financial Section

For the Year Ended June 30, 2012



DIXON HUGHES GOODMAN ^{LLP}
Certified Public Accountants and Advisors

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Danville, Virginia*** as of and for the year ended June 30, 2012, which collectively comprise the ***City of Danville, Virginia's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Danville, Virginia's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Danville, Virginia*** as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, General Fund Schedule of Revenues – Budget and Actual, and General Fund Schedule of Expenditures – Budget and Actual (on Pages 26 - 45 and 100 - 110, respectively) be presented to supplement the basic financial statements on. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Danville, Virginia. The combining and individual non-major

fund financial statements and schedules and other supplementary information, as well as the accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133 and *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and schedules, other supplementary information and the statistical tables, as well as the accompanying Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections of the report are presented for the purposes of additional analysis and are not required parts of the basic financial statements of the **City of Danville, Virginia** on pages 133 to 151. Such additional information, except as described in the preceding paragraph, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Dixon Hughes Goodman LLP

Danville, Virginia
November 29, 2012



CITY OF DANVILLE, VIRGINIA

Management's Discussion and Analysis (MD&A)

Required Supplementary Information
(RSI)

For the Year Ended June 30, 2012

Management's Discussion and Analysis

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

Financial Highlights

Government-wide Financial Statements

- At the close of the fiscal year, the assets of the City exceeded its liabilities by \$420,834,507 (total net assets - government-wide). Of this amount, \$104,231,412 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets of the City's business-type activities as of June 30, 2012 were \$301,740,231, an increase of \$8,001,303 from net assets of \$293,738,928 reported at June 30, 2011. Net assets of \$50,668,344 are reported as unrestricted, a \$1,648,409 increase from unrestricted net assets reported at June 30, 2011.
- As of June 30, 2012, the City's governmental activities for government-wide statements reported net assets of \$119,094,276, an increase of \$9,570,975 over beginning net assets of \$109,523,301. Net assets of \$53,563,068 at June 30, 2012, are reported as unrestricted and available to meet the government's obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$54,166,178, a decrease of \$380,805 in comparison to the fund balance reported at June 30, 2010 of \$54,546,983. Fifty-seven percent of the total fund balance at June 30, 2012, \$30,690,145, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$30,690,145, or thirty-one percent of total fund expenditures.

Fund statements utilize the current financial resource measurement focus and modified accrual basis of accounting, which focuses on transactions and events that affect the financial resources available for current spending during the period and reflect near-term inflows or outflows of cash. Government-wide statements use the economic resource measurement and accrual basis of accounting, which focuses on transactions and events that effect the fund's total economic resources; i.e., increase or decrease in net assets during the period regardless of the timing of the related cash inflows or outflows. Fund statements do not include capital or other long-term assets that are not available to finance current period expenditures nor do they include long-term liabilities that will not use current resources. These items must be added (assets) or deducted (liabilities) to/from the fund balances of governmental funds to obtain the

net assets of the governmental activities for government-wide reporting. In addition, the assets and liabilities of internal service funds are included in the governmental activities in the statement of activities, and the combined governmental fund balances from the fund financial statements must be adjusted accordingly. All of these factors add another \$63,621,814 to the combined balances of governmental funds when converting to net assets of governmental activities. The reconciliation presented on pages 49 and 51 of this report offer summarized details of the conversion from governmental fund statements to government-wide statements for governmental activities.

The combined fund balances of the governmental funds report a total fund balance of \$54,166,178 and an unassigned fund balance of \$30,690,145. Government-wide net assets for governmental activities report total net assets of \$119,094,276 and unrestricted net assets of \$53,563,068. The conversion from the unassigned fund balance to unrestricted net assets can be shown as follows:

Unassigned fund balance (fund statement)	\$ 30,690,145
Deferred revenue for fund statements no longer deferred for government-wide	14,755,921
Internal Service Funds noncapital assets merged into governmental activities for government-wide statements	4,796,282
Workers' compensation, accrued interest, and other compensated absences	(5,412,051)
Encumbrances not restricted externally	4,024,177
Budget stabilization, inventory, OPEB and pension funds, restricted only for fund statements	<u>4,708,594</u>
Unrestricted net assets – per government-wide governmental activities	<u>\$ 53,563,068</u>

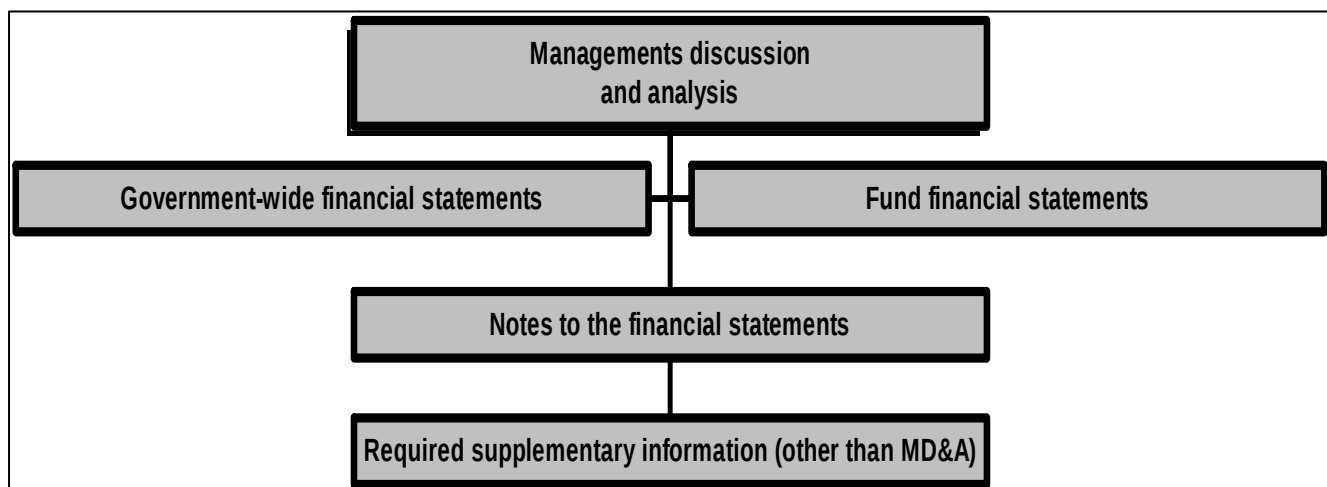
The conversion from fund balance, other than unassigned, to restricted net assets can be shown as follows:

Non-spendable, restricted, committed, and assigned fund balance (fund statement)	\$ 23,476,033
Non-spendable inventory	(201,325)
Group Health funds, assigned for fund statements	(3,357,553)
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(4,024,177)</u>
Restricted net assets - governmental activities	<u>\$ 15,892,978</u>

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

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (a) management's discussion and analysis (MD&A), (b) government-wide financial statements, (c) fund financial statements, and (d) notes to the basic financial statements.



Government-wide Financial Statements

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

The Statement of Net Assets

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

The Statement of Activities

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

In the Statement of Net Assets and the Statement of Activities, the City of Danville is divided into three types of activities:

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

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

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

Fund Financial Statements

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

Governmental Funds

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

The City of Danville maintains five individual governmental funds. Information is presented separately in the Balance Sheet-Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds for the General Fund, the Community Development Fund, and the Capital Projects Fund. These funds are considered major funds. The Special Revenue Fund and the Cemetery Maintenance Fund are considered nonmajor funds. The data for these two funds are combined in a single column for the Balance Sheet-Governmental Fund and the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Fund.

Proprietary Funds

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

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

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

Fiduciary Funds

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

The Employees' Retirement System of the City of Danville functions as an investment and administrative agent for the City's retirement plan. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. Similarly, the Other Postretirement Benefits Fund accounts for investments used to cover the liabilities associated with retiree health insurance benefits. These activities are also excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

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

Notes to the financial statements

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

Government-wide Financial Analysis

City of Danville
Summary Statement of Net Assets
June 30, 2012

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 82,521,478	\$ 82,170,893	\$ 99,337,596	\$ 105,301,501	\$ 181,859,074	\$ 187,472,394
Capital Assets	81,280,466	74,636,176	271,073,116	263,622,239	352,353,582	338,258,415
Total Assets	\$ 163,801,944	\$ 156,807,069	\$ 370,410,712	\$ 368,923,740	\$ 534,212,656	\$ 525,730,809
Long-Term Liabilities Outstanding	\$ 36,617,528	\$ 38,731,579	\$ 56,409,075	\$ 61,633,020	\$ 93,026,603	\$ 100,364,599
Other Liabilities	8,090,140	8,552,189	12,261,406	13,551,792	20,351,546	22,103,981
Total Liabilities	\$ 44,707,668	\$ 47,283,768	\$ 68,670,481	\$ 75,184,812	\$ 113,378,149	\$ 122,468,580
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 49,638,230	\$ 41,235,117	\$ 215,409,229	\$ 205,342,317	\$ 265,047,459	\$ 246,577,434
Restricted for Cemetery Maintenance	2,682,522	2,642,347	-	-	2,682,522	2,642,347
Restricted for Capital Projects	13,154,663	12,422,706	35,662,658	39,376,676	48,817,321	51,799,382
Restricted for Special Programs	55,793	264,537	-	-	55,793	264,537
Unrestricted	53,563,068	52,958,594	50,668,344	49,019,935	104,231,412	101,978,529
Total Net Assets	\$ 119,094,276	\$ 109,523,301	\$ 301,740,231	\$ 293,738,928	\$ 420,834,507	\$ 403,262,229

The City's combined net assets at June 30, 2012 of \$420,834,507, represents an increase of \$17,572,278 from combined net assets at June 30, 2011. Twenty-five percent of total net assets (\$104,231,412) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Sixty-three percent of total net assets is invested in capital assets (land, buildings, machinery, and equipment); less any related outstanding debt used to acquire these assets. These assets are used in providing services to the citizens; consequently, these assets are not available for future spending. Although the City of Danville's investment in capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

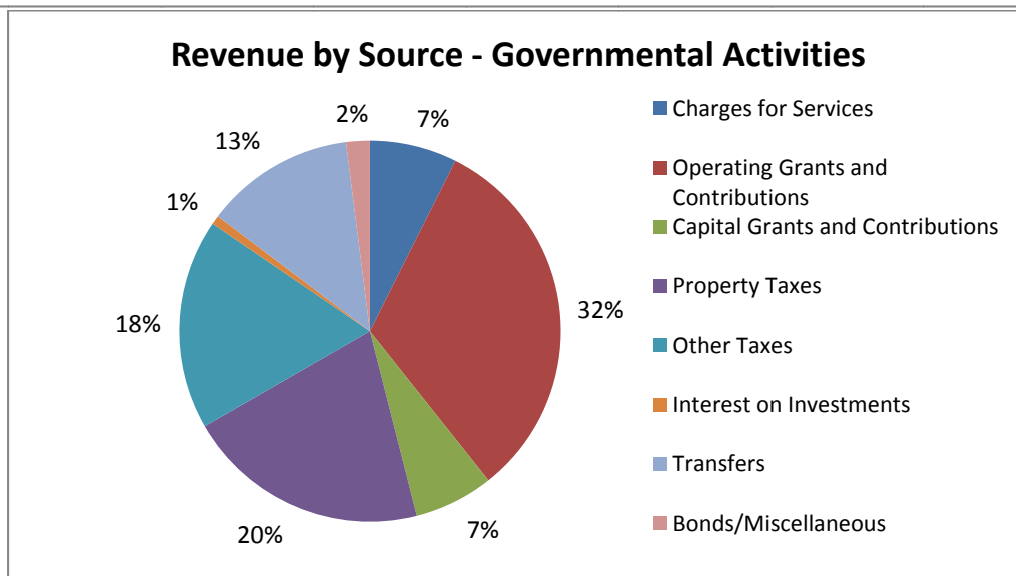
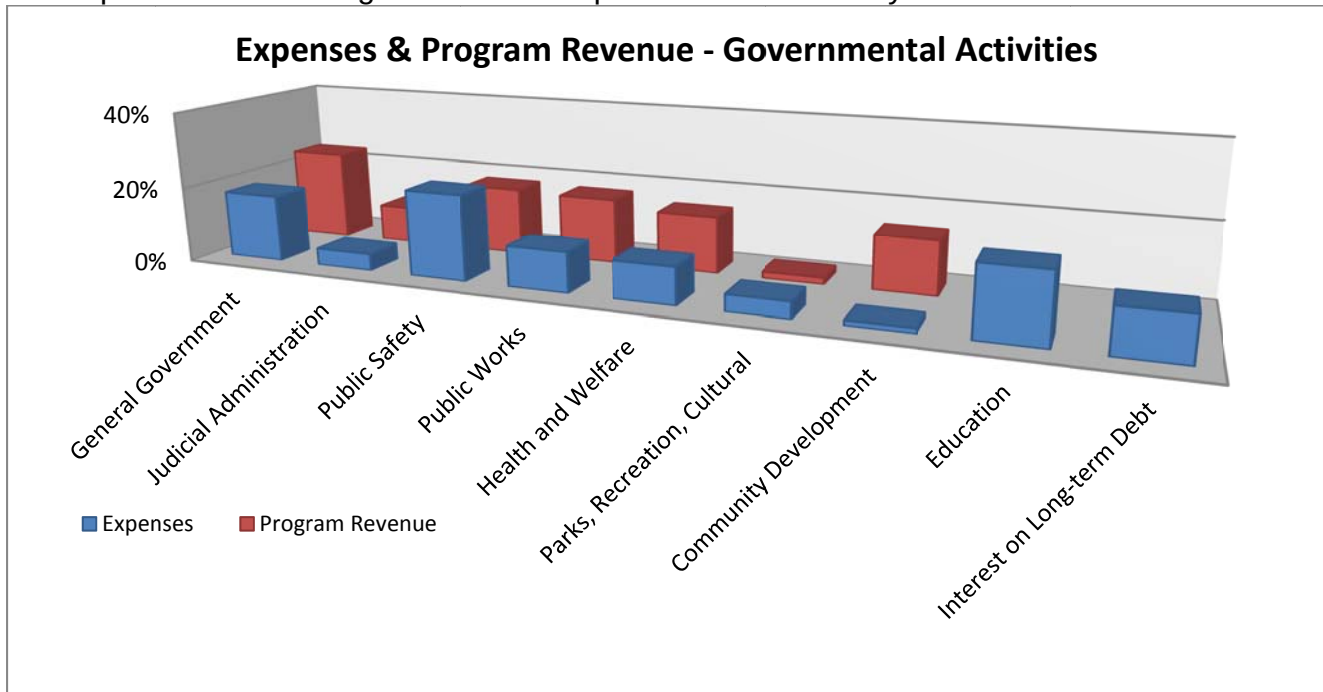
Twelve percent of total net assets is restricted for capital improvement projects. Invested in Capital Assets Net of Related Debt and restricted for Capital Projects combined represent seventy-five percent of total net assets. The remainder, less than one percent of net assets (\$2,738,315), is restricted for other special projects (grants), debt service, net pension assets, and the perpetual care of the municipal cemetery. The composition of fund balance at June 30, 2011 was as follows: Unrestricted net assets - 25%, Invested in Capital Assets net of related debt - 61%, Restricted for Capital Projects - 13% (Invested in Capital Assets and Restricted for Capital Projects combined - 74%), and the remaining 1% was restricted for other purposes. Despite the local economic stresses, the City of Danville reported positive balances in all three categories of net assets for the government as a whole. Unrestricted net assets increased, as well as the net assets restricted for investment in capital assets net of related debt and restricted for capital projects.

City of Danville
Changes in Net Assets
June 30, 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 9,579,315	\$ 7,506,972	\$ 145,643,944	\$ 155,622,527	\$ 155,223,259	\$ 163,129,499
Operating Grants and Contributions	41,329,002	39,799,066	2,085,091	2,101,602	43,414,093	41,900,668
Capital Grants and Contributions	8,702,174	4,654,262	226,283	1,511,920	8,928,457	6,166,182
General Revenues:						
Real Estate and Personal Property	26,720,274	25,869,256	-	-	26,720,274	25,869,256
Other Taxes (See Exhibit B for detail)	23,110,519	22,481,496	-	-	23,110,519	22,481,496
Interest on Investments	986,545	591,487	1,954,386	1,373,048	2,940,931	1,964,535
Bond Proceeds and miscellaneous	2,602,443	11,461,568	1,053,547	446,072	3,655,990	11,907,640
Total Revenues	\$ 113,030,272	\$ 112,364,107	\$ 150,963,251	\$ 161,055,169	\$ 263,993,523	\$ 273,419,276
Expenses:						
General Government	\$ 21,239,721	\$ 11,513,535	\$ -	\$ -	\$ 21,239,721	\$ 11,513,535
Judicial Administration	5,349,323	4,895,286	-	-	5,349,323	4,895,286
Public Safety	27,119,838	27,211,372	-	-	27,119,838	27,211,372
Public Works	12,690,486	10,468,862	-	-	12,690,486	10,468,862
Health and Welfare	11,614,813	12,236,155	-	-	11,614,813	12,236,155
Parks, Recreation, and Culture	5,235,582	6,227,105	-	-	5,235,582	6,227,105
Community Development	1,633,174	3,862,302	-	-	1,633,174	3,862,302
Education (payment to school district)	21,382,291	29,939,742	-	-	21,382,291	29,939,742
Interest on Long Term Debt	13,625,289	12,513,650	-	-	13,625,289	12,513,650
Wastewater	-	-	6,761,973	6,954,269	6,761,973	6,954,269
Water	-	-	5,541,327	5,407,252	5,541,327	5,407,252
Gas	-	-	17,955,882	20,911,099	17,955,882	20,911,099
Electric	-	-	89,185,930	95,215,780	89,185,930	95,215,780
Transportation	-	-	1,799,616	1,542,601	1,799,616	1,542,601
Telecommunication	-	-	901,806	892,711	901,806	892,711
Sanitation	-	-	3,527,317	3,536,253	3,527,317	3,536,253
Cemetery Operations	-	-	856,877	816,264	856,877	816,264
Total Expenses	\$ 119,890,517	\$ 118,868,009	\$ 126,530,728	\$ 135,276,229	\$ 246,421,245	\$ 254,144,238
Subtotal Revenue over Expenses	\$ (6,860,245)	\$ (6,503,902)	\$ 24,432,523	\$ 25,778,940	\$ 17,572,278	\$ 19,275,038
Transfers	16,431,220	13,411,864	(16,431,220)	(13,411,864)	-	-
Increase in Net Assets	9,570,975	6,907,962	8,001,303	12,367,076	17,572,278	19,275,038
Beginning Net Assets	109,523,301	102,615,339	293,738,928	281,371,852	403,262,229	383,987,191
Ending Net Assets	\$ 119,094,276	\$ 109,523,301	\$ 301,740,231	\$ 293,738,928	\$ 420,834,507	\$ 403,262,229

Governmental Activities

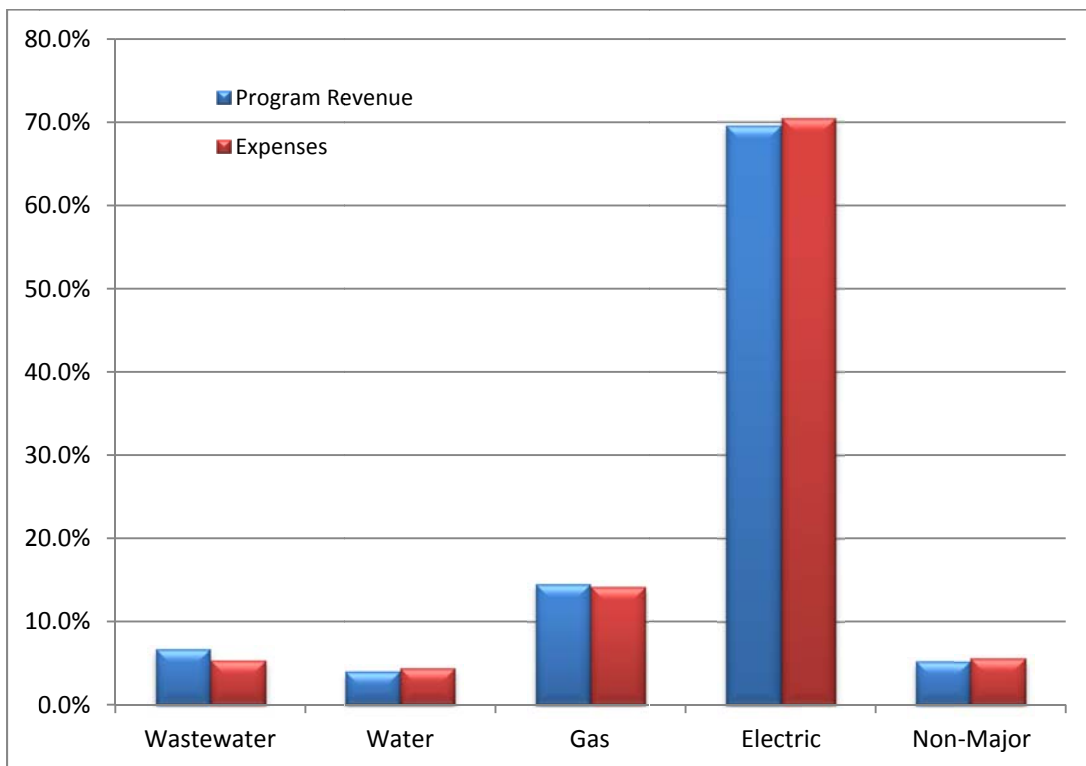
Governmental activities increased the City of Danville's net assets by \$9,570,975. Revenues (including transfers) from governmental activities totaled \$129,461,492, with Property Taxes 21%, Other Taxes 18%, Operating Grants and Contributions 32%, and Transfers 13%, representing 84% of the City's revenues. Expenses for governmental activities totaled \$119,890,517, of which 49% was supported from program revenues and the remaining 51% from general revenues. Expenses for Public Safety 23%, Education 18%, Health & Welfare 10%, General Government 18%, Public Works 11%, and Interest on Long-Term Debt 11% make up 91% of the total governmental expenses for the fiscal year.



Business-type Activities

Business-type activities increased the City's net assets by \$8,001,303 compared to last year's increase in net assets of \$12,367,076. At June 30, 2012, total net assets were \$301,740,231 of which \$35,662,658 was restricted for capital improvement projects and \$50,668,344 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). Revenues for business-type activities were \$150,963,251 of which 96% was from Charges for Services. For further examination of the enterprise funds, please refer to the Enterprise Funds section of the Financial Analysis of the Fund Financial Statements found on page 38.

Expenses and Program Revenue – Business Type Activities



Financial Analysis of the Fund Financial Statements

Governmental Funds

Governmental funds reported a combined ending fund balance of \$54,166,178, a decrease of \$380,805 when compared with the combined fund balance at June 30, 2011 of \$54,546,983. The fund balance in the Capital Projects Fund, also known as Construction In Progress (CIP), increased \$731,957. Of the \$18,914,601 expended in the CIP fund, \$13,998,194 was expended in economic development. Funds of \$728,407 were expended for streets and parking lot improvement and construction. \$3,131,876 was expended for improvements to various public buildings, facilities, and equipment, school expansion, and information technology upgrades, and \$1,056,124 was expended for improvements at the municipal airport.

Fifty-seven percent (\$30,690,145) of the combined governmental funds balance is unassigned fund balance, which is available for spending at the government's discretion. Thirty-eight percent (\$20,592,186) of the combined fund balance is not available for new spending, because it has already been restricted, committed, or assigned to specific future expenditures. The remaining five percent (\$2,883,847) of fund balance is not spendable as it represents inventories (\$201,325) and investments for the perpetual care of the municipal cemetery (\$2,682,522).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2012 of \$37,163,587. This is a decrease of \$908,427 compared to last year's fund balance of \$38,072,014. The General Fund reported an unassigned fund balance of \$30,690,145, an increase of \$339,679 from the June 30, 2011 unassigned fund balance of \$30,350,466. The ability of the General Fund to generate cash on demand can be calculated by comparing both the unassigned fund balance and total fund balance to total funds expended. Unassigned fund balance represents 31% of total General Fund expenditures while total fund balance represents 54% of total fund expenditures. When transfers out of \$9,015,451 are added to expenditures, then unreserved fund balance is 29% percent of expenditures and transfers out. The following table represents General Fund support shown as transfers out:

Support of CIP Projects	\$4,738,200
Support of Regional Authority	887,400
Support of Economic Development	2,106,575
Support of Grants	1,082,496
Support of Cemetery	13,300
Support of Transportation	187,480
	\$9,015,451

The decrease in fund balance of \$908,427 resulted from \$5,864,962 unexpended budgeted expenditures, \$491,381 in additional revenue, and \$3,929,000 proceeds from debt; offset by prior year encumbrance carryforwards of \$5,543,195; unrealized transfers in of \$1,500,000 and supplemental appropriations from fund balance of \$4,150,575.

Some key factors of unexpended appropriations are as follows:

- City Support of Public Schools had an unexpended balance of \$1,841,772. Danville City Schools pulls local funding as needed and is allowed to carry unspent funding forward for future years. The unencumbered portion of this amount is reserved as a carryforward for fiscal 2013.
- Savings in salaries and related payroll taxes of just over \$2,000,000 were realized through vacancies in the General Fund. Group Health insurance also reported a savings of nearly \$2,000,000 which is shown in the City's Non-departmental expenditures.
- The remaining savings resulted from the conservatism of management in every department as the City attempted to uphold the level of services provided during the continued economic challenges of fiscal 2012.

Key factors of the unrealized revenue are as follows:

- General Property Tax collections were \$238,873 over budget. The primary components of this variance exist in the following areas:

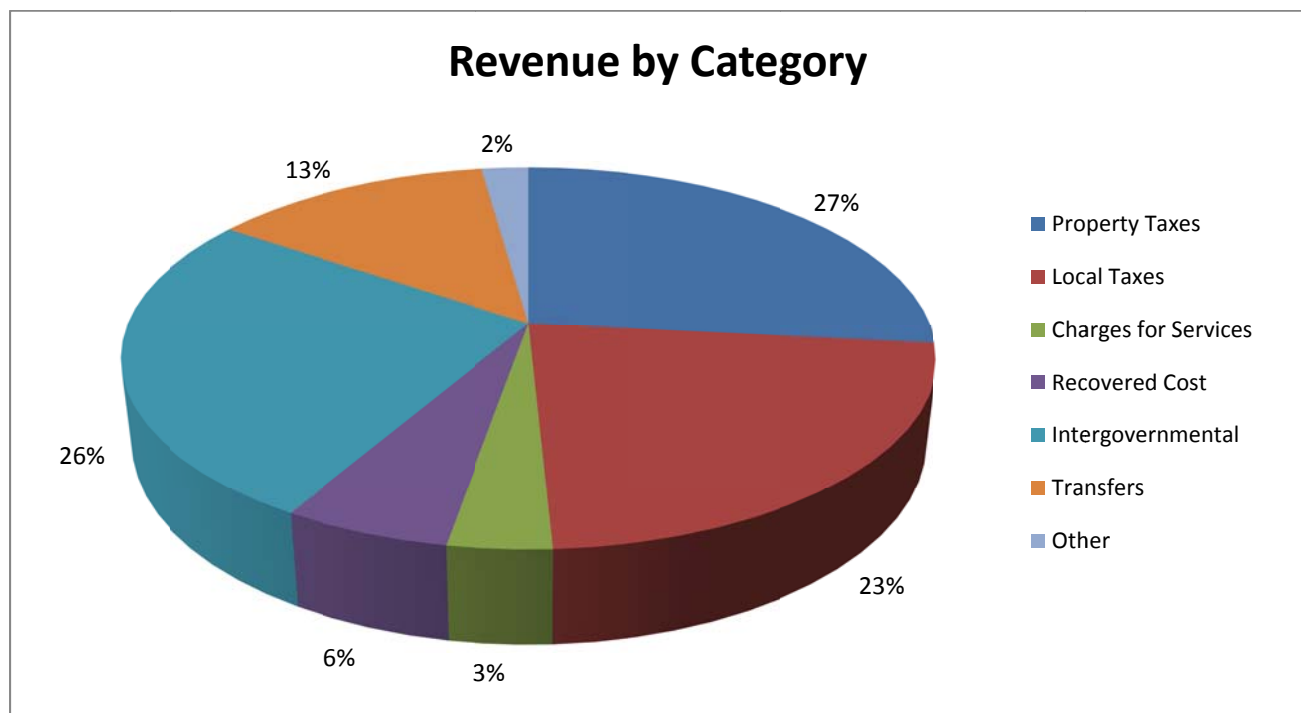
Real Estate	\$	167,707
Personal Property	\$	21,885
Public Service	\$	(5,389)
Penalties & Interest	\$	54,670

- Real Estate realized additional revenues in delinquent taxes due to increased efforts in collections. The City's use of a collection agent combined with periodic publication of delinquent taxpayers' names has proven effective. This is also demonstrated in the additional penalty and interest collections. Personal property tax revenues performed very close to budget. Collection of delinquent personal property taxes is pursued through utilization of the Virginia Debt Set-off Program, as well as the DMV Stop Program.
- Other Local Taxes exceeded the budget of \$21,925,380 by \$1,185,139. Nearly all categories of local tax revenue exceeded budgeted expectations, indicating some improvement in consumer confidence and the local retail economy. The FY 2012 budget had been conservative with respect to consumer taxes such as sales tax, meals tax, and business licenses. Local Sales Taxes were collected at 107% of budget, Business Licenses were collected at 104% of budget, Hotel Taxes were at 104% of budget, and Prepared Meals Tax collections also outperformed estimates at 105% of budget. Areas contributing to the budget variance include:

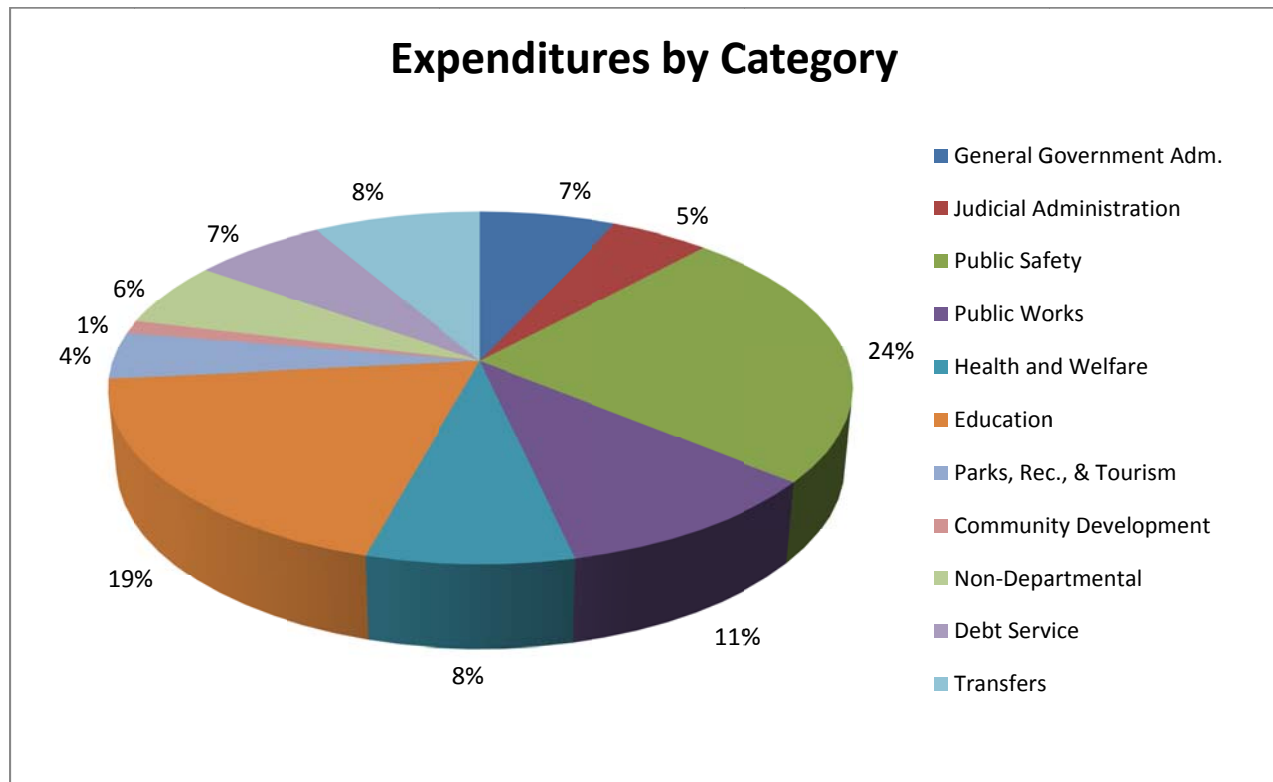
Local Sales Tax	\$ 511,342
Prepared Meals Tax	\$ 292,882
Business Licenses	\$ 200,142
Bank Stock Taxes	\$ 135,434
Hotel & Lodging Tax	\$ 25,764
Others	\$ 19,575

- Revenue from the use of money totaled \$1,422,237, exceeding the FY 2012 budget of \$906,300. Interest rates during FY 2012 remained higher than the City's forecast for the year.
- Revenue from the Commonwealth of Virginia was significantly under budget as the State made changes to the child daycare payment processes. In the past, the locality received funding from the State to pay providers. Providers of this service are now paid directly. This caused a negative budget variance of \$1,391,854 in welfare funding, but has a related offset in the City's expenditures.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2012. Total revenues are \$102,402,547, including transfers in of \$13,632,000.



The next graph shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2012. Total expenditures are \$107,160,524, including transfers out of \$9,015,451.



Enterprise Funds

Enterprise funds reported combined ending net assets of \$301,740,231; an increase of \$8,001,303 compared to combined net assets reported at June 30, 2011. Each of the following enterprise funds contributed to this increase: Electric Fund, 68% or \$5,437,053; Wastewater Fund, 33% or \$2,630,921; Gas Fund, 3% or \$277,104; Telecommunications Fund, 3% or \$240,556; Sanitation Fund, 2% or \$130,043; Cemetery Operations Fund, 2% or \$156,780; and the Transportation Fund, 4%, or \$356,015. A decrease in net assets was reported in the Water Fund, \$1,227,169 (15%).

FY 2012 revenues from all sources combined, including contributed capital and transfers in, decreased \$8,806,281 when compared to the previous fiscal year ended June 30, 2011. The details of this net decrease in revenue result from the following:

Charges for Services	\$	(9,978,583)
Gain (Loss) on Fixed Assets	\$	(129,552)
Jobbing Income	\$	459,144
Interest Income	\$	710,890
Grants	\$	(136,551)
Sales/Rental/Transfers/Inkind/	\$	268,371

Charges for Services decreased in the Electric Fund \$6,718,024, reflecting the milder temperatures experienced during both the cooling and heating seasons in comparison to the prior fiscal year. Likewise, the cost of purchased power fell proportionately. There were no increases in utility rates during FY 2012. A decrease of \$3,225,073 in gas revenue resulted from the loss of consumption during the milder winter as well. The Water and Wastewater Funds remained fairly constant with a combined decrease of \$281,703 related to a decrease in consumption. Non-major Funds (Transportation, Sanitation, Cemetery, and Telecommunication) were fairly stable with a combined increase of \$246,217, primarily resulting from increases in Cemetery fees.

The increase in interest income resulted from slightly higher interest rates than were experienced during the prior fiscal year. Jobbing income increased because of additional commercial service needs in the Electric Fund. Income before contributions and transfers for all enterprise funds combined compared very consistent with the prior year, decreasing by \$60,780.

The Utilities contributed \$13,632,000 in transfers to the General Fund and \$3,000,000 in transfers to the Capital Projects Fund for fiscal year ending June 30, 2012. Enterprise Funds' net assets of \$301,740,231 include \$50,668,344 unrestricted, \$35,662,658 restricted for incomplete projects, and \$215,409,229 invested in capital assets, net of related debt.

General Budgetary Highlights

City of Danville
General Fund Budget
Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual
Revenues, Transfers, and Other Financial Sources			
Taxes	\$ 48,950,480	\$ 48,970,640	\$ 50,394,652
Intergovernmental	28,287,700	28,344,890	26,780,931
Transfers and Other	25,561,020	26,095,636	29,155,964
Total	102,799,200	103,411,166	106,331,547
Expenditures, Transfers, and Other Financial Uses			
Expenditures	96,701,770	104,030,499	98,145,073
Transfers and other	6,097,430	9,186,977	9,094,901
Total	102,799,200	113,217,476	107,239,974
Change in Fund Balance	\$ 0	\$ (9,806,310)	\$ (908,427)

Differences between the City's original operating budget for expenditures and transfers and the final amended budget resulted from carryforwards and prior year encumbrances of \$5,655,735 and additional appropriations totaling \$4,762,541. \$611,966 of the additional appropriations had matching revenues and the remaining \$4,150,575 was appropriated from fund balance, represented as follows:

Appropriations with matching revenue:

Police – Forfeited Funds	\$	55,790
Fire/Emergency Grants and Donations	\$	10,974
Juvenile Detention – Electronic Monitoring	\$	63,617
Police – Special Duty Pay	\$	455,812
Hazardous Material Response	\$	1,400
Project Lifesaver	\$	4,213
DMV Stop Administrative Fees	\$	20,160

Appropriations from fund balance:

GSO Aviation, Inc. - Building	\$	1,631,575
FY 2012 VDOT Revenue Sharing	\$	1,000,000
One-Time Employee Bonus	\$	869,000
Repayment of Rail Grant - Swedwood	\$	450,000
Electronic Data Storage Equipment	\$	200,000

As explained on pages 36 and 37, tax revenues performed slightly better than budget with surplus local tax collections helping to minimize the cuts in funding from the Commonwealth of Virginia. The positive budget variance in expenditures resulted primarily from delayed transfers to the Danville City School System (\$1.8 million). The school funds have been encumbered and will be transferred during fiscal 2012 as needed. Budget savings were also realized through personnel vacancies (\$2 million), changes in group health insurance (\$2 million), and cost cutting measures taken in all City departments.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$352,353,582 (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. For further analysis of capital assets, please refer to note 5 in the notes to the financial statements.

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

- Many of the City's software systems and infrastructure were upgraded in FY 2012, with costs totaling approximately \$629,734. The City also invested \$1,062,817 of capital improvement funds toward public safety with construction at the Adult Detention Center, Fire Department equipment, and initial costs toward a new headquarters for the Fire Department.
- Economic development spending totaled nearly \$14 million for FY 2012. Incentives were granted to Engineered BioPharmaceuticals, Inc., Noblis, Battolli, NextGen, Hybrid Vehicles of Danville, Web Parts, LLC, and RDD, Inc. All of these businesses have recently made Danville their home, which has boosted our local economy and created numerous jobs.
- Improvements in the amount of \$2,382,110 were made to the infrastructure, such as streets, parking lots, and various public buildings, parks, trails, and facilities throughout the City. Of this amount, \$1,056,123 was spent to improve Airport facilities. The City also spent \$750,947 in its blight eradication efforts and \$90,798 toward the planning and development of the River District.

City of Danville
Capital Assets (net of depreciation)
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Land	\$ 19,598,641	\$ 1,455,954	\$ 21,054,595
Building & Improvements	22,236,962	198,516,366	220,753,328
Machinery & Equipment	5,892,354	27,697,821	33,590,175
Infrastructure	8,131,914	-	8,131,914
Construction in Progress	15,830,534	43,402,975	59,233,509
Subtotal	71,690,405	271,073,116	342,763,521
Assets Transferred from School Board	9,590,061	-	9,590,061
Total	<u>\$ 81,280,466</u>	<u>\$ 271,073,116</u>	<u>\$ 352,353,582</u>

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation debt of \$84,795,333 and revenue bonded debt of \$2,862,396 for a total of \$87,657,729.

City of Danville's Outstanding Debt
Bonds and Related Loans

	Governmental Activities		Business-type Activities		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
General Obligation Bonds	\$ 31,732,974	\$ 29,882,557	\$ 53,062,359	\$ 55,336,177	\$ 84,795,333	\$ 85,218,734
Revenue Bonds	-	-	2,862,396	3,440,544	2,862,396	3,440,544
Capital Lease Revenue Bonds	-	3,681,077	-	-	-	3,681,077
Total	<u>\$ 31,732,974</u>	<u>\$ 33,563,634</u>	<u>\$ 55,924,755</u>	<u>\$ 58,776,721</u>	<u>\$ 87,657,729</u>	<u>\$ 92,340,355</u>

The lease-revenue bonds shown in FY 2011 covered an expansion of the juvenile detention home and were replaced with General Obligation Bonds during FY 2012.

During fiscal year 2012, the City of Danville issued \$3,929,000 General Obligation Refunding Bond, Series 2011 as a tax-exempt private placement to American National Bank. The Series 2011 was issued to refinance the balance of its outstanding lease obligations incurred in connection with the issuance by the Danville Redevelopment and Housing Authority of its Public Facility Lease Revenue Bonds (Danville Juvenile Detention Facility Project), Series 1999. The proceeds of this refunding were placed in trust with the escrow agent for all future debt service payments associated with the original lease obligation. This resulted in a debt service savings of \$439,654 over the life of the bonds. As a result, the bonds are considered to be defeased.

The City of Danville's debt management policy states that debt supported by General Fund tax revenue will not exceed 3.0% of total taxable assessed value of property within City limits. For the purposes of calculating this ratio, assessed value includes real property and personal property. At June 30, 2012, debt to assessed value was 1.17%.

Additional information on the City of Danville's long-term debt can be found in note 7 of the notes to the financial statements.

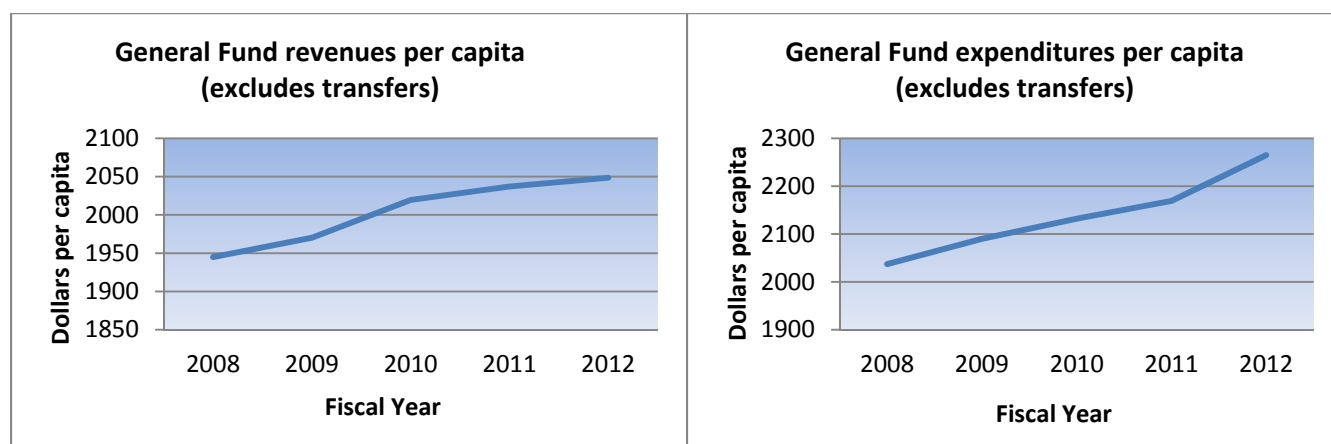
Economic Factors and Next Year's Budget and Rates

- As of September 30, 2012, the average unemployment rate for the City of Danville was 7.9 percent, which is a decrease from a rate of 10.0 percent at September 30, 2011. This compares to the Commonwealth's average unemployment rate of 5.6 percent and the national average rate of 7.6 percent.
- Danville continues to make economic development a priority in its effort to reduce unemployment. From August 2011 to May 2012, the City has announced 560 new jobs and capital investments of \$22.5 million. For fiscal year 2013, the City's General Fund budget includes \$1,055,000 in economic development incentives.
- During fiscal year 2011-2012, management continued its goal to stabilize utility rates for electric services charged to its consumers. Utility rates have increased in past years in response to dramatic increases in purchased power costs for gas and electricity and the falling demand for water and wastewater services resulting from loss of industry. There were no tax rate changes passed in the adoption of the FY 2013 budget.
- Danville has an estimated population of 43,332, based on the 2010 census. The most recent data shows per capita income of \$30,587 for Danville and \$45,920 for the Commonwealth of Virginia.

- Danville is located in the southern region of the United States. According to the consumer price index, Danville and the southern region have a lower cost of living compared to other regions in the United States.

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

Other Financial Indicators



General Fund revenues and expenditures per capita have both trended upward over the last five years despite the economic downturn over the last 24 months. Although the overall increase in revenue per capita is partially attributable to a declining population, there was a 2% increase in revenues from 2011 to 2012 and a 1% increase in population estimates for FY 2012 as well. Expenditures have increased 6% from 2008 to 2012, demonstrating management's excellent efforts in containing costs despite ever increasing costs of goods and services. Expenditures in FY 2012 increased about \$5 million due to debt refinancing and debt service, as well as an increase in support of the public schools. Danville's population has shown decreases up until the current fiscal year. It is anticipated that through the economic development efforts, and downtown revitalization, the City will see the population stabilize and increase in the future.

Requests for Information

This financial report is designed to provide a general overview of the City of Danville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Danville, Director of Finance, 427 Patton Street, Danville, Virginia 24541.



CITY OF DANVILLE, VIRGINIA

Financial Statements

For the Year Ended June 30, 2012

STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and investments				
Restricted expendable permanently	\$ -	\$ 35,248,352	\$ 35,248,352	\$ -
Unrestricted	56,912,725	39,748,117	96,660,842	2,383,451
Cash and investments - held by fiscal agents	181,004	-	181,004	2,501,583
Receivables - net	18,654,980	19,676,953	38,331,933	870,683
Due from primary government	-	-	-	2,698,338
Due from other governments	4,932,034	809,559	5,741,593	4,819,469
Net investment in sales type lease	-	-	-	8,049,951
Prepayments	-	-	-	546,126
Inventories	324,824	3,759,857	4,084,681	695,963
Pension asset	209,627	94,758	304,385	-
Other postemployment benefit asset	1,306,284	-	1,306,284	-
Capital assets:			-	
Land and construction in progress	35,429,175	44,858,929	80,288,104	10,937,285
Other capital assets - net	45,851,291	226,214,187	272,065,478	26,864,741
Total assets	\$ 163,801,944	\$ 370,410,712	\$ 534,212,656	\$ 60,367,590
LIABILITIES				
Accounts payable	\$ 2,580,745	\$ 8,433,875	\$ 11,014,620	\$ 679,072
Accrued salaries	140,284	-	140,284	2,311,002
Accrued payroll taxes	-	-	-	176,794
Accrued interest	437,165	718,436	1,155,601	-
Accrued expenses	-	-	-	169,735
Loan escrow	58,721	-	58,721	-
Due to component unit	2,878,660	-	2,878,660	-
Due to other governments	161,293	-	161,293	-
Refundable deposits	267,077	2,986,925	3,254,002	-
Unearned revenue	1,200,000	-	1,200,000	-
Pension liability	366,195	122,170	488,365	-
Long-term liabilities:				
Due within one year	4,046,910	4,090,437	8,137,347	2,254,301
Due in more than one year	32,570,618	52,318,638	84,889,256	21,427,641
Total liabilities	\$ 44,707,668	\$ 68,670,481	\$ 113,378,149	\$ 29,418,492
NET ASSETS				
Invested in capital assets - net of related debt	\$ 49,638,230	\$ 215,409,229	\$ 265,047,459	\$ 27,686,653
Restricted for expendable purposes:				
Capital projects	13,154,663	35,662,658	48,817,321	-
Special programs	55,793	-	55,793	-
Restricted for nonexpendable purposes:				
Cemetery maintenance	2,682,522	-	2,682,522	-
Unrestricted	53,563,068	50,668,344	104,231,412	3,262,445
Total net assets	\$ 119,094,276	\$ 301,740,231	\$ 420,834,507	\$ 30,949,098

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

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government:								
Government activities:								
General government	\$ 21,239,721	\$ 5,780,801	\$ 8,288,642	\$ -	\$ (7,170,278)	\$ -	\$ (7,170,278)	\$ -
Judicial administration	5,345,323	3,582,835	2,307,948	-	551,460	-	551,460	-
Public safety	27,119,838	182,461	10,474,949	-	(16,462,428)	-	(16,462,428)	-
Public works	12,690,486	-	10,021,011	302,438	(2,367,037)	-	(2,367,037)	-
Health and welfare	11,614,813	-	8,990,973	-	(2,623,840)	-	(2,623,840)	-
Parks, recreation, cultural	5,235,582	23,218	1,014,047	-	(4,198,317)	-	(4,198,317)	-
Community development	1,633,174	-	68,965	-	6,835,527	-	6,835,527	-
Education	21,382,291	-	162,467	-	(21,219,824)	-	(21,219,824)	-
Interest on long-term debt	13,625,289	-	-	-	(13,625,289)	-	(13,625,289)	-
Total governmental activities	119,890,517	9,579,315	41,329,002	8,702,174	(60,280,026)	-	(60,280,026)	-
Business-type activities:								
Wastewater	6,761,973	9,862,984	-	29,892	-	3,130,903	3,130,903	-
Water	5,541,327	5,897,749	-	-	-	356,422	356,422	-
Gas	17,955,882	21,475,496	-	-	-	3,519,614	3,519,614	-
Electric	89,185,930	102,304,323	-	171,876	-	13,290,269	13,290,269	-
Transportation	1,799,616	305,774	1,584,669	-	-	115,342	115,342	-
Telecommunication	901,806	1,405,097	-	24,515	-	503,291	503,291	-
Sanitation	3,527,317	3,639,416	-	-	-	112,099	112,099	-
Cemetery operations	858,877	753,105	-	-	-	(103,772)	(103,772)	-
Total business-type activities	126,530,728	145,643,944	1,584,669	226,283	-	20,924,168	20,924,168	-
Total primary government	246,421,245	155,223,259	42,913,671	8,928,457	(60,280,026)	20,924,168	(39,355,858)	-
Component Units:								
Danville Public Schools	73,933,267	1,130,525	26,819,284	2,027,922	-	-	-	(43,965,536)
Industrial Development Authority	3,923,189	1,294,257	2,196,328	300,000	-	-	-	(132,604)
Total component units	\$ 77,856,456	\$ 2,424,782	\$ 29,015,612	\$ 2,327,922	-	-	-	(44,088,140)
General Revenues								
Real estate and personal property taxes					26,720,274	-	26,720,274	-
Other taxes -								
Sales and use taxes					8,109,198	-	8,109,198	-
Business license taxes					4,704,465	-	4,704,465	-
Utility taxes					972,637	-	972,637	-
Hotel and meals taxes					7,335,791	-	7,335,791	-
Recordation and bank stock taxes					901,985	-	901,985	-
Auto license and recordation taxes					1,086,443	-	1,086,443	-
Payments from City of Danville					-	-	-	26,459,272
State aid - unrestricted					-	-	-	24,116,203
Investment income					986,545	1,954,386	2,940,931	4,689
Miscellaneous - gifts and donations					2,602,443	1,553,969	4,156,412	2,380,044
Transfers					16,431,220	(16,431,220)	-	-
Total general revenues and transfers					69,851,001	(12,922,865)	56,928,136	52,960,208
Change in net assets					9,570,975	8,001,303	17,572,278	8,872,068
Net assets - beginning of year					109,523,301	293,738,928	403,262,229	22,077,030
Net assets - end of year					\$ 119,094,276	\$ 301,740,231	\$ 420,834,507	\$ 30,949,098

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

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

ASSETS

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	\$ 36,268,226	\$ 873,369	\$ 12,091,253	\$ 2,899,493	\$ 52,132,341
Cash and investments - held by fiscal agent	121,004	-	-	-	121,004
Receivables - net	-	-	-	-	-
Taxes and licenses	11,403,368	-	-	-	11,403,368
Accounts	1,400,617	-	-	-	1,400,617
Accrued interest	804,206	-	-	-	804,206
Loans	-	5,014,942	-	28,187	5,043,129
Due from other funds	1,195,010	-	-	-	1,195,010
Due from other governments	1,822,946	323,163	1,616,775	1,169,150	4,932,034
Inventories	201,325	-	-	-	201,325
Total assets	\$ 53,216,702	\$ 6,211,474	\$ 13,708,028	\$ 4,096,830	\$ 77,233,034

LIABILITIES AND FUND BALANCES

LIABILITIES					
Accounts payable	\$ 1,862,096	\$ 23,705	\$ 316,886	\$ 285,179	\$ 2,487,866
Accrued salaries	140,284	-	-	-	140,284
Loan escrow held for others	-	58,721	-	-	58,721
Due to other funds	-	1,117,034	-	-	1,117,034
Due to component unit	2,642,181	-	236,479	-	2,878,660
Due to other governments	161,293	-	-	-	161,293
Refundable deposits	267,077	-	-	-	267,077
Deferred revenue	10,980,184	4,956,221	-	19,516	15,955,921
Total liabilities	\$ 16,053,115	\$ 6,155,681	\$ 553,365	\$ 304,695	\$ 23,066,856

FUND BALANCES

Nonspendable:					
Inventories	201,325	-	-	-	201,325
Cemetery maintenance	-	-	-	2,682,522	2,682,522
Restricted:					
Police	51,266	-	-	-	51,266
Commonwealth Attorney	39,329	-	-	-	39,329
Fire department equipment and supplies	60,287	-	-	-	60,287
Special revenue	-	-	-	-	-
Capital projects	-	-	1,109,613	-	1,109,613
Committed:					
Sheriff - Project Lifesavers	20,404	4,202	13,154,663	-	13,158,665
Specific projects	-	-	-	-	-
Schools	1,841,772	51,591	-	-	1,841,772
Assigned:					
Budget Stabilization	3,357,553	-	-	-	3,357,553
Sheriff - Jail R&B fees	13,313	-	-	-	13,313
Specific purchases	888,193	-	-	-	888,193
Unassigned	30,690,145	-	-	-	30,690,145
Total fund balances	\$ 37,163,587	\$ 55,793	\$ 13,154,663	\$ 3,792,135	\$ 54,166,178
Total liabilities and fund balances	\$ 53,216,702	\$ 6,211,474	\$ 13,708,028	\$ 4,096,830	\$ 77,233,034

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

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets**

June 30, 2012

Total fund balances - governmental funds	\$	54,166,178
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Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Capital assets - primary government	\$ 78,985,843		
Capital assets - internal services	<u>2,294,623</u>		
			81,280,466

Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds.

Unearned revenue	\$ 14,755,921		
Pension asset - governmental funds	(160,254)		
Pension asset - internal services	3,686		
Other postemployment benefit asset	1,306,284		
Accrued interest	<u>(436,759)</u>		
			15,468,878

Internal service funds are used by management to charge the costs
of certain activities, such as insurance, printing, and communications,
to individual funds. The assets and liabilities of certain internal service
funds are included in governmental activities in the Statement of Net
Assets.

Internal services - Exhibit E	\$ 7,043,741		
Less - capital assets shown above	(2,294,623)		
Less - pension asset- shown above	(3,686)		
Add - long-term debt shown below	<u>50,850</u>		
			4,796,282

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

Long-term debt - primary government	\$ (36,566,678)		
Long-term debt - internal services	<u>(50,850)</u>		
			<u>(36,617,528)</u>

Total net assets-governmental activities	\$	<u>119,094,276</u>
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The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2012

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 27,284,133	\$ -	\$ -	\$ -	27,284,133
Local taxes	23,110,519	-	-	-	23,110,519
Fines and forfeitures	589,063	-	-	-	589,063
Permits, privilege fees, and regulatory licenses	182,461	-	-	-	182,461
Revenue from use of money and property	1,422,237	6,816	101,345	-	1,530,398
Charges for services	3,572,557	-	-	-	3,572,557
Miscellaneous	54,156	493,423	396,392	314,436	1,258,407
Recovered costs	5,774,490	4,800	-	-	5,779,290
Intergovernmental	26,780,931	1,241,771	8,416,646	4,058,245	40,497,593
Total revenues	88,770,547	1,746,810	8,914,383	4,372,681	103,804,421
EXPENDITURES					
Current					
General government	7,349,502	-	14,374,815	-	21,724,317
Judicial administration	5,319,681	-	-	111,879	5,431,560
Public safety	25,882,155	-	1,271,868	767,741	27,921,764
Public works	11,281,109	-	2,173,921	178,467	13,633,497
Health and welfare	8,351,937	-	-	3,326,508	11,678,445
Education	20,462,199	-	-	-	20,462,199
Parks, recreation, and cultural	4,567,776	-	343,050	455,809	5,366,635
Community development	1,305,425	1,955,554	750,947	610,364	4,622,290
Nondepartmental	6,390,130	-	-	-	6,390,130
Debt service:					
Principal	4,911,916	-	-	-	4,911,916
Interest	2,323,243	-	-	-	2,323,243
Total expenditures	98,145,073	1,955,554	18,914,601	5,450,768	124,465,996
Deficiency of revenues over expenditures	(9,374,526)	(208,744)	(10,000,218)	(1,078,087)	(20,661,575)
OTHER FINANCING SOURCES (USES)					
Issuance of debt	3,929,000	-	-	-	3,929,000
Premium (discount) on long-term debt issued	(79,450)	-	-	-	(79,450)
Transfers in	13,632,000	-	10,732,175	1,082,496	25,446,671
Transfers out	(9,015,451)	-	-	-	(9,015,451)
Total other financing sources (uses)	8,466,099	-	10,732,175	1,082,496	20,280,770
Net change in fund balances	(908,427)	(208,744)	731,957	4,409	(380,805)
Fund balances - beginning of year	38,072,014	264,537	12,422,706	3,787,726	54,546,983
Fund balances- end of year	\$ 37,163,587	\$ 55,793	\$ 13,154,663	\$ 3,792,135	\$ 54,166,178

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

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of the Governmental Funds to the Statement of Activities**

Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ (380,805)

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 these assets
is allocated over their estimated useful lives and reported as
depreciation expense. This is the amount by which depreciation
exceeded capital outlays.

Capital Outlay - City	\$ 11,687,731	
Book value of assets disposed	52,046	
Depreciation - City	(3,263,519)	
Depreciation - Schools	<u>(1,923,440)</u>	
		6,552,818

Repayment of debt principal and other long-term assets is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in the
Statement of Net Assets.

Principal payments on long-term debt	\$ 5,759,660	
Proceeds from issuance of new debt	(3,929,000)	
Bond issue costs	(203,163)	
Change in reimbursement agreements	139,474	
Reduction of pension asset	(316,400)	
OPEB Obligation	<u>1,306,557</u>	
		2,757,128

Some expenses reported in the Statement of Activities, such as changes in
compensated absences and worker's compensation do not require the use of
current financial resources and therefore are not reported as expenditures in
governmental funds.

Changes in workers' compensation	\$ 344,619	
Changes in compensated absences	<u>10,609</u>	
		355,228

Some revenues and expenditures are not accrued in the governmental funds but are shown
as liabilities in the Statement of Net Assets.

Increase in unearned revenue	\$ 91,131	
Increase in accrued interest	<u>21,007</u>	
		112,138

Internal service funds are used by management to charge the cost
of certain activities, such as insurance and printing, to individual funds.
The net revenue of certain internal service funds is reported with
governmental activities.

174,468**Change in net assets of governmental activities** \$ 9,570,975

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

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

June 30, 2012

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS							
Current assets							
Cash and investments	\$ 485,832	\$ 6,028,327	\$ 8,021,675	\$ 23,262,287	\$ 1,949,996	\$ 39,748,117	\$ 4,780,384
Cash and investments - held by fiscal agents	-	-	-	-	-	-	60,000
Receivables - net	982,847	113,227	1,386,221	17,051,409	143,249	19,676,953	3,660
Due from other funds	-	-	1,010,035	1,321,895	-	2,331,930	-
Due from other governments	-	-	-	-	809,559	809,559	-
Inventories	-	363,913	990,413	2,075,722	329,809	3,759,857	123,499
Total current assets	1,468,679	6,505,467	11,408,344	43,711,313	3,232,613	66,326,416	4,967,543
Noncurrent assets							
Cash and investments - restricted	4,197,050	1,860,458	3,648,020	25,537,779	5,045	35,248,352	-
Pension asset	-	13,568	-	-	81,190	94,758	3,686
Capital assets:							
Land and improvements	63,945	60,477	14,944	807,356	509,232	1,455,954	-
Construction in progress	5,027,405	2,855,468	2,216,216	33,057,743	246,143	43,402,975	-
Buildings, structures, and improvements	47,646,843	44,457,367	49,152,745	178,038,774	3,471,737	322,767,466	-
Equipment	31,850,792	13,342,842	2,048,754	14,280,160	8,354,306	69,876,854	11,072,253
Less - accumulated depreciation	(34,032,160)	(27,591,960)	(18,859,291)	(81,723,732)	(4,222,990)	(186,450,133)	(8,777,630)
Total noncurrent assets - net	54,753,875	34,998,220	38,221,388	169,998,080	8,444,663	306,416,226	2,298,309
Total assets	56,222,554	41,503,687	49,629,732	213,709,393	11,677,276	372,742,642	7,265,852
LIABILITIES							
Current liabilities							
Accounts payable	\$ 329,149	\$ 154,523	\$ 1,047,980	\$ 6,609,491	\$ 292,732	\$ 8,433,875	\$ 92,879
Accrued interest	157,429	126,517	41,929	392,299	262	718,436	406
Due to other funds	2,331,930	-	-	-	-	2,331,930	77,976
Refundable deposits	-	-	-	2,986,925	-	2,986,925	-
Long-term liabilities - due within one year	1,103,418	703,014	192,104	1,984,197	107,704	4,090,437	-
Total current liabilities	3,921,926	984,054	1,282,013	11,972,912	400,698	18,561,603	171,261
Noncurrent liabilities							
Long-term liabilities - due in more than one year	9,252,569	7,431,375	2,349,337	33,224,530	13,444	52,271,255	50,850
Pension liability	35,668	-	14,271	5,458	66,773	122,170	-
Compensated absences	-	8,732	4,270	20,918	13,463	47,383	-
Total noncurrent liabilities	9,288,237	7,440,107	2,367,878	33,250,906	93,680	52,440,808	50,850
Total liabilities	13,210,163	8,424,161	3,649,891	45,223,818	494,378	71,002,411	222,111
NET ASSETS							
Invested in capital assets - net of related debt	40,200,910	25,062,296	32,083,097	109,719,114	8,343,812	215,409,229	2,271,889
Restricted for incomplete capital projects	4,197,050	1,860,458	3,648,020	25,537,779	419,351	35,662,658	-
Unrestricted	(1,385,569)	6,156,772	10,248,724	33,228,682	2,419,735	50,668,344	4,771,852
Total net assets	43,012,391	33,079,526	45,979,841	168,485,575	11,182,898	301,740,231	7,043,741

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ENTERPRISE FUNDS

Year Ended June 30, 2012

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES							
Charges for services	\$ 9,862,984	\$ 5,897,749	\$ 21,475,496	\$ 102,304,323	\$ 6,103,392	\$ 145,643,944	\$ 5,466,893
OPERATING EXPENSES							
Purchased services	-	-	13,113,786	71,577,340	-	84,691,126	-
Production	-	-	-	590,170	-	590,170	-
Transmission	2,986,631	1,480,729	-	1,347,083	-	5,814,443	-
Engineering	-	280,667	360,736	748,511	-	1,389,914	-
Distribution	822,980	578,334	558,986	2,730,552	-	4,690,852	-
Services	136,464	57,215	61,387	-	6,541,406	6,796,472	-
Depreciation	1,574,649	1,554,272	1,261,960	6,184,432	542,950	11,118,263	537,019
Meters/regulators	-	93,895	127,115	337,421	-	558,431	-
General and administrative	572,213	1,005,468	2,338,153	4,253,213	-	8,169,047	4,979,253
Total operating expenses	6,092,937	5,050,580	17,822,123	87,768,722	7,084,356	123,818,718	5,516,272
Operating income (loss)	\$ 3,770,047	\$ 847,169	\$ 3,653,373	\$ 14,535,601	\$ (980,964)	\$ 21,825,226	\$ (49,379)
NONOPERATING REVENUES (EXPENSES)							
Sales income	-	-	-	-	199,380	\$ 199,380	\$ -
Jobbing income	54,112	98,418	(317,134)	973,472	11,900	820,768	-
Rental income	-	57,837	344,305	-	33,131	435,273	-
Recovered cost	123	-	-	83,025	15,400	98,548	-
Gain (loss) on sale of capital assets	11,869	5,898	88,281	48,888	4,703	159,639	136,607
Federal and state grants	-	-	-	-	1,321,999	1,321,999	-
In-kind contributions	-	-	-	-	262,670	262,670	-
Interest income	111,674	187,556	298,368	1,104,009	93,140	1,794,747	89,201
Interest expense	(669,036)	(490,747)	(133,759)	(1,417,208)	(1,260)	(2,712,010)	(1,961)
Total nonoperating revenues (expenses)	(491,258)	(141,038)	280,061	792,186	1,941,063	2,381,014	223,847
Income before contributions and transfers	3,278,789	706,131	3,933,434	15,327,787	960,099	24,206,240	174,468
Capital contributions	29,892	-	-	171,876	24,515	226,283	-
Transfers in	-	-	-	-	200,780	200,780	-
Transfers out	(677,760)	(1,933,300)	(3,656,330)	(10,062,610)	(302,000)	(16,632,000)	-
Total	(647,868)	(1,933,300)	(3,656,330)	(9,890,734)	(76,705)	(16,204,937)	-
Change in net assets	2,630,921	(1,227,169)	277,104	5,437,053	883,394	8,001,303	174,468
Total net assets - beginning of year	40,381,470	34,306,695	45,702,737	163,048,522	10,299,504	293,738,928	6,869,273
Total net assets - end of year	\$ 43,012,391	\$ 33,079,526	\$ 45,979,841	\$ 168,485,575	\$ 11,182,898	\$ 301,740,231	\$ 7,043,741

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

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

Year Ended June 30, 2012

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities							
Received from customers	\$ 10,072,064	\$ 6,216,101	\$ 21,076,505	\$ 101,796,998	\$ 6,207,530	\$ 145,369,198	\$ 5,466,635
Payments to suppliers for goods and services	(3,809,996)	(1,963,066)	(15,954,598)	(79,009,301)	(3,257,524)	(103,994,485)	(3,646,635)
Payments to employees for services	(542,570)	(1,554,194)	(1,044,155)	(3,232,381)	(2,854,209)	(9,227,509)	(1,296,654)
Payments to internal service funds for goods and services	(197,368)	(4,663)	(603)	-	(9,713)	(212,347)	(38,251)
Nonoperating revenue	123	156,257	27,169	965,212	216,926	1,365,687	-
Net cash from operating activities	5,522,253	2,850,435	4,104,318	20,520,528	303,010	33,300,544	485,095
Cash flows from noncapital financing activities							
Transfers from other funds	-	-	-	-	200,780	200,780	-
Transfers to other funds	(677,760)	(1,933,300)	(3,656,330)	(10,062,610)	(302,000)	(16,632,000)	-
Operating grants received	53,029	-	123,172	-	810,058	986,259	-
Net cash from noncapital financing activities	(624,731)	(1,933,300)	(3,533,158)	(10,062,610)	708,838	(15,444,961)	-
Cash flows from capital and related financing activities							
Acquisition of capital assets	(3,713,633)	(1,754,116)	(1,900,303)	(10,384,161)	(884,559)	(18,636,772)	(628,488)
Principal payments on long-term debt	(1,279,922)	(512,431)	(120,484)	(1,306,394)	(795)	(3,220,026)	-
Interest payments on long-term debt	(711,582)	(531,519)	(141,598)	(1,426,844)	(1,288)	(2,812,831)	(3,240)
Proceeds from sale of capital assets	15,145	15,145	5,183	85,093	18,428	138,994	136,607
Contributed capital	29,892	-	-	171,876	24,515	226,283	-
Net cash from capital and related financing activities	(5,660,100)	(2,782,921)	(2,157,202)	(12,860,430)	(843,699)	(24,304,352)	(495,121)
Cash flows from investing activities							
Interest on investments	100,928	169,526	274,460	1,081,017	84,391	1,710,322	79,489
Net activity in investment securities	151,594	179,132	55,414	88,088	9,224	483,452	10,449
Net cash from investing activities	252,522	348,658	329,874	1,169,105	93,615	2,193,774	89,938
Net (decrease) increase in cash and investments	(510,056)	(1,517,128)	(1,256,168)	(1,233,407)	261,764	(4,254,995)	79,912
Cash and investments - beginning of year	5,192,938	9,405,913	12,925,863	50,033,473	1,693,277	79,251,464	4,760,472
Cash and investments - end of year	\$ 4,682,882	\$ 7,888,785	\$ 11,669,695	\$ 48,800,066	\$ 1,955,041	\$ 74,996,469	\$ 4,840,384

(Continued on next page)

CITY OF DANVILLE, VIRGINIA

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

Exhibit G
(Continued)

Year Ended June 30, 2012

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash from operating activities							
Operating income (loss)	\$ 3,770,047	\$ 847,169	\$ 3,653,373	\$ 14,535,601	\$ (980,964)	\$ 21,825,226	\$ (49,379)
Adjustments:							
Depreciation charged to operations	1,574,649	1,554,272	1,261,960	6,184,432	542,950	11,118,263	537,019
In-kind contributions	-	-	-	-	262,670	262,670	-
Change in noncash employee benefits charged to operations	6,896	(3,788)	23,426	87,119	35,098	148,751	17,284
Nonoperating revenue	118	156,256	27,171	1,056,496	259,809	1,499,850	-
Changes in assets and liabilities:							
Receivables	209,081	318,352	(398,992)	(437,459)	98,951	(210,067)	(256)
Reserve for uncollectibles	1,400	(500)	1,800	18,000	-	20,700	-
Inventories	-	148,049	(63,840)	(156,792)	(68,940)	(141,523)	10,023
Accounts payable	(39,938)	(169,375)	(400,580)	(853,093)	153,436	(1,309,550)	(29,596)
Refundable deposits	-	-	-	86,224	-	86,224	-
Net cash from operating activities	\$ 5,522,253	\$ 2,850,435	\$ 4,104,318	\$ 20,520,528	\$ 303,010	\$ 33,300,544	\$ 485,095
Supplemental disclosure of noncash investing, capital, and financing activities							
Decrease in fair value of investments	\$ 151,594	\$ 179,132	\$ 55,414	\$ 88,088	\$ 9,224	\$ 483,452	\$ 10,449

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

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Pension		Other		Agency	
	Employees'		Postemployment		Veterans	
	Retirement Plan		Benefits		Memorial Fund	
ASSETS						
Cash	\$	1,381	\$	151,247	\$	8,054
Accrued interest and dividends		46,855		-		-
Investments - at fair value:						
Common stocks		114,619,644		1,335,347		-
Corporate bonds		34,368,995		-		-
Foreign stocks		24,911,428		-		-
Real estate - timberland		9,371,568		-		-
Temporary cash investments		3,591,483		-		-
Private equity		3,984,152		-		-
Total investments		190,847,270		1,335,347		-
Total assets		190,895,506		1,486,594		8,054
LIABILITIES						
Accounts payable		202,585		-		8,054
NET ASSETS						
Held in trust	\$	190,692,921	\$	1,486,594	\$	-

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	Employees' Retirement Plan	Other Postretirement Benefits
ADDITIONS		
Contributions:		
Employer	\$ 4,929,208	\$ 250,000
Employer contributions for retiree premiums	-	282,220
Total contributions	4,929,208	532,220
Investment earnings:		
Net increase (decrease) in fair value of investments	(2,638,859)	46,047
Interest	91,937	410
Dividends	2,205,108	26,217
Total investment income	(341,814)	72,674
Less - investment expenses	(795,654)	-
Net investment income	(1,137,468)	72,674
Total additions	3,791,740	604,894
DEDUCTIONS		
Benefits paid to participants	9,798,011	-
Premiums paid on behalf of employees	-	282,220
Refunds of contributions	15,871	-
Administrative expenses	109,792	-
Total deductions	9,923,674	282,220
Change in net assets	(6,131,934)	322,674
Net assets held in trust for pension benefits - beginning of year	196,824,855	1,163,920
Net assets held in trust for pension benefits - end of year	\$ 190,692,921	\$ 1,486,594

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

STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2012

	Danville Public Schools	Industrial Development Authority	Total
ASSETS			
Cash and investments	\$ 1,067,795	\$ 1,315,656	\$ 2,383,451
Cash and investments - held by fiscal agents	2,501,583	-	2,501,583
Receivables - net	131,494	739,189	870,683
Due from City of Danville	2,698,338	-	2,698,338
Due from other governments	4,819,469	-	4,819,469
Net investment in sales type lease	-	8,049,951	8,049,951
Prepayments	141,535	404,591	546,126
Inventories	695,963	-	695,963
Capital assets:			
Land and construction in progress	8,372,885	2,564,400	10,937,285
Other capital assets - net	11,684,138	15,180,603	26,864,741
Total assets	\$ 32,113,200	\$ 28,254,390	\$ 60,367,590
LIABILITIES			
Accounts payable	\$ 412,213	\$ 266,859	\$ 679,072
Accrued salaries	2,311,002	-	2,311,002
Accrued payroll taxes	176,794	-	176,794
Accrued expenses	104,968	64,767	169,735
Deferred grant revenue	2,399,947	-	2,399,947
Long-term liabilities:			
Due within one year	1,800,822	453,479	2,254,301
Due in more than one year	4,804,036	16,623,605	21,427,641
Total liabilities	12,009,782	17,408,710	29,418,492
NET ASSETS			
Invested in capital assets - net of related debt	20,057,023	7,629,630	27,686,653
Unrestricted	46,395	3,216,050	3,262,445
Total net assets	\$ 20,103,418	\$ 10,845,680	\$ 30,949,098

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

STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2011		Net (Expense) Revenue and Changes in Net Assets				
	Expense	Program Revenues			Totals	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
DANVILLE PUBLIC SCHOOLS						
Education	\$ 73,933,267	\$ 1,130,525	\$ 26,819,284	\$ 2,027,922	\$ (43,955,536)	\$ (43,955,536)
	3,923,189	1,294,257	2,196,328	300,000	-	(132,604)
INDUSTRIAL DEVELOPMENT AUTHORITY						
Economic Development	\$ 77,856,456	\$ 2,424,782	\$ 29,015,612	\$ 2,327,922	(43,955,536)	(44,088,140)
Total component units						
					(43,955,536)	(44,088,140)
General revenues:						
City of Danville					20,450,581	26,459,272
State aid - unrestricted					24,116,203	24,116,203
Investment income					1,749	4,689
Miscellaneous					2,284,580	2,380,044
Total general revenues					46,853,113	52,960,208
Change in net assets						
					2,897,577	8,872,068
Net assets - beginning of year						
					17,205,841	22,077,030
Net assets - end of year						
					\$ 20,103,418	\$ 30,949,098

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



CITY OF DANVILLE, VIRGINIA

Notes to the Financial Statements

For the Year Ended June 30, 2012

June 30, 2012

1. Organization and Nature of Operations

Reporting Entity

The **City of Danville** (City), located in southwest Virginia at the North Carolina border, was founded in 1793 and chartered in 1830. The City covers an area of approximately 44 square miles and has a population of approximately 43,000.

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

2. Summary of Significant Accounting Policies

The financial statements of the City of Danville, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The City follows GASB Statement No. 34 (GASB 34), *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. This statement requires the following financial statement components:

- 1. Management's Discussion and Analysis** – A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- 2. Government-wide financial statements** – These include the financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Activities.
- 3. Statement of Net Assets** – The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Invested in capital assets, net of related debt is comprised of capital assets less long-term debt related to these assets. Compensated absence liabilities are not a part of this calculation. Restricted assets are defined as assets restricted from or by

parties outside the City. Unrestricted is defined as the remaining assets available for unrestricted use by the City.

4. **Statement of Activities** - The Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).
5. **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of the state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations, therefore data from these units would be combined with data of the primary government. The City has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30, fiscal year-end.

B. Government-wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. While the reporting model before GASB 34, emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are: (a) presented on a consolidated basis by column, and (b) reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities is reported using the economic resources measurement focus and the accrual basis of accounting which reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related charges for services, operating and capital grants, and contributions. The charges for services must be directly associated with the function (public safety, public works, health and welfare, etc.) or be a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension, other postemployment benefit, and agency). Since by definition these assets are being held for the benefit of a third-party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category), and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed.

a. General Fund

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and investment income. A significant part of the General Fund's revenues is transferred to other funds and component units, principally to finance the operations of the City of Danville's Public Schools.

b. Community Development

The Community Development Fund accounts for all financial resources used for the growth of the City through state, federal, and local grants and donations. This fund is accounted for as a major governmental fund for reporting purposes by the City.

c. Capital Projects Fund

The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by enterprise or nonexpendable trust funds. The Capital Projects Fund is considered a major governmental fund for reporting purposes.

d. Special Revenue Fund

The Special Revenue Fund accounts for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The Special Revenue Fund is considered a nonmajor governmental fund for reporting purposes.

e. Cemetery Maintenance Fund

The Cemetery Maintenance Fund accounts for the financial resources used for the maintenance of the City's cemetery. All funds are generated by the sale of perpetual care contracts, and only the interest is used for the benefit of the primary government. This fund is accounted for as a permanent (nonmajor) fund for governmental reporting purposes.

2. Proprietary Funds

Proprietary Funds are used to help pay for services that are not considered to be entitled to its customers without using monies set aside for regular operation.

a. Enterprise Funds

Enterprise Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through enterprise funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Enterprise Funds and Other Governmental Entities That Use Enterprise Fund Accounting*, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for Enterprise funds.

Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City defines operating revenues and expenses as those generated by the principal ongoing operation of the enterprise fund. Nonoperating revenues and expenses are those activities not generated by the ongoing activities of the fund such as interest income and expense, gain or loss on sale of capital assets and miscellaneous recoveries and rebates.

The City's major Enterprise Funds are used to account for wastewater, water, gas, and electricity. The City's nonmajor Enterprise Funds are used to account for transportation, sanitation, telecommunications, and cemetery operations.

b. Internal Service Fund

The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Fund is included in governmental activities for government-wide reporting purposes. The excess revenue or expenses for the fund are allocated to the appropriate functional activity. Major internal service funds are used to account for the activities of the City's motor pool, central printing, and insurance.

3. Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The two major fiduciary funds of the City are used to account for the City's Employee Retirement System activity and the Other Postemployment Benefits activity. For accounting measurement purposes, the Pension Trust Funds are accounted for in essentially the same manner as enterprise funds. The Pension Trust Funds account for the assets of the City's pension plan and benefit plan. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. The only agency fund is the Veteran's Memorial Fund which is managed by the City for the benefit of the local memorial and funded by private donations. Fiduciary funds are not included in the government-wide financial statements.

C. Discretely Presented Component Units

Danville Public Schools (DPS) are organized as an independently governed school system for operating the public schools of the City. Board members are appointed by City Council by authority of the City Charter. Danville Public Schools are financially dependent on appropriations by the City Council for current operations, and any surplus funds are returned to the City annually. In addition, major capital improvements are financed by long-term debt issued by the City. In accordance with

requirements of the Auditor of Public Accounts of the Commonwealth of Virginia, Danville Public Schools are considered to be a major component unit of the City.

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

These financial statements are shown on Exhibits J and K.

Complete financial statements for each of the component units may be obtained at the entity's offices:
Danville Public Schools
P.O. Box 9600
Danville, Virginia 24543

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

D. Danville's Jointly Governed Organizations

City Council, in conjunction with the Board of Supervisors of Pittsylvania County, Virginia (County), established Danville-Pittsylvania Community Services (DPCS) in 1972 to implement the provisions of Chapter 10 of Title 37.1 of the *Code of Virginia (1950)*, as amended. The primary function of DPCS is the establishment and operation of mental health, mental retardation, and substance abuse programs within the jurisdictional limits of the City and County. Seven members of the fifteen-member board of directors are appointed by City Council, and the County's Board of Supervisors appoints the remaining eight members. The Board of Directors approves its own budget and maintains oversight of all programs. Most of the funding for DPCS comes from state and federal grants, as well as from charges for services. The City and County provide some financial assistance, but DPCS is not financially dependent on the City or the County. While not a component unit of the City or the County, DPCS is considered to be a jointly governed organization since neither the City nor the County has determinable ongoing financial interests, in, or responsibilities for, DPCS. During the year ended June 30, 2012, the City provided \$170,938 in funding for Danville-Pittsylvania Community Services. In addition, state and federal grants totaling \$9,244,629 passed through the City to DPCS.

In July 1995, City Council approved an intergovernmental agreement with Pittsylvania County, Virginia, establishing the Danville-Pittsylvania Community Policy and Management Board (Board). This Board was created under the provisions of the *Virginia Comprehensive Services Act* for at-risk youth and families, establishing a Family Assessment Team to review individual needs and to make recommendations to the Board. Pittsylvania County acts as fiscal agent for the Board and provides office space and personnel. The City of Danville has agreed to reimburse the County for 50% of the operating costs as well as provide legal services. While not a component unit of the City or the County, the Board is considered to be a jointly governed organization, since neither the City nor the County has determinable ongoing financial interests in, or responsibilities for, the Board. During the year ended June 30, 2012, the City provided \$68,791 in funding for the Danville-Pittsylvania Community Policy and Management Board.

In 2001, the Danville-Pittsylvania Regional Industrial Facility Authority (Facility Authority) was created by ordinance of the Board of Supervisors of Pittsylvania County, Virginia, and the City Council of Danville, Virginia, to promote and further the purposes of the Virginia Regional Industrial Facilities Act, Chapter 64, Title 15.2 of the *Code of Virginia (1950)*, as amended (Facility Act). The Facility Authority is an entity jointly owned by the City of Danville and Pittsylvania and is a political subdivision of the Commonwealth. The Facility Authority is empowered, among other things, to borrow money to pay the costs of real estate and all improvements located in industrial parks intended to be occupied

by manufacturing, warehousing, distribution, office or other commercial enterprise. In addition, the Facility Authority is authorized under the Facility Act to issue revenue bonds to finance facilities for such enterprises and to refund such bonds. The Facility Authority has no taxing power.

Commitments/Subsequent Events

The Facility Authority has the following commitments at June 30:

- Approximately \$1.2 million in outstanding engineering and consulting contracts, of which \$166,000 had not been expended.
- On October 9, 2012, the Authority entered into a \$1,781,119 contract for design and engineering of the Berry Hill connector road. A portion of those costs will be reimbursed by the Virginia Tobacco Indemnification and Community Revitalization Commission through a grant agreement between the Authority and the Commission.

E. Basis of Accounting

The Government-wide Statement of Net Assets and Statement of Activities, all enterprise funds and pension trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets. Proprietary fund-type operating statements present increases; e.g., revenues, and decreases; e.g., expenses as changes in net assets. Long-term assets and long-term liabilities are included in the government-wide statements. In accordance with the principles of consolidation, all internal balances between governmental and business-type activities have been eliminated in the statement of net assets. All internal activity between the governmental and business-type funds has been eliminated in the government-wide statement of activities.

The Statement of Net Assets and Statement of Activities of the enterprise funds, all internal service funds and fiduciary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet in the funds statements. Operating statements of these funds present increases; i.e., revenues and other financing sources and decreases; i.e., expenditures and other financing uses, as changes in fund balances.

The fund financial statements of the General, Special Revenue, Capital Projects, and nonmajor governmental funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenues and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end, but which are not available, are deferred. Investment income is recorded as earned. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

F. Cash and Investments

Cash resources of the individual funds, excluding cash held with fiscal agents in the General Fund, Special Revenue Fund, Capital Projects Fund, Enterprise Funds, and Fiduciary Funds, are combined to form a pool of cash and investments to maximize earnings. Investments in the pool consist of obligations of the federal government and are recorded at fair value. Income from pooled investments is allocated only when contractually or legally required. All investment earnings are allocated to the various funds based on their equity in the investment pool.

For purposes of the statement of cash flows, the Enterprise Funds consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. The fair value of investments is based on quoted market prices; no investments are valued at cost, except for certificates of deposit. All investments in external investment pools are reported at fair value.

G. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

General Fund allowance:

Fines and forfeitures receivable	\$ 3,457,310
Taxes receivable	884,215
Miscellaneous reserves	363,360
	\$ 4,704,885

Enterprise Fund allowance:

Consumer receivables	
Wastewater	\$ 4,400
Water	500
Gas	7,200
Electric	56,600
	\$ 68,700

The component units' customer accounts receivable are considered fully collectible, and; therefore, an allowance for uncollectible accounts is not applicable to those receivables.

H. Inventories of Supplies, Prepayments and Other Assets

1. Primary Government

Inventories in the General Fund consist of expendable supplies held for consumption. The costs are recorded as expenditures under the purchase method. Purchases of noninventory items are recorded as expenditures under the consumption method, resulting in prepaid expenditures. Prepaid expenditures in reimbursable grants are offset by deferred revenue until expenditures are recognized. Inventories in the General Fund are costed on the first-in, first-out basis, and Enterprise Funds are costed by the moving-average cost method.

2. Component Units

Inventories for Danville Public Schools are comprised of food, supplies, and textbooks held for consumption. Quantities on hand at year-end are recorded at cost on the balance sheet with an offsetting reservation of fund balance, which indicates they do not constitute expendable available financial resources. The cost of textbooks is determined by current replacement cost adjusted for estimated wear and tear.

I. Capital Assets

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Enterprise Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. The capitalization threshold for capitalizing capital assets is \$5,000, and the infrastructure capitalization threshold is \$100,000. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their

estimated fair market value on the date donated. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City does not require that the proceeds from the sale of historical treasures or works of art be used to acquire other items for the collection.

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

J. Compensated Absences and Other Employee Benefits

Expenditures for compensated absences and self-insured group hospitalization and workers' compensation in governmental funds are recorded when the obligations are paid. The current portions are not recorded as liabilities in governmental funds since these will not be liquidated with expendable available financial resources. Compensated absences are reported in governmental funds only if they have matured. The amounts reported are the unused reimbursable compensated absences still outstanding following an employee's resignation or retirement. In enterprise funds, both the expenses and the liabilities are recorded as the benefits are earned. All liabilities, current and long-term, are recorded in the Government-wide Statement of Net Assets.

1. Vacation Pay

The City's policy regarding vacation pay allows for the unlimited accumulation of unused benefits. Unused vacation pay is paid upon termination of employment. The Danville Public Schools allows for the accumulation of vacation pay that may be used by employees when retiring early, but is not paid at termination.

2. Sick Pay

Accumulated sick leave benefits earned but unpaid at the end of the fiscal year are recorded as a liability at the balance sheet date. Accumulated sick leave is paid to employees upon retirement from employment at a rate of \$1.50 per hour up to a maximum of 960 hours (\$1,440 per employee). Up to one year of unused sick leave may be applied to total service years upon retirement.

3. Group Hospitalization

All permanent employees of the City, including elected officials and their staff, are eligible to participate in the City's group insurance program. The City contributes 70% of the premium for active participating employees. The City is self-insured for group hospitalization with the exception of \$125,000 stop loss coverage.

4. Workers' Compensation

The City is self-insured for all workers' compensation claims. There were no significant claims incurred but not reported as of June 30. Liabilities are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

5. Other Postemployment Benefits

All permanent employees of the City are eligible to continue their hospitalization and group life insurance into retirement. The City contributes 13% of the premium for retirees who are under 65 years of age and who retired prior to January 1, 2009. Retirees under age 65, who retired after January 1, 2009, pay 100% of the premium. Retirees over 65 years of age can continue their hospitalization insurance as a supplement to Medicare, but must pay 100% of the premium.

Danville Public Schools allow employees who participate in the Supplemental Retirement Plan to continue coverage under the School Board's health insurance program. The retirees pay the entire premium. Retirees who qualify to receive Virginia Retirement System (VRS) retirement benefits may continue in the VRS group life insurance program. The VRS does not charge a premium for this coverage.

K. Deferred Revenue

Included in deferred revenue in the Governmental Funds Balance Sheet is \$9,719,838 of property taxes not collected within forty-five days of year-end.

L. Long-Term Debt

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

M. Fund Balance

Beginning July 1, 2010, the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balance classification:

Nonspendable - fund balance category includes amounts associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

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

Committed - fund balance category includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Danville City Council serves as the highest level of decision-making authority for the local government of Danville, Virginia.

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

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

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

N. New Accounting Pronouncements

Effective for the fiscal year ending June 30, 2012, DPS has adopted the following Statement of the Governmental Accounting Standards Board (GASB):

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

Effective for financial statements for periods beginning after December 15, 2011:

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

Effective for financial statements for periods beginning after June 15, 2012:

GASB Statement No. 61, The Financial Reporting Entity: Omnibus. This Statement improves the financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity.

Effective for financial statements for periods beginning after December 15, 2012:

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and 62. This Statement's objective is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

Effective for financial statements for periods beginning after June 15, 2013:

GASB Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25. This Statement's objective is to improve financial reporting by state and local governmental pension plans.

Effective for financial statements for periods beginning after June 15, 2014:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. This Statement will replace the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

O. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through November 29, 2012, the date the financial statements were available to be issued.

3. Deposits and Investments

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (Act), Section 2.1-359 et. seq of the *Code of Virginia* (1950), as amended, or covered by federal depository insurance.

A. Deposits

Primary Government

At year-end, the carrying value of the City's deposits with banks was \$2,720,040, and the bank balances were \$3,518,233. The entire bank balance was covered by federal deposit insurance or collateralized in accordance with the Act.

Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

However, all qualified banks' public deposits are considered 100% "insured" because the Act provides for additional assessments to be made. This means that if a qualified bank was to fail, all collateral in the pool would be used to cover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro-rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. Funds deposited in accordance with the requirements of the Act are considered fully secured.

Component Units

The carrying value of deposits for Danville Public Schools was \$241,835 and the bank balance was \$2,068,865. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Act at June 30, 2012. Cash held by physical agents of \$2,501,583 is comprised of \$2,078,902 in the self-insurance fund for health coverage by the carrier and \$422,681 in the escrow account of the workman's compensation carrier.

At year-end 2012 and 2011, the carrying value of the Authority's deposits was \$1,315,656 and \$1,086,812 respectively. The entire bank balance was covered by federal deposit insurance or collateralized in accordance with the Act.

B. Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, mutual fund shares of the Virginia State Non-Arbitrage Program (SNAP), commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The fair value of the investment in the LGIP is equal to the value of the pool shares. The Auditor of Public Accounts is the oversight body for the LGIP. During the fiscal year, the City had investments in obligations of the United States,

LGIP, SNAP and certificates of deposit. The Danville School Board's held its investments in LGIP at June 30, 2012.

A designated portfolio manager managed the investments in U.S. Treasuries during fiscal year 2011. The City has a contract with the manager which requires that, at the time funds are invested, the certificates are to be held in the City's name in the trust department of the City's independent third-party safekeeping custodian, Wachovia Bank, N.A.

The City maintains a pension plan and other postemployment benefit trust fund. The plan and the trust fund investments are handled by independent portfolio managers. Investment restrictions focus on investment mix and limiting the percentage of the total portfolio that may be invested in a given instrument.

The City is subject to interest rate, credit and custodial risk as described below:

Interest Rate Risk

As a means of limiting the City's exposure to fair value losses arising from interest rates the City's investment policy has limited its investments to maturities of no more than 5 years.

Credit Risk

In accordance with state statutes, the current investment policy of the City authorizes investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, the Virginia Local Government Investment Pool (LGIP), and Virginia's State Non-Arbitrage Pool (SNAP). The City's current investment policy limits investments to obligations of the United States and agencies thereof, commercial paper, LGIP and SNAP. During the fiscal year, the City made investments in each of these categories. The investments of the City's pension plan, are handled by The Northern Trust Company, a company with an AA- rating by Standard & Poor's rating agency. The investments for the plan are directed by the board of employees and are invested in various securities and equities in guaranteed investment accounts. The City has directed Northern Trust Company to invest the Plan's funds. The Commonwealth of Virginia manages the investments of the Virginia Retirement System (VRS).

The City's rated debt investment as of June 30 was in LGIP. The City's pension fund investments were rated by Standard and Poor's and are included in the chart below.

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A designated portfolio manager placed the City's pension plan investments. The City has a contract with the portfolio manager which requires that, at the time funds are invested, investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account.

As of June 30, the City had the following investments and maturities:

Investment Maturities

	Fair Value	Less than 1 year	1 -5 years	Long-term
U.S. Treasuries	\$ 61,199,933	\$ 1,515,750	\$ 52,606,663	\$ 7,077,520
CDs	41,474,680	17,416,823	22,557,857	1,500,000
LGIP	7,036,869	-	-	-
Total investments	109,711,482	18,932,573	75,164,520	8,577,520

Reconciliation to Total Cash and Investments:

Add:	
Cash on hand and in banks	22,197,712
Cash with fiscal agents	181,004

Total deposits and investments: \$ 132,090,198

Component Unit

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

Credit Risk - DPS's current investment policy limits investments to the LGIP. Standard & Poor has assigned a rating of AAA to this pool.

Investments held by DPS at June 30, 2012 were as follows:

Investment	Fair Value
LGIP	\$ 824,510

The following is a reconciliation of total deposits and investments to the government-wide financial statements at June 30.

Governmental Activities:

	Governmental Activities	Fiduciary Assets	Total
Cash and investments	\$ 56,924,278	\$ 1,381	\$ 56,925,659
Cash and investments with fiscal agents	181,004	190,847,270	191,028,274
Total primary government	57,105,282	190,848,651	247,953,933

Business-Type Activities

Cash and investments	74,996,469	-	74,996,469
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Component Units

Cash and investments	2,383,451	-	2,383,451
Cash held by fiscal agents	2,501,583	-	2,501,583
Total component units	4,885,034	-	4,885,034
Total cash and investments	\$ 136,986,785	\$ 190,848,651	\$ 327,835,436

Restricted cash and investments. Equity in pooled cash and investments was reserved for the following purposes:

	Reserved for Incomplete Projects	Reserved for Other Purposes	Total Reserved Cash
General fund:			
Encumbrances	\$ -	\$ 888,193	\$ 888,193
Police	-	51,266	51,266
Commonwealth Attorney	-	39,329	39,329
Fire	-	60,287	60,287
Sheriff	-	33,717	33,717
Schools	-	1,841,772	1,841,772
Budget Stabilization	-	3,357,553	3,357,553
	\$ -	\$ 6,272,117	\$ 6,272,117
Enterprise funds:			
Wastewater	4,197,050	-	4,197,050
Water	1,860,458	-	1,860,458
Gas	3,648,020	-	3,648,020
Electric	25,537,779	-	25,537,779
Nonmajor	5,045	-	5,045
	\$ 35,248,352	\$ -	\$ 35,248,352

4. Receivables

Receivables in the fund financial statements at June 30 consist of the following:

Governmental Funds

	General	Community Development	Nonmajor Governmental Funds	Internal Service Central Services	Total	Business-type Activities
Receivables:						
Taxes and Licenses	\$ 16,108,253	\$ -	\$ -	\$ -	\$ 16,108,253	\$ -
Accounts	1,400,617	-	-	3,660	1,404,277	19,745,653
Accrued Interest	804,206	-	-	-	804,206	-
Loans	-	5,014,942	28,187	-	5,043,129	-
Gross receivables	18,313,076	5,014,942	28,187	3,660	23,359,865	19,745,653
Less - Allowances for uncollectible accounts	(4,704,885)	-	-	-	18,626,793	(68,700)
Receivables - net	\$ 13,608,191	\$ 5,014,942	\$ 0	\$ 3,660	\$ 41,986,658	\$ 19,676,953

Component Units

	Danville Public Schools	Industrial Development Authority	Total
Receivable			
Due from other Governments	\$ 4,819,469	\$ -	\$ 4,819,469
Due from City	2,698,338	-	2,698,338
Other	131,494	739,189	870,683
Total receivables	\$ 7,649,301	\$ 739,189	\$ 8,388,490

Property Taxes

The City levies real estate taxes on all real property on a fiscal year basis, at a rate enacted by the City Council on the assessed value of property (except public utility property) as determined by the Director of Real Estate Assessments of the City of Danville. The Commonwealth assesses public utility property. Neither the City nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100 percent of fair market value and reassessed each year as of July 1. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property incomplete as of July 1, but completed during the year. Any taxes paid after the due date are subject to a 10% penalty.

Real estate taxes are billed in equal semi-annual installments due December 5 and June 5. Liens are placed on the property on the date real estate taxes are delinquent, and interest at the rate of 10% per annum is added to the delinquent tax and penalty, and must be satisfied prior to the sale or transfer of the property. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The tax rates during 2012 and 2011 were \$0.73 and \$0.73, respectively, per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles are based on 100 percent of fair market value of the property as of January 1, of each year. For a vehicle, the tax may be prorated for the length of time the vehicle has situs in the City. Personal property taxes do not create a lien on property. Interest at the rate of 10% per annum is added to the delinquent tax and penalty. The taxes receivable balance at June 30, 2012 includes amounts not yet received from the January 1, 2012 levy due June 5, 2012.

These taxes are included as deferred revenue in the fund financial statements since these taxes are not considered to be available to liquidate liabilities of the current period. The tax rate during 2008 and 2006 was \$3.00 for motor vehicles and tangible property and \$1.50 for machinery and tools per \$100 of assessed value. In addition, any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998, the City used to receive 70% percent of most taxpayers' assessments. Beginning in fiscal year 2007 the state's share of the local personal property tax payment is an annual amount of \$3,593,576 with the remainder collected by the City.

5. Capital Assets

The table below is a summary of the changes in capital assets for the fiscal year ended June 30.

Governmental Activities

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 15,340,049	\$ 4,258,592	\$ -	\$ 19,598,641
Construction in progress	11,034,485	11,147,483	6,351,434	15,830,534
Total capital assets not being depreciated	26,374,534	15,406,075	6,351,434	35,429,175
Other capital assets:				
Buildings	36,934,766	-	-	36,934,766
Infrastructure	30,308,589	907,379	-	31,215,968
Furniture and other equipment	24,346,144	1,921,275	806,121	25,461,298
Total other capital assets	91,589,499	2,828,654	806,121	93,612,032
Less- accumulated depreciation for:				
Buildings	(13,694,396)	(1,003,408)	-	(14,697,804)
Infrastructure	(22,049,080)	(1,034,974)	-	(23,084,054)
Furniture and other equipment	(19,097,882)	(1,225,137)	(754,075)	(19,568,944)
Total accumulated depreciation	(54,841,358)	(3,263,519)	(754,075)	(57,350,802)
Total City capital assets- depreciated	36,748,141	(434,865)	52,046	36,261,230
Assets transferred from Danville School Board	77,837,094	-	-	77,837,094
Less- accumulated depreciation	(66,323,593)	(1,923,440)	-	(68,247,033)
	11,513,501	(1,923,440)	-	9,590,061
Total capital assets - depreciated	48,261,642	(2,358,305)	52,046	45,851,291
Total capital assets – net	\$ 74,636,176	\$ 13,047,770	\$ 6,403,480	\$ 81,280,466

Depreciation was charged to government functions as follows:

General government administration	\$ 514,076
Judicial administration	25,611
Public safety	1,215,401
Public works	1,245,380
Health and welfare	47,519
Parks, recreation, and cultural	102,687
Community development	112,845
Total	\$ 3,263,519

In FY2002, the Virginia Assembly passed a general law to respond to GASB Statement No. 34 that establishes the local option of creating, for financial reporting purposes, a tenancy in common with the local school board when a city or county issues bonds for acquisition, construction or improvement of public school property. The sole purpose of the law is to allow cities and counties the ability to record together school assets and related debt liabilities. As a result, certain assets purchased with the City's general obligation bonds are recorded as part of the primary government. According to the law, the tenancy in common ends when the associated obligation is repaid; therefore, the assets will revert to the Danville School Board when the bonds are repaid. Nothing in the law alters the authority or responsibility of the school board or control of the assets. All depreciation on these assets was charged to education.

Component Unit - Danville Public Schools

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated:				
Land and construction in process:	\$ 7,218,132	\$ 4,319,129	\$ (3,164,376)	\$ 8,372,885
Other capital assets:				
Buildings	66,854,867	3,184,122	-	70,038,989
Furniture and equipment	23,827,264	227,535	(85,202)	23,969,597
Total other capital assets	90,682,131	3,411,657	(85,202)	94,008,586
Less – accumulated depreciation				
Buildings	(39,848,955)	(536,928)	-	(40,385,883)
Furniture and equipment	(12,741,945)	(518,354)	85,202	(13,175,097)
Total accumulated depreciation	(52,590,900)	(1,055,282)	85,202	(53,560,980)
Depreciable capital assets – net	38,091,231	2,356,375	-	40,447,606
Assets transferred to City of Danville to match long-term debt	(28,763,468)	-	-	(28,763,468)
Total other capital assets, depreciable	9,327,763	2,356,375	-	11,684,138
Total Capital Assets	\$ 16,545,895	\$ 6,675,504	\$ (3,164,376)	\$ 20,057,023

Property, plant, and equipment are stated at cost, less an allowance for accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated lives of the assets as follows:

Buildings	45 years
Equipment	3 – 25 years
Infrastructure	25 – 35 years

Component Unit - Industrial Development Authority

	Balance June 30, 2011	Balance June 30, 2012
Property held for lease:		
Land	\$ 1,056,507	\$ 2,228,899
Construction in progress	742,225	335,501
Building	10,903,243	15,551,030
Less – accumulated depreciation	(1,424,511)	(1,734,966)
	11,277,464	16,380,464
Property held for sale:		
Land and building	1,458,348	1,364,539
Total	\$ 12,735,812	\$ 17,745,003

The IDA has a five year operating lease with TelVista, Inc. Monthly payments are based on an amount equal to the IDA's debt service on the building. The lease also has up to four (4) five (5) year renewal periods.

Further, TelVista retains an option to purchase their leased property during the term of the lease, including any extensions, thereof, for the remaining principal balance owed by the IDA on its related loan on the property.

The IDA also leases buildings in the City's historic district to the Advanced Vehicle Research Center for \$1 per year and to LifeBATT, Inc. for \$850 per month.

Future estimated minimum rental payments due under the leases at June 30 follows:

Year Ending June 30,	Amount
2013	\$ 817,258
2014	737,138
2015	347,120
2016	282,750
2017	231,600
2018 – 2022	1,220,100
	\$ 3,635,966

The IDA has a twenty year sales-type lease with GSO Aviation for \$2,950 a month and has a right to purchase the property at any time during the term of the lease for \$676,500 minus the principal paid over the term of the lease.

The IDA has a twenty-five year sales-type lease with EsselPropack America, LLC (Essel). Terms of the lease stipulate that Essel will make the monthly loan payments directly to the financial institution in the amount of \$48,323 beginning August 1, 2011 through July 1, 2018. Essel has the right to purchase the property at any time during the term of the lease for the principal balance of the loan. If Essel does not exercise their option to purchase the property on or before July 31, 2018, the lease payments will increase to \$96,645 per month throughout the term of the lease. In addition, Essel will pay the Authority a premium amount of \$1,000,000 if they choose to not exercise their purchase option on or before July 31, 2018.

Future estimated minimum sales-type lease payments due under at June 30 follows:

Year Ending June 30,	Amount
2013	\$ 615,271
2014	615,271
2015	615,271
2016	615,271
2017	615,271
Thereafter	<u>7,526,304</u>
	<u>\$ 10,602,659</u>

Land Held for Sale

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

Enterprise Funds

The following is a summary of changes in capital assets for business-type activities for the year ended June 30:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Business-type activities:				
Land	\$ 1,332,428	\$ 123,526	\$ -	\$ 1,455,954
Construction in progress	<u>42,630,249</u>	<u>8,620,313</u>	<u>(7,847,587)</u>	<u>43,402,975</u>
Total capital assets not being depreciated	43,962,677	8,743,839	(7,847,587)	44,858,929
Buildings	308,281,353	14,486,113	-	322,767,466
Equipment	<u>67,587,106</u>	<u>3,222,920</u>	<u>(933,172)</u>	<u>69,876,854</u>
Less- accumulated depreciation for:				
Buildings	(117,607,326)	(7,909,765)	-	(125,517,091)
Equipment	<u>(38,601,571)</u>	<u>(3,230,750)</u>	<u>919,279</u>	<u>(40,913,042)</u>
Total accumulated depreciation	<u>(156,208,897)</u>	<u>(11,140,515)</u>	<u>919,279</u>	<u>(166,430,133)</u>
Other capital assets – net	<u>219,659,562</u>	<u>6,568,518</u>	<u>(13,893)</u>	<u>226,214,187</u>
Total capital assets – net	<u>\$ 263,622,239</u>	<u>\$ 15,312,357</u>	<u>\$ (7,861,480)</u>	<u>\$ 271,073,116</u>

Governmental Funds

Capital outlay – Primary government	\$ 3,281,295	
Capital outlay – Internal services	301,900	
Capital outlay – City – not capitalized	<u>9,054,641</u>	
		12,637,836
Depreciation expense - City	(3,053,090)	
Depreciation expense – Internal services	(210,429)	
Depreciation expense - Schools	<u>(1,923,440)</u>	
		<u>(5,186,959)</u>
		<u>\$ 7,450,877</u>

6. Commitments and Contingencies

A. Litigation

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

B. Federally Assisted Grant Programs

The City and the DPS participate in a number of federally assisted grant programs. Although the City and the DPS have been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, City and DPS's management believes such disallowances, if any, will not be significant.

C. Contracts

The City has several construction and similar contracts in progress at June 30, 2012. The incomplete unbilled portion of these contracts represents financial commitments that have not been recorded in the financial statements, since they were not liabilities at June 30, 2012.

	<u>City of Danville</u>
Contracts	\$ 8,991,749
Less: paid or recorded as liabilities	<u>(396,312)</u>
	<u>\$ 8,595,437</u>

D. Contingent Liabilities

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The City maintains an insurance fund to account for insurance transactions. The City is self-insured for all workers' compensation claims, comprehensive and collision for vehicles which cost less than \$100,000, property damage up to a deductible of \$10,000, and employee liability to the extent that it is not covered by another policy (see the schedule of insurance coverage in the statistical section of this Comprehensive Annual Financial Report). Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Current market rates are used to discount claim liabilities.

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

Component Unit

Worker's compensation

Danville Public Schools is a member of the School Systems of Virginia Group Self-Insurance Association (Association), a public entity risk pool for workers' compensation insurance. All members

of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since Danville Public Schools entered the pool in 1982. Danville Public Schools has elected to have the Association hold the Board's dividends in escrow as a reserve against possible future claims. At June 30, 2012 the cumulative amount held in escrow by the Association for Danville Public Schools amounted to \$422,681. The escrow is included on the Statement of Net Assets as cash held by fiscal agents.

Self-Insurance Coverage

In October 2005, Danville Public Schools entered into an agreement with Anthem Blue Cross Blue Shield (Anthem) to administer a self-insurance plan for employee medical and pharmacy insurance. Danville Public Schools' contingent liability is limited to an annual stop loss amount of \$100,000 per participant. The escrow balance of \$2,078,902 is the balance of premiums paid net of claims received by Anthem of \$2,554,707 less the estimated claims incurred but not paid as of for the same period. The estimated claims incurred but not paid as of June 30, 2012 and 2011 were \$475,805 and \$474,075, respectively. The escrow is included on the Statement of Net Assets as cash held by fiscal agents.

E. Reimbursable Agreements

At June 30, the City had outstanding agreements representing reimbursements to developers for streets, sewers, and utility facilities. These agreements totaled \$1,007,080 with \$714,126 having qualified for reimbursement within the terms of the agreements. The remaining balances will be accrued upon qualification.

F. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to retain risks of losses in those areas where it believes it is more economical to manage its risks internally and account for any claims settlement in the General Fund. Exceptions to the self-insurance program are made when insurance coverage is available and when premiums are cost effective. The City is covered by property/casualty insurance policies on real and personal property (except vehicles) and the following liability insurance policies as of June 30, 2012: public entity and public officials excess liability, medical and dental malpractice liability, voting booths, special events, vacant buildings, volunteer liability, nonowned aircraft liability, and commercial crime. The City maintains a blanket surety bond on all City workers who handle funds and excess amounts of insurance on key officials. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

The following Constitutional Officers and City employees are covered by surety bonds issued by Lumberman's Mutual Casualty Co. in the amounts shown as of June 30:

Treasurer	\$	500,000
Commissioner of Revenue	\$	3,000
Clerk of Circuit Court	\$	103,000
Sheriff	\$	30,000

G. Self-Insurance

As of June 30, 2012, the noncurrent portion of unpaid workers' compensation claims amounted to approximately \$3,418,796 and the amount expected to be paid within one year amounted to \$253,520 and is reflected in the government-wide statements. Liabilities are reported when it is probable that losses have occurred, and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Liabilities are determined using a combination of actual claims experience and actuarially determined amounts and include incremental claims, adjustment expense, and estimated recoveries. An independent contractor processes the public liability claims and the City records a provision and liability in the entity-wide statements and General Fund (current portion only) for an estimate of incurred but not reported claims.

Changes in the estimated claims payable for workers' compensation are as follows for the years ended June 30:

	FY 2012	FY 2011
Estimated claims payable at beginning of period	\$ 4,014,732	\$ 3,975,961
Current fiscal year claims, changes in estimates, and payouts	260,534	861,994
Claim payments	(602,950)	(823,223)
Estimated claims payable at end of period	<u>\$ 3,672,316</u>	<u>\$ 4,014,732</u>

G. Grants

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

7. Long-Term Debt

A. Bonds Payable

The following schedule represents all bonds payable in the Government and Enterprise funds:

Description	Original Issue	Annual Amount	Interest Rate	Maturity	Outstanding June 30, 2012
General Obligations and Section 10 Bonds					
School Series 2001B	\$ 6,512,513	\$ 296,369 – 371,160	3.10 – 5.10 %	7/15/21	\$ 3,466,295
School Series 2001B	5,210,006	\$ 237,088 – 296,928	3.10 – 5.10 %	7/15/21	2,773,038
School Series 2001B – Loan	2,500,000	\$ 125,000	3.10 – 5.10 %	7/15/21	1,250,000
General Improvements 2005	8,800,000	\$ 290,000 – 640,000	3.70 – 4.25 %	12/1/25	6,880,000
General Improvements 2007	5,000,000	\$ 165,000 – 360,000	3.625 – 3.90 %	3/1/27	4,105,000
General Improvements & Refunding 2009A	11,215,000	\$ 450,000 – 1,300,000	2.00 - 5.00 %	3/1/22	10,495,000
General Improvements & Refunding 2009B	19,195,000	\$ 775,000 – 2,515,000	3.80 – 6.09 %	3/1/22	18,245,000
Refunding 2009C	<u>12,005,000</u>	\$ 425,000 – 811,000	1.50 – 5.00 %	8/1/29	<u>11,145,000</u>
General Improvements & Refunding 2010A	12,925,000	\$ 355,000 – 875,000	2.00 – 5.00 %	9/1/25	12,570,000
Refunding 2009C	<u>10,410,000</u>	\$ 330,000 – 655,000	2.19 – 6.02 %	9/1/36	<u>10,410,000</u>
General Improvements & Refunding 2011	<u>3,929,000</u>	\$ 442,000 – 484,000	1.510 %	12/1/19	<u>3,456,000</u>
	<u>\$ 100,389,779</u>				<u>\$ 84,795,333</u>
Revenue Bonds					
Utility Revenue 93 – 94	2,900,000	\$ 46,104 – 207,971	4.50 %	6/1/14	409,047
Utility Revenue 94 – 95	300,000	\$ 12,829 – 19,148	4.50 %	6/1/14	39,409
Utility Revenue 96 – 97	<u>7,300,000</u>	\$ 223,940 – 365,000	4.50 %	2/1/19	<u>2,413,940</u>
	<u>\$ 10,500,000</u>				<u>2,862,396</u>
Total Outstanding Bonds					<u>\$ 87,657,729</u>

Debt service on the preceding Bonds in future years is as follows:

General Obligation and Section 10 Bonds:

Principal:

Fiscal Year Ending June 30,	Governmental	Enterprise	Total
2013	\$ 2,242,635	\$ 2,976,472	\$ 5,219,107
2014	2,563,363	3,397,167	5,960,530
2015	2,787,241	3,619,204	6,406,445
2016	2,868,549	3,765,330	6,633,879
2017	2,957,396	3,919,465	6,876,861
2018 – 2022	12,436,026	18,052,485	30,488,511
2023 – 2027	2,221,567	11,173,433	13,395,000
2028 – 2032	1,909,798	4,875,202	6,785,000
2033 – 2037	1,746,399	1,283,601	3,030,000
	<u>\$ 31,732,974</u>	<u>\$ 53,062,359</u>	<u>\$ 84,795,333</u>

Interest:

Fiscal Year Ending June 30,	Governmental	Enterprise	Total
2013	\$ 1,344,277	\$ 2,176,374	\$ 3,520,651
2014	1,266,863	2,089,035	3,355,898
2015	1,170,335	1,972,666	3,143,001
2016	1,066,018	1,843,420	2,909,438
2017	954,875	1,703,839	2,658,714
2018 – 2022	2,954,457	6,135,736	9,090,193
2023 – 2027	1,336,001	2,888,432	4,224,433
2028 – 2032	768,902	807,062	1,575,964
2033 – 2037	271,250	199,369	470,619
	<u>\$ 11,132,978</u>	<u>\$ 19,815,933</u>	<u>\$ 30,948,911</u>

Revenue Bonds:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 585,452	\$ 108,902	\$ 694,354
2014	593,004	86,934	679,938
2015	365,000	66,516	431,516
2016	365,000	52,098	417,098
2017	365,000	37,681	402,681
2018 – 2019	588,940	32,109	621,049
	<u>\$ 2,862,396</u>	<u>\$ 384,240</u>	<u>\$ 3,246,636</u>

Reimbursement Agreements do not require interest payments:

Principal:

Fiscal Year Ending June 30,	Governmental	Enterprise	Total
2013	\$ 139,474	\$ 96,450	\$ 235,924
2014	87,004	88,020	175,024
2015	87,004	88,020	175,024
2016	87,004	11,718	98,722
2017	87,004	11,717	98,721
	<u>\$ 487,490</u>	<u>\$ 295,925</u>	<u>\$ 783,415</u>

The capital lease bonds are a variant of revenue bonds used in the capital outlay program. The revenue stream backing the bond is created from lease payments made by the occupying department to the governmental financing entity which constructs the facility. The financing authority constructs the facility, issues financing bonds, and retains title to the facility until the debt is retired.

B. Governmental Obligation

The table on the following page is a summary of the changes in long-term liabilities that are recorded in the Statement of Net Assets ended June 30:

Compensated absences and workers' compensation are typically paid from the General Fund.

	Balance June 30, 2011	Additions	Changes/ Reductions	Balance June 30, 2012	Due within 1 year
General obligation bonds	\$ 29,882,557	\$ 3,929,000	\$ 2,078,583	\$ 31,732,974	\$ 2,242,635
Reimbursement agreements	626,964	-	139,474	487,490	139,474
Capital lease obligations	3,681,077	-	3,681,077	-	-
Compensated absences	1,584,974	1,759,684	1,770,293	1,574,365	1,416,929
Worker's compensation	3,745,546	223,542	568,161	3,400,927	247,872
Other bond related items	(789,539)	(79,450)	(290,761)	(578,228)	-
	<u>\$ 38,731,579</u>	<u>\$ 5,832,776</u>	<u>\$ 7,946,827</u>	<u>\$ 36,617,528</u>	<u>\$ 4,046,910</u>

C. Enterprise Debt

Following is a summary of the changes in long-term liabilities that are recorded in the Enterprise Funds for the year ended June 30:

	Balance June 30, 2011	Additions	Changes/ Reductions	Balance June 30, 2012	Due within 1 year
General obligation bonds	\$ 55,336,177	\$ -	\$ 2,273,818	\$ 53,062,359	\$ 2,976,472
Revenue bonds	3,440,544	-	578,148	2,862,396	585,451
Reimbursement agreements	380,117	-	84,192	295,925	96,450
Compensated absences	468,112	531,280	525,596	473,796	426,416
Workers' compensation	269,186	36,992	34,789	271,389	5,648
Bond related items	(876,914)	(13,001)	(333,125)	(556,790)	-
	<u>\$ 59,017,222</u>	<u>\$ 555,271</u>	<u>\$ 3,163,418</u>	<u>\$ 56,409,075</u>	<u>\$ 4,090,437</u>

D. General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. The City of Danville has independently set a lower debt limit of 7.5% of the assessed valuation. The Legal debt margin at June 30 is computed as follows:

	<u>Legal Debt Margin</u>
Assessed value (as of June 30, 2012) – taxable real property, including public service corporations	\$ 2,257,904,600
Legal debt limit:	
7.50% of assessed value (authorized by the Commonwealth of Virginia for all cities)	\$ 169,342,845
Deduct amount of debt applicable to debt limit:	
Gross general debt*	<u>84,795,333</u>
Legal debt margin	<u>\$ 84,547,512</u>

*Debt applicable to debt limit excludes Revenue Bonds due to Section 10, Article VII of the Constitution of Virginia

E. Component Units

Following is a summary of the changes in long-term liabilities that are recorded in the Danville Public Schools for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Changes/ Reductions	Balance June 30, 2012	Due within 1 year
Early retirement plan (January 1, 2008)	\$ 3,933,266	\$ 1,628,713	\$ (797,618)	\$ 4,764,361	\$ 1,016,785
Early retirement plan (July 1, 1997)	957,771	-	(458,755)	499,016	340,637
Employee benefits	<u>1,433,762</u>	<u>354,413</u>	<u>(446,694)</u>	<u>1,341,481</u>	<u>443,400</u>
	<u>\$ 6,324,799</u>	<u>\$ 1,983,126</u>	<u>\$ (1,703,067)</u>	<u>\$ 6,604,858</u>	<u>\$ 1,800,822</u>

Debt service on the preceding component unit's early retirement plans and contracts payable for future years are as follows:

Year Ending June 30,	Early Retirement July 1, 1997		Early Retirement January 1, 2008	
	Principal	Interest	Principal	Interest
2013	\$ 340,637	\$ 94,804	\$ 1,016,785	77,779
2014	158,379	49,426	974,193	120,371
2015			907,512	160,472
2016	-	-	754,745	162,554
2017	-	-	604,859	151,149
2018 – 2019	<u>-</u>	<u>-</u>	<u>506,267</u>	<u>143,626</u>
	<u>\$ 499,016</u>	<u>\$ 144,230</u>	<u>\$ 4,764,361</u>	<u>815,951</u>

Following is a summary of the changes in the long-term liability that is recorded in the Industrial Development Authority for the year ended June 30:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within 1 year
Deeds of trust payable	\$ 16,338,901	851,668	389,784	\$ 16,800,785	\$ 453,479

Debt service on the preceding component unit's deeds of trust payable for future years are as follows:

Fiscal Year Ending June 30,	Early Retirement Principal
2012	\$ 453,479
2013	481,711
2014	510,444
2015	539,754
2016	2,772,879
2017 – 2021	2,828,510
2022 – 2026	4,736,592
2027 – 2031	2,181,465
2031 – 2036	2,295,951
	<u>\$ 16,800,785</u>

The City of Danville issued \$3,929,000 of general obligation refunding bonds to refinance the balance of its outstanding lease obligations incurred in connection with the issuance by the Danville Redevelopment and Housing Authority of its Public Facility Lease Revenue Bonds (Danville Juvenile Detention Facility Project), Series 1999. The proceeds of this refunding were placed in trust with the escrow agent for all future debt service payments associated with the original lease obligation. This resulted in an economic gain of \$439,654 over the life of the bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets.

8. Transfers

Funds are transferred each year from the General Fund to the other funds as they operate for the benefit of the City.

The chart below details the activities between funds of the City for the year ended June 30.

	Transfers In	Transfers Out	Net Transfers
Governmental Funds – Exhibit D			
General	\$ 13,632,000	\$ (9,015,451)	\$ 4,616,549
Capital Projects	10,732,175	-	10,732,175
Special Revenue	1,082,496	-	1,082,496
	<u>\$ 25,446,671</u>	<u>\$ (9,015,451)</u>	<u>\$ 16,431,220</u>

	Transfers In	Transfers Out	Net Transfers
Enterprise Funds – Exhibit F			
Wastewater	\$ -	\$ (677,760)	\$ (677,760)
Water	-	(1,933,300)	(1,933,300)
Gas	-	(3,656,330)	(3,656,330)
Electric	-	(10,062,610)	(10,062,610)
Transportation	187,480	-	187,480
Telecommunication	-	(302,000)	(302,000)
Nonmajor	13,300	-	13,300
	<u>\$ 200,780</u>	<u>\$ (16,632,000)</u>	<u>\$ (16,431,220)</u>

Primary transfer activities include:

Transfers from the General Fund to the Capital Projects fund represents the City's budgeted pay-as-you go funding.

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

Transfers from the Enterprise Funds represent contributions from these funds to support the City's operations.

9. Due To/From Other Funds

Due to other funds are interfund receivables and payables of individual funds result primarily from cash disbursements made by one fund for expenditures of another. The amounts due at June 30 are as follows:

Governmental Funds

	Interfund Receivable	Interfund Payable
City of Danville:		
General fund	\$ 1,195,010	\$ -
Community Development fund	-	1,117,034
Internal Service fund:		
Central Services fund	-	77,976
	<u>\$ 1,195,010</u>	<u>\$ 1,195,010</u>

Enterprise Funds

City of Danville:		
Gas	\$ 1,010,035	\$ -
Electric	1,321,895	-
Wastewater	-	2,331,930
	<u>\$ 2,331,930</u>	<u>\$ 2,331,930</u>

Component Unit

Danville Public Schools:		
General fund	\$ -	\$ 2,112,446
Capital projects fund	43,867	-
Special grants fund	-	430,180
Nonmajor funds:		
Textbook	1,241,370	-
Cafeteria	1,257,389	-
	<u>\$ 2,542,626</u>	<u>\$ 2,542,626</u>

The primary reason for interfund receivables and payables of the primary government due at June 30 are as follows:

The interfund receivable to the General Fund from the Community Development Fund represents amounts expended, but not yet reimbursed by US Housing and Urban Development. The interfund receivable to the General Fund from the Central Services Funds represents amounts expended for inventoried office and printing supplies, but not yet issued and billed out.

The primary reason for interfund receivables and payables of the enterprise funds due at June 30 are as follows:

The due to/from other funds represents a loan from the Electric and Gas funds to the Wastewater fund for operating expenses.

Maturities of Due To/Due From:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	295,223	93,277	388,500
2014	307,032	81,468	388,500
2015	319,313	69,187	388,500
2016	332,086	56,414	388,500
2017	345,369	43,131	388,500
2018 – 2019	732,907	44,265	777,172
	<u>\$ 2,331,930</u>	<u>\$ 387,742</u>	<u>\$ 2,719,672</u>

The primary reason for interfund receivables and payables of the component unit due at June 30 are as follows:

Interfund payable from the General Fund to the Special Grants, Capital Projects and Textbook funds represent amounts expended for the localities matching portion of state and federal grants, capital expenditures, textbook purchases, and cafeteria operations due from the General Fund.

10. Due From Other Governments

	City of Danville	Enterprise Fund	Danville Public Schools
Commonwealth of Virginia - State grants	\$ 2,865,152	\$ 72,193	\$ 605,061
Social Services	528,014	-	-
	3,393,166	72,193	605,061
Federal government - Federal grants	1,538,868	737,366	4,213,808
	<u>\$ 4,932,034</u>	<u>\$ 809,559</u>	<u>\$ 4,818,869</u>

11. Retirement Plans

The City participates in two public employee retirement systems. Part I of this note details the Employees' Retirement System of the City of Danville (ERS), and Part II details the Virginia

Retirement System (VRS). The VRS is a multi-employer public retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia, and is, therefore, not reflected as a City pension trust fund. The ERS is reflected as part of the City's reporting entity and as such are reflected as a pension trust fund. Disclosures concerning the Danville Public School's participation in the Virginia Retirement System is also included in Part II of this note.

I. Employees' Retirement System of the City of Danville

A. Plan Description

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

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees Retirement System of the City of Danville, PO Box 3300, Danville, Virginia 24543.

All full-time employees of the City, excluding School Board employees and elected officials and their employees (who are covered under the Virginia Retirement System), are eligible to participate. Upon becoming a regular, full-time employee of the City, each employee is classified as a "general employee" or as a "public safety employee" (uniformed police and fire personnel). The two employee classes have different pension benefits and early service retirement allowances. As of June 30, 2012, employee membership in the ERS was as follows:

	General Employees	Public Safety Employees	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	559	179	738
Active plan participants:			
Vested	462	200	662
Nonvested	238	48	286
	700	248	948

The pension plan provides retirement, disability, and death benefits. After five years of creditable service, general employees who attain the age of 65, or who accumulate at least 30 years of creditable service and attain the age of 55, may retire with full benefits. Public safety employees who attain age 60, or age 55 with at least 30 years of creditable service are eligible for retirement with full benefits.

For a general employee, the retirement allowance consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1.42% of \$9,500, plus 1.82% of the part of the three-year average salary in excess of \$9,500, multiplied by the number of years of creditable service. A general employee with at least five years of service may retire early after reaching the age of 55 and receive reduced benefits.

The retirement allowance for a public safety employee consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1/50th or 2% of the final three-year average salary multiplied by

the number of years of creditable service. A public safety employee, with at least five years of service, may retire early after reaching the age of 55 and receive reduced benefits. Pension provisions include disability benefits whereby a member who becomes totally and permanently incapacitated and who has completed five years of creditable service is eligible to receive a disability retirement allowance. The allowance begins at the time of the disability and is based on creditable service to date and a projection of creditable service assuming no disability. The allowance is offset by any workers' compensation benefits if the disability is work-related.

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

Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

Contributions made by the City on behalf of active members are established by the City of Danville, based on actuarial estimates (performed annually on July 1) of future plan benefits to be paid. Since March 1, 1979, employees' contributions have been paid by the City. Contributions for employees hired after September 30, 1991 are considered to be 100% City contributions. These contributions, like the City's portion of pre-October 1, 1991 employees, vest after five years of creditable service. The contribution rate made on behalf of active members is currently 5% of compensation for general employees and 6.5% of compensation for public safety employees.

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

For the year ended June 30, 2012, the City's total payroll for all employees was \$45,809,615 and the City's total covered payroll amounted to \$36,767,568, of which \$26,108,966 was for general employees and \$10,658,602 was for public safety employees. Covered payroll refers to all compensation paid by the City to active employees covered by the ERS on which contributions to the plan are based.

B. Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the ERS are prepared on the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25 "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*". Contributions from the City are recognized as revenue when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment income is recognized as it is earned. The net appreciation or depreciation in the fair value of investments held by the ERS is recorded as an increase or decrease in investment income based on the valuation of investments as of the date of the statement of plan net assets.

Investments. Investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the statement of plan of net assets. The fair value of the real estate - timberland is based on an independent appraisal.

C. Funding Policy

The contribution requirement of plan members and the City are established by the ERS' Board of Trustees, based on actuarial estimates of future plan benefits to be paid. The contribution rate for general employees is 5% of their annual covered salary and 6.5% for public safety employees. The City has paid the employee's portion of the contributions since 1979. Total contributions to the ERS for the year ended June 30 amounted to \$4,929,208 of which the City, on behalf of its employees,

paid \$595,705. The contributed amounts were based on an actuarial valuation. Contributions made by the City represents 5% on behalf of its employees that were employed before October 1991, and contributions made by the City on behalf of its employees represent 7.9% of covered payroll for the year for a total of 12.9%.

D. Annual Pension Cost and Net Pension Obligation

The annual pension cost at June 30 was \$5,394,811, and the contributions made by the City were \$4,929,208. At June 30 the Enterprise Funds have recorded a net pension asset of \$94,758 and a net pension liability of \$122,170. In accordance with GASB 27, the General Fund asset of \$209,627 and liability of \$366,195 have been recorded in the Statement of Net Assets for the governmental funds.

Three-Year Trend Information

Actuarial Date	City Supplemental		
	6/30/12	6/30/11	6/30/10
Annual Pension Cost (APC)	\$ 5,394,811	\$ 5,397,687	\$ 5,097,536
Percentage of APC Contributed	91.37%	91.72%	90.46%
Net Pension Asset (Liability)	\$ (183,980)	\$ 281,623	\$ 728,728

The annual required contribution for the current year was determined as part of the July 1, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7% investment rate of return and (b) projected salary increases of 4% per year. Both (a) and (b) included an inflation component of 2%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30 was 30 years.

For the year ended June 30, 2012 the City had contributed more than the annual required amount. In accordance with GASB 27, the following chart below details the components of the net pension asset.

June 30, 2012 – Net Pension Asset	Governmental	Enterprise
Annual Required Contribution (ARC)	\$ 1,962,261	\$ 321,779
Interest on beginning Net Pension Obligation (NPO)	(18,488)	(115)
Adjustment to ARC	19,890	124
Annual Pension Cost	1,963,663	321,788
Contributions Made	(1,897,530)	(284,323)
Decrease in NPO	66,133	37,465
Net pension asset – beginning of year	(275,760)	(132,223)
Net pension asset - end of year	\$ (209,627)	\$ (94,758)
June 30, 2012 – Net Pension Liability	Governmental	Enterprise
Annual Required Contribution (ARC)	\$ 2,221,202	\$ 888,073
Interest on beginning Net Pension Obligation (NPO)	(795)	(316)
Adjustment to ARC	854	342
Annual Pension Cost	2,221,261	888,099
Contributions Made	(1,962,654)	(784,701)
Increase in NPO	258,607	103,398
Net pension liability – beginning of year	107,588	18,772
Net pension liability - end of year	\$ 366,195	\$ 122,170

June 30, 2011 – Net Pension Asset

	Governmental	Enterprise
Annual Required Contribution (ARC)	\$ 2,037,085	\$ 321,487
Interest on beginning Net Pension Obligation (NPO)	(31,360)	(1,882)
Adjustment to ARC	33,741	2,025
Annual Pension Cost	2,039,466	321,630
Contributions Made	(1,855,591)	(296,418)
Decrease in NPO	183,875	25,212
Net pension asset – beginning of year	(459,635)	(157,435)
Net pension asset - end of year	\$ (275,760)	\$ (132,223)

June 30, 2011 – Net Pension Liability

	Governmental	Enterprise
Annual Required Contribution (ARC)	\$ 2,188,751	\$ 846,491
Interest on beginning Net Pension Obligation (NPO)	(12,815)	(4,954)
Adjustment to ARC	13,787	5,331
Annual Pension Cost	2,189,723	846,868
Contributions Made	(2,018,085)	(780,488)
Decrease in NPO	171,638	66,380
Net pension asset – beginning of year	(64,050)	(47,608)
Net pension asset - end of year	\$ 107,588	\$ 18,772

E. Schedule of Funding Progress:

	6/30/12	6/30/11	6/30/10
Actuarial Valuation Date			
Actuarial Value of assets (a)	\$ 174,103,211	\$ 179,553,821	\$ 178,430,719
Actuarial Accrued Liability (AAL) – Entry Age (b)	\$ 206,452,918	\$ 200,232,740	\$ 199,018,107
Unfunded (Overfunded) (AAL) (UAAL) (b-a)	\$ 32,349,707	\$ 20,678,919	\$ 20,587,388
Funded Ratio (a/b)	84.33%	89.67%	89.77%
Covered Payroll (c)	\$ 38,206,170	\$ 37,486,097	\$ 39,091,589
UAAL as a Percentage of Covered Payroll ((b-a)/c)	84.67%	55.16%	52.66%

II. Virginia Retirement System**A. Plan Description**

The City of Danville contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer public employee retirement system that acts as common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. There are three separate groups of employees covered under the plan. The first includes “constitutional employees” of the City, which are all employees of the offices of the Sheriff, Commonwealth’s Attorney, Clerk of Court, Treasurer, and the Commissioner of Revenue. In addition, professional and nonprofessional employees of the Danville Public Schools are covered by the VRS.

Professional employees participate in a VRS statewide teacher cost sharing pool, and nonprofessional employees participate as a separate group.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 (1.85 for sheriffs) percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplemental information for VRS. A copy of that report may be obtained from their website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Employees are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The City and the Danville Public Schools have assumed this 5% member contribution. If an employee leaves covered employment, the accumulated member contributions plus interest earned may be refunded to the employee. The City and the Danville Public Schools are required to contribute the remaining amounts necessary to fund the system using the actuarial basis specified by the VRS Board of Trustees. The Danville Public Schools contribution rate for the fiscal year ended June 30, 2012 was 14.17% (9.17% plus 5% for employees' portion) of annual covered payroll for professional employees and 11.33% (6.33% and 5% for employees' portion) for nonprofessional employees. The City's contribution rate was 10.29% (5.29% plus 5% for employees' portion).

C. Annual Required Contribution

For June 30, 2012, the Danville Public School's annual contribution of \$205,519 for nonprofessional and \$3,964,564 for professional employees, and the City's annual contribution of \$457,618 were equal to the required and actual contributions. The contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included, (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.50% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments.

	Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City Employees	2012	\$ 457,618	100%	\$ -
	2011	\$ 459,479	100%	\$ -
	2010	\$ 566,966	100%	\$ -
School Board Nonprofessional	2012	\$ 205,519	100%	\$ -
	2011	\$ 197,148	100%	\$ -
	2010	\$ 203,790	100%	\$ -

Both (a) and (b) included an inflation component of 2.5%. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of

investments over a four-year period. The Danville Public Schools participates in the VRS teacher cost-sharing pool for professional employees.

Schedule of Funding Progress

The following information is from the most recent actuarial valuation (June 30, 2011).

Actuarial Valuation Date	6/30/12	6/30/11	6/30/10
Actuarial Value of assets (a)	\$ 18,045,088	\$ 18,105,217	\$ 18,471,983
Actuarial Accrued Liability (AAL) – Entry Age (b)	\$ 21,956,499	\$ 21,036,834	\$ 18,883,767
Unfunded (Overfunded) (AAL) (UAAL) (b-a)	\$ 3,911,411	\$ 2,931,617	\$ 411,784
Funded Ratio (a/b)	82.19	86.06	97.82%
Covered Payroll (c)	\$ 4,550,101	\$ 4,219,265	\$ 4,739,581
UAAL as a Percentage of Covered Payroll ((b-a)/c)	85.96%	69.48%	8.69%

Notes to Schedules of Employer Contributions and Funding Progress

	School Board June 30, 2011	City June 30, 2011
Valuation date	Entry Age Normal	Entry Age Normal
Actuarial cost method	Level percent, open	Level percent, open
Amortization method	3.00%	3.00%
Payroll growth method	30 years	30 years
Remaining amortization period	Five-Year Smoothed Market Value	Five-Year Smoothed Market Value
Asset valuation method		
Actuarial assumptions:		
Investment of return*	7.00%	7.00%
Projected salary increase*	3.50% - 5.60%	3.50% - 5.60%
Cost of living adjustments	2.25 - 2.50%	2.50%

*Includes inflation of 2.50%

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations. Additional information from the June 30, 2011, actuarial valuation is above.

Deferred Compensation Plan

The City has a deferred compensation plan for all employees who request participation in the International City Managers Association Retirement Corporation (ICMA-RC) deferred compensation plan. The plan was created in accordance with Internal Revenue Code Section (IRC) 457. Amounts deferred under the plan are remitted on a monthly basis directly to the ICMA-RC, which acts as administrator and fiduciary agent of the plan. Prior to fiscal 1998, the assets of the plan, until paid or made available to the participants, remained the property of the City and were considered agency funds. Due to tax legislation, the City has amended the plan to comply with the requirements of subsection (g) of IRC Section 457. As a result of this change, the assets of the plan are no longer considered to be assets of the City. Since a fiduciary relationship no longer exists between the City and the plan, the plan's assets are no longer considered agency funds of the City.

12. Postemployment Benefits Other Than Pensions

The City adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The Statement establishes standards for reporting the liability for nonpension postemployment benefits, chiefly the health care premiums for retirees. A separate, audited GAAP-basis postemployment benefit plan report is not available. Disclosures concerning participation are outlined as follows:

A. Plan Provisions

In addition to providing the pension benefits described above, the City provides postemployment health care and prescription drug insurance to retirees and their dependents up to age 65. Because of the change to contribution levels for employees who retire after January 1, 2009, active employees are not valued for their healthcare or prescription drug benefits. The City also provides life insurance to actives and retirees and all actives and retirees with life insurance are valued. All full time active employees who retire or are disabled directly from the City and meet the eligibility criteria may participate. Benefits levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual. The calculations for this liability are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the City and the employees participating at the valuation date.

B. Funding Policy

The City does not intend to establish a trust to pre-fund this liability. The exhibit below shows the anticipated growth in the Net OPEB Obligation based on contributions to the benefit plan on a pay-as-you-go basis. We have used the fresh start method of amortization for the unfunded actuarial accrued liability each year for this estimate. The data have been projected into the future based on the current active population remaining constant. Also, the estimated employer contributions are based on estimated pay-as-you-go benefit plan costs (retiree claims minus retiree contributions paid premiums) made during the year on behalf of the retired employees of the City.

C. Plan Descriptions

Eligibility

Currently covered full-time active employees who qualify for retirement after attaining age 55 with at least 5 years service are eligible to receive postretirement health care and death benefits.

Employees with 5 years of service who qualify for a disability retirement are also eligible to receive postretirement health care and death benefits. Disabled retirees pay the same contribution rates for medical and life insurance coverage as nondisabled retirees.

Spouses are eligible for medical and prescription coverage only.

Health Care Benefits Covered:

All Retirees Under Age 65:

The postemployment health care plan is a self-funded plan administered by Anthem Blue Cross and Blue Shield. Spouses under age 65 are eligible for coverage in this plan.

GASB No. 45 does not require governments to fund their OPEB plans. All results shown within this report assume that this plan will be funded.

Medicare Eligible Retirees:

Retirees and spouses are eligible to participate in a self-funded post-65 Medicare Carve-Out plan. Since retirees pay the true full cost of benefits, the employer has no liability; the post 65 plan is not valued in this report.

Postemployment Death Benefits:

Retirees can choose either \$5,000 or \$10,000 as a postretirement death benefit. Retirees contribute towards the cost of this benefit at \$2.15 per month or \$4.30 per month respectively. This rate reflects 100% of the blended (active & retiree) cost.

Retirees may choose or decline medical and death benefits independent of each other.

Membership at June 30, 2012, membership consisted of:

Number of Costed Employees	
1. Active Employees	936
2. Retirees eligible for benefits	418
5. Total employees	1354

D. Annual OPEB Costs and Net OPEB Obligation

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

	2012	2011	2010
Annual Required Contribution	\$ 82,108	\$ 255,892	\$ 274,589
Interest on Net OPEB Obligation	(97,971)	3,415	6,981
Adjustments to Annual Required Contribution	275,621	(3,587)	(7,331)
Annual OPEB Cost	259,758	255,720	274,239
Contributions Made	(532,220)	(1,335,081)	(321,778)
Increase in Net OPEB Obligation	(272,462)	(1,079,361)	(47,539)
Net OPEB Obligation, Beginning of Year	(1,033,822)	45,539	93,078
Net OPEB Obligation, End of Year	\$ (1,306,284)	\$ (1,033,822)	\$ 45,539

*This adjustment is made to avoid overstating the net OPEB obligation at the end of the year by the portion of the Annual Required Contribution which is attributable to previously unpaid Annual Required Contributions.

E. Actuarial Methods and Assumptions

Valuation Methods

The Projected Unit Credit Method is used to calculate all of the expense amounts that are included in this report and the funded status of the Plan. The calculations are performed in accordance with the methodology set forth in GASB No. 45. Generally, the method is intended to match revenues with expenses and attributes an equal amount of an employee's projected benefit to each year from date of plan entry to the date that he is first eligible to retire with full benefits. Actuarial valuations for the plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial calculations of the plan reflect a long-term perspective.

Employees Included In the Calculations

All active employees who will meet the plan's eligibility requirements on or before the ultimate assumed retirement age are included in the calculations. Retirees, spouses and spouse survivors who are entitled to a benefit under the provisions of the plan are also included.

Although we believe these to be accurate and complete as of the valuation date, employee data supplied to us by the Employer has not been audited by us.

Actuarial Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 10% reduced by 1.0% each year to arrive at an ultimate healthcare cost trend rate of 5.0%. Both rates include a 7.5% inflation assumption. The actuarial accrued liability was \$2,645,165. The plan's unfunded actuarial accrued liability is being amortized using the fresh start method. The remaining amortization period at June 30, 2011 was 30 years.

F. Schedule of Funding Progress

Actuarial Valuation Date July 1,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age Normal	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
2012	\$ 1,486,594	\$ 2,233,125	66.57 %	\$ 746,531	\$ 39,495,865	1.90 %
2011	-	2,645,165	- %	1,645,165	46,447,604	3.54 %
2010	-	2,790,043	- %	2,790,043	46,658,152	5.98 %

G. Schedule of Employee Contributions

Year Ended June 30,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2012	\$ 532,220	\$ 82,108	648.2 %
2011	1,335,081	255,892	521.7 %
2010	321,778	274,589	117.2 %

13. Contingency

In November 2007, the City entered into a contract with a power supplier to construct and operate a coal-fired, steam and electric generating facility with other municipalities. Following a material increase in the contractor's estimate, the project was abandoned and litigation was initiated against the power supplier's contractor. Because of the potential settlement, the power supplier asserts the minimum potential liability for the participants related to the stranded costs of the project to be \$0. For this reason, no liability for the stranded costs has been recorded at this time.

* * * * *

CITY OF DANVILLE, VIRGINIA

Required Supplemental Information

Other Than MD&A
(RSI)

For The Year Ended June 30, 2012

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL

Year Ended June 30, 2012

GENERAL FUND REVENUES	Original Budget	Final Budget	Actual	Variance
Property taxes				
Real property taxes	\$ 16,000,000	\$ 16,000,000	\$ 16,167,707	\$ 167,707
Real and personal public service corporation property taxes	360,100	360,100	354,711	(5,389)
Personal property taxes	10,085,000	10,105,160	10,127,045	21,885
Penalties and interest	580,000	580,000	634,670	54,670
Total property taxes	27,025,100	27,045,260	27,284,133	238,873
Local taxes				
Local sales and use taxes	7,600,000	7,600,000	8,111,342	511,342
Business license taxes	4,500,000	4,500,000	4,700,142	200,142
Prepared meals taxes	6,300,000	6,300,000	6,592,882	292,882
Consumer utility tax	1,000,000	1,000,000	972,638	(27,362)
Franchise license taxes	10,380	10,380	4,323	(6,057)
Motor vehicle license	1,020,000	1,020,000	1,086,443	66,443
Bank stock taxes	600,000	600,000	735,434	135,434
Taxes on recordation and wills	180,000	180,000	166,551	(13,449)
Daily property and room rental taxes	715,000	715,000	740,764	25,764
Total local taxes	21,925,380	21,925,380	23,110,519	1,185,139
Fines and forfeitures	487,850	487,850	589,063	101,213
Permits, privilege fees and regulatory licenses				
Dog tags	25,000	25,000	22,143	(2,857)
Permits and other licenses	190,940	190,940	160,318	(30,622)
Total permits, privilege fees and regulatory licenses	215,940	215,940	182,461	(33,479)
Revenue from use of money and property				
Revenue from use of money	425,000	425,000	727,420	302,420
Revenue from the use of property	481,300	481,300	621,492	140,192
Market value adjustment	-	-	73,325	73,325
Total revenue from use of money and property	906,300	906,300	1,422,237	515,937
Charges for services				
Court costs	19,000	19,000	26,444	7,444
Correction and detention	2,990,600	3,054,217	3,003,431	(50,786)
Commonwealth's Attorney	150,000	150,000	151,773	1,773
Other protection	7,500	7,500	10,788	3,288
Parks and recreation	342,210	342,210	327,498	(14,712)
Library	20,000	20,000	22,864	2,864
Planning and community development	9,750	9,750	835	(8,915)
Lot clearing	20,000	20,000	28,774	8,774
Tax abatement applications	500	500	150	(350)
Total charges for services	3,559,560	3,623,177	3,572,557	(50,620)

See report of Independent auditors

(Continued on next page)

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Miscellaneous	135,500	121,184	54,156	(67,028)
Recovered costs	5,123,870	5,609,185	5,774,490	165,305
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid	5,960,940	5,960,940	5,771,105	(189,835)
Shared expenditures:				
Commonwealth's Attorney	833,150	833,150	781,718	(51,432)
Sheriff	2,749,350	2,749,350	2,660,265	(89,085)
Commissioner of Revenue	134,620	134,620	130,805	(3,815)
Treasurer	109,790	109,790	102,545	(7,245)
Medical examiner	1,000	1,000	-	(1,000)
Registrar and electoral board	47,370	47,370	39,170	(8,200)
Clerk of Circuit Court	34,300	34,300	198,275	163,975
Total shared expenditures	3,909,580	3,909,580	3,912,778	3,198
Welfare	7,498,120	7,498,120	6,106,266	(1,391,854)
Other categorical aid:				
Forfeited property	-	21,593	21,593	-
Emergency services	92,020	92,020	91,836	(184)
E911 wireless	132,000	132,000	126,497	(5,503)
Fire services	133,570	134,970	116,496	(18,474)
Juvenile and domestic relations	1,198,350	1,198,350	1,241,875	43,525
National Guard armory	20,000	20,000	19,270	(730)
Street and highway maintenance	9,169,920	9,169,920	9,199,226	29,306
Library	169,480	169,480	136,078	(33,402)
Total other categorical aid	10,915,340	10,938,333	10,952,871	14,538
Revenue from the federal government:				
Payments in lieu of taxes	3,720	3,720	3,714	(6)
Forfeited property	-	34,197	34,197	-
Total revenue from the federal government	3,720	37,917	37,911	(6)
Total intergovernmental	28,287,700	28,344,890	26,780,931	(1,563,959)
Other financing sources				
Issuance of debt	-	-	3,929,000	3,929,000
Transfers in	15,132,000	15,132,000	13,632,000	(1,500,000)
Total other financing sources	15,132,000	15,132,000	17,561,000	2,429,000
Total General Fund revenues	\$ 102,799,200	\$ 103,411,166	\$ 106,331,547	\$ 2,920,381

See report of Independent auditors

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

GENERAL FUND EXPENDITURES

	Original Budget	Final Budget	Actual	Variance
General Government				
Legislative				
<i>City Council</i>				
Salaries	\$ 40,000	\$ 40,000	\$ 40,000	\$ -
Other	38,110	37,096	32,486	(4,610)
	78,110	77,096	72,486	(4,610)
<i>Mayor</i>				
Salaries	7,000	7,000	7,000	-
Other	1,680	1,679	916	(763)
	8,680	8,679	7,916	(763)
Total legislative	86,790	85,775	80,402	(5,373)
General and financial administration				
<i>City Manager</i>				
Salaries	408,200	408,201	408,198	(3)
Other	223,250	223,081	196,121	(26,960)
	631,450	631,282	604,319	(26,963)
<i>Personnel</i>				
Salaries	329,750	329,750	306,073	(23,677)
Other	327,270	339,526	224,625	(114,901)
	657,020	669,276	530,698	(138,578)
<i>Occupational health services</i>				
Other	-	-	270	270
<i>Budget</i>				
Salaries	65,750	65,750	65,741	(9)
Other	22,060	22,060	15,739	(6,321)
	87,810	87,810	81,480	(6,330)
<i>City Attorney</i>				
Salaries	233,650	220,582	209,504	(11,078)
Other	83,970	97,160	88,361	(8,799)
	317,620	317,742	297,865	(19,877)
<i>Independent auditor</i>				
Other	102,000	117,147	117,147	-
<i>Public affairs</i>				
Other	29,360	64,727	64,531	(196)
<i>Commissioner of Revenue</i>				
Salaries	349,560	365,331	365,329	(2)
Other	110,600	101,396	92,369	(9,027)
	460,160	466,727	457,698	(9,029)
<i>Real estate assessment</i>				
Salaries	262,620	274,239	274,239	-
Other	77,990	75,961	70,667	(5,294)
	340,610	350,200	344,906	(5,294)

See report of Independent auditors
(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
General government administration				
<i>Central collections</i>				
Salaries	421,790	419,510	419,509	(1)
Other	288,760	316,346	305,186	(11,160)
	710,550	735,856	724,695	(11,161)
<i>Treasurer</i>				
Salaries	151,340	151,309	151,308	(1)
Other	44,070	43,783	38,891	(4,892)
	195,410	195,092	190,199	(4,893)
<i>Finance and accounting</i>				
Salaries	595,240	595,185	560,065	(35,120)
Other	173,120	157,320	142,032	(15,288)
	768,360	752,505	702,097	(50,408)
<i>Internal audit</i>				
Salaries	69,760	69,760	69,757	(3)
Other	19,070	19,070	14,826	(4,244)
	88,830	88,830	84,583	(4,247)
<i>Purchasing</i>				
Salaries	205,750	205,750	201,834	(3,916)
Other	66,060	66,115	63,876	(2,239)
	271,810	271,865	265,710	(6,155)
<i>Management information systems</i>				
Salaries	1,163,460	1,151,233	1,121,296	(29,937)
Other	1,337,670	1,694,355	1,475,286	(219,069)
	2,501,130	2,845,588	2,596,582	(249,006)
Total general and financial administration	7,248,910	7,680,422	7,143,182	(531,867)
Board of Elections				
<i>Elections</i>				
Salaries	86,500	81,329	64,064	(17,265)
Other	54,060	53,738	33,667	(20,071)
	140,560	135,067	97,731	(37,336)
<i>Registrar</i>				
Salaries	82,380	82,380	82,365	(15)
Other	55,510	55,532	26,224	(29,308)
	137,890	137,912	108,589	(29,323)
Total Board of Elections	278,450	272,979	206,320	(66,659)
Total General Government	7,527,360	7,953,401	7,349,502	(603,899)
Judicial Administration				
Courts				
<i>Circuit Court</i>				
Salaries	140,570	139,558	116,579	(22,979)
Other	58,970	47,982	33,522	(14,460)
	199,540	187,540	150,101	(37,439)

See report of Independent auditors
(Continued on next page)

GENERAL FUND
SCHEDULE OF AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
<i>General District Court</i>				
Salaries - legal services	33,000	32,283	22,017	(10,266)
Other	17,850	18,567	16,260	(2,307)
	50,850	50,850	38,277	(12,573)
<i>Courts</i>				
Other	2,330	2,330	941	(1,389)
<i>District Court service unit</i>				
Other	7,000	7,000	4,669	(2,331)
<i>Juvenile and Domestic Relations Court</i>				
Other	37,450	37,450	20,385	(17,065)
<i>Clerk of the Circuit Court</i>				
Salaries	62,770	268,222	268,221	(1)
Other	205,130	187,277	172,670	(14,607)
	267,900	455,499	440,891	(14,608)
<i>City Sheriff</i>				
Salaries	2,705,710	2,750,918	2,750,886	(32)
Other	858,680	782,070	746,327	(35,743)
	3,564,390	3,532,988	3,497,213	(35,775)
Total courts	4,129,460	4,273,657	4,152,477	(121,180)
Commonwealth's Attorney				
Salaries	900,620	880,683	880,678	(5)
Other	325,820	358,474	286,526	(71,948)
Total Commonwealth's Attorney	1,226,440	1,239,157	1,167,204	(71,953)
Total judicial administration	5,355,900	5,512,814	5,319,681	(193,133)
Public Safety				
Law enforcement and traffic control				
<i>Police</i>				
Salaries	6,058,650	6,465,285	6,024,193	(441,092)
Other	2,550,580	2,858,076	2,544,444	(313,632)
	8,609,230	9,323,361	8,568,637	(754,724)
<i>Traffic control and maintenance</i>				
Salaries	330,530	327,734	327,731	(3)
Other	517,880	573,772	491,984	(81,788)
	848,410	901,506	819,715	(81,791)
Total law enforcement and traffic control	9,457,640	10,224,867	9,388,352	(836,515)
Fire and rescue services				
<i>Fire</i>				
Salaries	5,523,810	5,529,170	5,400,872	(128,298)
Other	2,057,400	2,164,218	1,959,571	(204,647)
	7,581,210	7,693,388	7,360,443	(332,945)

See report of Independent auditors
(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
<i>Ambulance and rescue services</i>				
Other	124,060	124,208	124,208	-
Total fire and rescue services	7,705,270	7,817,596	7,484,651	(332,945)
 Correction and detention				
<i>Juvenile detention</i>				
Salaries	1,690,310	1,729,627	1,682,875	(46,752)
Other	2,074,780	2,132,570	1,456,369	(676,201)
	3,765,090	3,862,197	3,139,244	(722,953)
<i>City Jail</i>				
Salaries	41,690	41,690	35,094	(6,596)
Other	1,021,440	1,039,676	1,397,200	357,524
	1,063,130	1,081,366	1,432,294	350,928
<i>Adult detention</i>				
Salaries	1,512,090	1,510,169	1,351,644	(158,525)
Other	1,155,430	1,218,023	1,129,502	(88,521)
	2,667,520	2,728,192	2,481,146	(247,046)
Total correction and detention	7,495,740	7,671,755	7,052,684	(619,071)
 Inspections				
Salaries	462,690	462,690	452,103	(10,587)
Other	393,570	396,259	374,265	(21,994)
Total inspections	856,260	858,949	826,368	(32,581)
 Other protection				
<i>Animal control</i>				
Other	124,850	124,850	124,842	(8)
<i>Medical examiner</i>				
Other	1,000	1,000	900	(100)
<i>Emergency services</i>				
Salaries	89,440	89,440	87,931	(1,509)
Other	92,320	102,117	87,500	(14,617)
	181,760	191,557	175,431	(16,126)
<i>Emergency E-911</i>				
Salaries	774,040	774,040	592,358	(181,682)
Other	281,800	281,886	236,569	(45,317)
	1,055,840	1,055,926	828,927	(226,999)
Total other protection	1,363,450	1,373,333	1,130,100	(243,233)
Total public safety	26,878,360	27,946,500	25,882,155	(2,064,345)

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(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Public Works				
Maintenance of highways, streets, bridges and sidewalks				
<i>Warehouse</i>				
Salaries	83,120	83,120	75,287	(7,833)
Other	51,610	48,174	42,594	(5,580)
	134,730	131,294	117,881	(13,413)
<i>Airport</i>				
Salaries	221,910	221,789	216,611	(5,178)
Other	260,250	262,026	244,825	(17,201)
	482,160	483,815	461,436	(22,379)
<i>Amtrak operations</i>				
Other	36,000	36,000	34,705	(1,295)
<i>Director of public works and engineering</i>				
Salaries	372,030	386,013	386,011	(2)
Other	183,180	185,847	172,593	(13,254)
	555,210	571,860	558,604	(13,256)
<i>Engineering</i>				
Salaries	458,820	472,121	471,816	(305)
Other	142,650	158,403	156,908	(1,495)
	601,470	630,524	628,724	(1,800)
<i>Right of way landscaping</i>				
Other	70,000	55,665	55,664	(1)
<i>Street maintenance</i>				
Salaries	821,710	763,951	723,403	(40,548)
Other	4,402,780	4,892,522	4,358,980	(533,542)
	5,224,490	5,656,473	5,082,383	(574,090)
<i>Storm drainage</i>				
Salaries	138,520	138,520	52,676	(85,844)
Other	134,980	138,339	92,502	(45,837)
	273,500	276,859	145,178	(131,681)
<i>Street lighting</i>				
Other	955,000	1,124,156	1,120,355	(3,801)
<i>Snow removal and storm damage</i>				
Drainage repair	31,500	21,794	21,343	(451)
Salaries	187,020	116,082	75,595	(40,487)
Other	409,740	227,711	69,960	(157,751)
	628,260	365,587	166,898	(198,689)
<i>Street cleaning</i>				
Salaries	207,040	207,040	169,608	(37,432)
Other	169,810	172,492	163,655	(8,837)
	376,850	379,532	333,263	(46,269)
Total maintenance of highways, streets, bridges, and sidewalks	9,337,670	9,711,765	8,705,091	(1,006,674)

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(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Maintenance of general buildings and grounds				
<i>Maintenance of buildings and facilities</i>				
Salaries	151,140	137,504	110,740	(26,764)
Other	209,200	220,759	190,653	(30,106)
	360,340	358,263	301,393	(56,870)
<i>Maintenance of public grounds</i>				
Salaries	504,590	525,531	479,137	(46,394)
Other	702,560	745,541	671,522	(74,019)
	1,207,150	1,271,072	1,150,659	(120,413)
<i>Weed abatement program</i>				
Other	98,410	115,024	114,015	(1,009)
<i>City Beautiful</i>				
Other	10,000	10,000	3,698	(6,302)
<i>Municipal building</i>				
Salaries	217,810	230,064	226,459	(3,605)
Other	328,020	275,379	262,935	(12,444)
	545,830	505,443	489,394	(16,049)
<i>Courts and jail building</i>				
Salaries	113,940	113,940	106,252	(7,688)
Other	300,670	307,532	292,562	(14,970)
	414,610	421,472	398,814	(22,658)
<i>Financial services center</i>				
Salaries	11,040	11,040	5,151	(5,889)
Other	94,460	116,129	112,894	(3,235)
	105,500	127,169	118,045	(9,124)
Total maintenance of general buildings and grounds	2,741,840	2,808,443	2,576,018	(232,425)
Total Public Works	12,079,510	12,520,208	11,281,109	(1,239,099)
Health and Welfare				
Health				
Other	586,210	585,254	576,954	(8,300)
Mental health and mental retardation				
Other	170,940	170,940	170,938	(2)
Welfare and social services				
<i>Social services bureau</i>				
Salaries	3,320,350	3,231,396	3,055,172	(176,224)
Other	5,277,110	5,401,533	4,469,472	(932,061)
	8,597,460	8,632,929	7,524,644	(1,108,285)

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(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
<i>Southern Area Agency on Aging</i>				
Other	5,290	5,290	5,283	(7)
<i>Child care initiative</i>				
Other	9,310	9,310	8,720	(590)
<i>Property tax relief for the elderly</i>				
Other	65,000	65,398	65,398	-
Total welfare and social services	8,677,060	8,712,927	7,604,045	(1,108,882)
Total Health and Welfare	9,434,210	9,469,121	8,351,937	(1,117,184)
Education				
Danville Community College	10,760	11,716	11,615	(101)
Danville School Board	17,924,860	22,292,356	20,450,584	(1,841,772)
Total Education	17,935,620	22,304,072	20,462,199	(1,841,873)
Parks, Recreation, and Cultural				
Parks and Recreation				
<i>Recreation</i>				
Salaries	1,341,600	1,377,812	1,129,511	(248,301)
Other	818,170	846,548	719,603	(126,945)
	2,159,770	2,224,360	1,849,114	(375,246)
<i>After school instructional program</i>				
Salaries	126,340	125,814	98,823	(26,991)
Other	67,920	68,446	56,793	(11,653)
	194,260	194,260	155,616	(38,644)
<i>Carrington Pavilion</i>				
Salaries	12,810	12,810	-	(12,810)
Other	7,660	15,475	12,250	(3,225)
	20,470	28,285	12,250	(16,035)
<i>Recreation buildings - maintenance</i>				
Salaries	93,730	78,677	59,311	(19,366)
Other	411,820	441,224	383,235	(57,989)
	505,550	519,901	442,546	(77,355)

See report of Independent auditors
(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
<i>Recreation grounds - maintenance</i>				
Salaries	477,020	468,735	381,885	(86,850)
Other	642,820	656,122	626,139	(29,983)
	1,119,840	1,124,857	1,008,024	(116,833)
Total parks and recreation	3,999,890	4,091,663	3,467,550	(624,113)
Public libraries				
Salaries	583,580	582,956	550,131	(32,825)
Other	560,300	560,924	550,095	(10,829)
Total public libraries	1,143,880	1,143,880	1,100,226	(43,654)
Total Parks, Recreation, and Cultural	5,143,770	5,235,543	4,567,776	(667,767)
Community Development				
Planning and community development				
<i>Director of community development</i>				
Salaries	162,050	162,050	161,817	(233)
Other	49,270	49,212	41,423	(7,789)
	211,320	211,262	203,240	(8,022)
<i>Economic development</i>				
Salaries	245,380	245,310	235,118	(10,192)
Other	304,360	304,430	269,765	(34,665)
	549,740	549,740	504,883	(44,857)
<i>Housing and development</i>				
Salaries	-	42,906	22,442	(20,464)
Other	72,840	80,764	76,313	(4,451)
	72,840	123,670	98,755	(24,915)
<i>Enterprise zone activities</i>				
Other	247,500	267,318	267,318	-
<i>Planning</i>				
Salaries	143,790	143,790	143,790	-
Other	55,150	64,705	54,568	(10,137)
	198,940	208,495	198,358	(10,137)
<i>Planning commission</i>				
Other	6,580	6,580	5,095	(1,485)
<i>West Piedmont Planning District</i>				
Other	25,800	25,800	25,295	(505)
<i>Zoning board</i>				
Salaries	1,050	1,022	1,986	964
Other	2,810	2,838	495	(2,343)
	3,860	3,860	2,481	(1,379)

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(Continued on next page)

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance
Total planning and community development	1,316,580	1,396,725	1,305,425	(70,836)
Total Community Development	1,316,580	1,396,725	1,305,425	(70,836)
Nondepartmental				
Employee benefits	7,595,950	7,869,786	5,710,836	(2,158,950)
Other	563,690	951,509	679,294	(272,215)
Total Nondepartmental	8,159,640	8,821,295	6,390,130	(2,431,165)
Debt Service				
Principal	1,639,790	1,639,790	4,911,916	3,272,126
Interest	1,231,030	1,231,030	2,323,243	1,092,213
Total debt service	2,870,820	2,870,820	7,235,159	4,364,339
Other financing sources				
Premium (discount) on long-term debt issued	-	-	79,450	79,450
Transfers out	6,097,430	9,374,457	9,015,451	(359,006)
Total other financing sources	6,097,430	9,374,457	9,094,901	(279,556)
Total General Fund Expenditures	\$ 102,799,200	\$ 113,404,956	\$ 107,239,974	\$ (6,144,518)

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June 30, 2012

Budgets and Budgetary Accounting

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

The City Manager is authorized to transfer budgeted amounts within each fund. Transfers between funds require City Council approval.

An annual operating budget is adopted for only the General Fund. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles accepted in the United States of America on a basis consistent with the legally adopted budget as amended. Effective budgetary control is achieved for the Capital Projects Fund and Special Revenues Funds, on a project-by-project or per grant basis when funding sources become available.

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

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



CITY OF DANVILLE, VIRGINIA

Other Supplementary Information

For the Year Ended June 30, 2012

CITY OF DANVILLE, VIRGINIA

Combining Statements

Nonmajor Governmental Funds

For the Year Ended June 30, 2012

- ❖ Special Revenue Funds - used to account for specific revenues that are legally restricted to expenditures for specified purposes.

- ❖ Cemetery Maintenance Fund - is a permanent fund used to account for funds set aside to provide for the perpetual care of City cemeteries. Only the earnings from the investments of this fund may be expended.

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**June 30, 2012**

	Special Revenue	Cemetery Maintenance	Total
ASSETS			
Cash and investments	\$ 216,971	\$ 2,682,522	\$ 2,899,493
Receivables - net	28,187	-	28,187
Due from other governments	1,169,150	-	1,169,150
Total assets	\$ 1,414,308	\$ 2,682,522	\$ 4,096,830
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 285,179	\$ -	\$ 285,179
Deferred revenue	19,516	-	19,516
Total liabilities	304,695	-	304,695
FUND BALANCES			
Nonspendable:			
Cemetery maintenance	-	2,682,522	2,682,522
Restricted:			
Special revenue	1,109,613	-	1,109,613
Total fund balances	1,109,613	2,682,522	3,792,135
Total liabilities and fund balances	\$ 1,414,308	\$ 2,682,522	\$ 4,096,830

See report of independent auditors

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2012

	Special Revenue	Cemetery Maintenance	Total
REVENUES			
Miscellaneous	\$ 274,261	\$ 40,175	\$ 314,436
Intergovernmental	4,058,245	-	4,058,245
Total revenues	4,332,506	40,175	4,372,681
EXPENDITURES			
Judicial administration	111,879	-	111,879
Public safety	767,741	-	767,741
Public works	178,467	-	178,467
Health and welfare	3,326,508	-	3,326,508
Parks, recreation, and cultural	455,809	-	455,809
Community Development	610,364	-	610,364
Total expenditures	5,450,768	-	5,450,768
Excess (deficiency) of revenues over expenditures	(1,118,262)	40,175	(1,078,087)
OTHER FINANCING SOURCES			
Transfers in	1,082,496	-	1,082,496
Net change in fund balances	(35,766)	40,175	4,409
Fund balances - beginning of year	1,145,379	2,642,347	3,787,726
Fund balances - end of year	\$ 1,109,613	\$ 2,682,522	\$ 3,792,135

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CITY OF DANVILLE, VIRGINIA

Combining Statements

Nonmajor Enterprise Funds

For the Year Ended June 30, 2012

- ❖ Transportation - provides mass transit service throughout the City.
- ❖ Sanitation - provides for the collection and disposal of solid waste.
- ❖ Cemetery Operations - provides for burial services and cemetery operating activities.
- ❖ Telecommunications - provides broadband communication needs of the City and Danville Public Schools currently with plans to expand to provide access to businesses and homes.

COMBINING BALANCE SHEET-NONMAJOR ENTERPRISE FUNDS

June 30, 2012

	Transportation	Sanitation	Cemetery Operations	Telecommunications	Total
ASSETS					
Current assets					
Cash and investments	\$ -	\$ 461,031	\$ 215,769	\$ 1,273,196	\$ 1,949,996
Receivables - net	750	123,748	-	18,751	143,249
Due from other governments	809,559	-	-	-	809,559
Inventory	-	-	-	329,809	329,809
Total current assets	810,309	584,779	215,769	1,621,756	3,232,613
Noncurrent assets					
Cash and investments - restricted	-	-	-	5,045	5,045
Pension asset	-	81,190	-	-	81,190
Capital assets:					
Land and improvements	-	509,232	-	-	509,232
Construction in progress	-	-	-	246,143	246,143
Buildings, structures, and improvements	1,869,928	1,601,809	-	-	3,471,737
Equipment	2,581,472	456,042	-	5,316,792	8,354,306
Less - accumulated depreciation	(1,502,237)	(1,877,009)	-	(843,744)	(4,222,990)
Total noncurrent assets - net	2,949,163	771,264	-	4,724,236	8,444,663
Total assets	\$ 3,759,472	\$ 1,356,043	\$ 215,769	\$ 6,345,992	\$ 11,677,276
LIABILITIES					
Current liabilities					
Accounts payable	\$ 108,420	\$ 80,782	\$ 3,909	\$ 99,621	\$ 292,732
Accrued interest	13	249	-	-	262
Long-term liabilities - due within one year	21,376	65,007	17,057	4,264	107,704
Total current liabilities	129,809	146,038	20,966	103,885	400,698
Long-term liabilities - due in more than one year	644	12,800	-	-	13,444
Pension liability	18,726	-	35,893	12,154	66,773
Compensated absences	1,637	7,780	2,130	1,916	13,463
Total noncurrent liabilities	21,007	20,580	38,023	14,070	93,680
Total liabilities	150,816	166,618	58,989	117,955	494,378
NET ASSETS					
Invested in capital assets - net of related debt	2,948,464	676,157	-	4,719,191	8,343,812
Restricted - capital projects	414,306	-	-	5,045	419,351
Unrestricted	245,886	513,268	156,780	1,503,801	2,419,735
Total net assets	\$ 3,608,656	\$ 1,189,425	\$ 156,780	\$ 6,228,037	\$ 11,182,898

See report of independent auditors

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

Year Ended June 30, 2012

	Transportation	Sanitation	Cemetery Operations	Telecommunications	Total
OPERATING REVENUES					
Charges for services	\$ 305,774	\$ 3,639,416	\$ 753,105	\$ 1,405,097	\$ 6,103,392
OPERATING EXPENSES					
Services	1,502,812	3,515,511	856,877	666,206	6,541,406
Depreciation	296,744	10,606	-	235,600	542,950
Total operating expenses	1,799,556	3,526,117	856,877	901,806	7,084,356
Operating income (loss)	(1,493,782)	113,299	(103,772)	503,291	(980,964)
NONOPERATING REVENUES (EXPENSES)					
Sales income	9,000	-	190,380	-	199,380
Jobbing income	-	-	-	11,900	11,900
Rental income	24,983	8,148	-	-	33,131
Recovered cost	15,400	-	-	-	15,400
Gain on sale of assets	2,745	-	-	1,958	4,703
Federal and state grants	1,321,999	-	-	-	1,321,999
In-kind contributions	262,670	-	-	-	262,670
Interest income	1,065	9,796	56,872	25,407	93,140
Interest expense	(60)	(1,200)	-	-	(1,260)
Total nonoperating revenues	1,637,802	16,744	247,252	39,265	1,941,063
Income before transfers and capital contributions	144,020	130,043	143,480	542,556	960,099
Transfers and capital contributions					
Capital contributions	24,515	-	-	-	24,515
Transfer in from other funds	187,480	-	13,300	-	200,780
Transfer out to general fund	-	-	-	(302,000)	(302,000)
Total transfers and capital contributions	211,995	-	13,300	(302,000)	(76,705)
Change in net assets	356,015	130,043	156,780	240,556	883,394
Net assets - beginning of year	3,252,641	1,059,382	-	5,987,481	10,299,504
Net assets - end of year	\$ 3,608,656	\$ 1,189,425	\$ 156,780	\$ 6,228,037	\$ 11,182,898

See report of independent auditors

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS

Year Ended June 30, 2012

	Transportation	Sanitation	Cemetery Operations	Telecommunications	Total
Cash flows from operating activities					
Received from customers	\$ 306,539	\$ 3,660,276	\$ 753,105	\$ 1,487,610	\$ 6,207,530
Payments to suppliers for goods and services	(426,129)	(2,089,707)	(338,788)	(402,900)	(3,257,524)
Payments to employees for services	(707,749)	(1,393,062)	(521,027)	(232,371)	(2,854,209)
Payments to internal service funds for goods and services	(4,567)	(5,146)	-	-	(9,713)
Nonoperating revenue	49,382	8,148	190,380	(30,984)	216,926
Net cash from operating activities	(782,524)	180,509	83,670	821,355	303,010
Cash flows from noncapital financing activities					
Transfers from other funds	187,480	-	13,300	-	200,780
Transfers to other funds	-	-	-	(302,000)	(302,000)
Operating grants received	810,058	-	-	-	810,058
Net cash from noncapital financing activities	997,538	-	13,300	(302,000)	708,838
Cash flows from capital and related financing activities					
Acquisition of capital assets	(333,447)	(25,420)	-	(525,692)	(884,559)
Principal payments on long-term debt	-	(795)	-	-	(795)
Interest payments on long-term debt	(100)	(1,188)	-	-	(1,288)
Proceeds from sale of capital assets	16,470	-	-	1,958	18,428
Contributed capital	24,515	-	-	-	24,515
Net cash from capital and related financing activities	(292,562)	(27,403)	-	(523,734)	(843,699)
Cash flows from investing activities					
Interest on investments	1,066	8,907	51,449	22,969	84,391
Net activity in investment securities	23	1,340	5,423	2,438	9,224
Net cash from investing activities	1,089	10,247	56,872	25,407	93,615
Net increase (decrease) in cash and investments	(76,459)	163,353	153,842	21,028	261,764
Cash and investments - beginning of year	76,459	297,678	61,927	1,257,213	1,693,277
Cash and investments - end of year	\$ -	\$ 461,031	\$ 215,769	\$ 1,278,241	\$ 1,955,041
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ (1,493,782)	\$ 113,299	\$ (103,772)	\$ 503,291	\$ (980,964)
Adjustments:					
Depreciation charged to operations	296,744	10,606	-	235,600	542,950
In-kind contributions	262,670	-	-	-	262,670
Change in noncash employee benefits charged to operations	10,927	14,018	8,186	1,967	35,098
Nonoperating revenue	49,381	8,149	190,380	11,899	259,809
Changes in assets and liabilities:					
Accounts receivable	766	20,859	-	77,326	98,951
Inventory	-	-	-	(68,940)	(68,940)
Accounts payable	90,770	13,578	(11,124)	60,212	153,436
Net cash from operating activities	\$ (782,524)	\$ 180,509	\$ 83,670	\$ 821,355	\$ 303,010
Supplemental disclosure of noncash investing, capital, and financing activities:					
Decrease in fair value of investments	\$ 23	\$ 1,340	\$ 5,423	\$ 2,438	\$ 9,224

See report of independent auditors

CITY OF DANVILLE, VIRGINIA

Combining Statements

Internal Service Funds

For the Year Ended June 30, 2012

- ❖ Motorized Equipment - acquires and maintains all vehicles used by the various departments of the City.
- ❖ Central Services - provides office supplies and printing services for all departments of the City.
- ❖ Insurance - provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2012

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
Current assets				
Cash and investments	\$ 70,016	\$ -	\$ 4,710,368	\$ 4,780,384
Cash and investments - held by fiscal agent	-	-	60,000	60,000
Receivables - net	-	3,660	-	3,660
Inventories	-	123,499	-	123,499
Total current assets	70,016	127,159	4,770,368	4,967,543
Noncurrent assets				
Pension asset	2,770	916	-	3,686
Capital assets -				
Equipment	10,767,719	304,534	-	11,072,253
Less - accumulated depreciation	(8,512,633)	(264,997)	-	(8,777,630)
Total noncurrent assets	2,257,856	40,453	-	2,298,309
Total assets	\$ 2,327,872	\$ 167,612	\$ 4,770,368	\$ 7,265,852
LIABILITIES				
Current liabilities				
Accounts payable	\$ 32,885	\$ 18,677	\$ 41,317	\$ 92,879
Accrued interest	406	-	-	406
Due to other funds	-	77,976	-	77,976
Total current liabilities	33,291	96,653	41,317	171,261
Long-term liabilities - due in more than one year	48,382	2,468	-	50,850
Total liabilities	81,673	99,121	41,317	222,111
NET ASSETS				
Invested in capital assets -				
net of related debt	2,232,352	39,537	-	2,271,889
Unrestricted	13,847	28,954	4,729,051	4,771,852
Total net assets	\$ 2,246,199	\$ 68,491	\$ 4,729,051	\$ 7,043,741

See report of independent auditors

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
INTERNAL SERVICE FUNDS**

Year Ended June 30, 2012

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 2,984,681	\$ 457,506	\$ 2,024,706	\$ 5,466,893
OPERATING EXPENSES				
Operations	2,507,712	446,835	2,024,706	4,979,253
Depreciation	522,516	14,503	-	537,019
Total operating expenses	3,030,228	461,338	2,024,706	5,516,272
Operating loss	(45,547)	(3,832)	-	(49,379)
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of assets	136,607	-	-	136,607
Interest income	1,396	-	87,805	89,201
Interest expense	(1,961)	-	-	(1,961)
Total nonoperating revenues	136,042	-	87,805	223,847
Income loss	90,495	(3,832)	87,805	174,468
Change in net assets	90,495	(3,832)	87,805	174,468
Net assets - beginning of year	2,155,704	72,323	4,641,246	6,869,273
Net assets - end of year	\$ 2,246,199	\$ 68,491	\$ 4,729,051	\$ 7,043,741

See report of independent auditors

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

Year Ended June 30, 2012

	Motorized Equipment	Central Services	Insurance	Total
Cash flows from operating activities				
Received from customers	\$ 2,984,679	\$ 457,250	\$ 2,024,706	\$ 5,466,635
Payments to suppliers for goods and services	(1,285,721)	(349,781)	(2,011,133)	(3,646,635)
Payments to employees for services	(1,189,185)	(107,469)	-	(1,296,654)
Payments to internal service funds for goods and services	(38,251)	-	-	(38,251)
Net cash from operating activities	471,522	-	13,573	485,095
Cash flows from capital and related financing activities				
Acquisition of capital assets	(628,488)	-	-	(628,488)
Interest payments on long-term debt	(3,240)	-	-	(3,240)
Proceeds from sale of capital assets	136,607	-	-	136,607
Net cash from capital and related financing activities	(495,121)	-	-	(495,121)
Cash flows from investing activities				
Interest on investments	-	-	79,489	79,489
Net activity in investments	2,134	-	8,315	10,449
Net cash from investing activities	2,134	-	87,804	89,938
Net increase (decrease) in cash and investments	(21,465)	-	101,377	79,912
Cash and investments - beginning of year	91,481	-	4,668,991	4,760,472
Cash and investments - end of year	\$ 70,016	\$ -	\$ 4,770,368	\$ 4,840,384
Reconciliation of operating income (loss) to net cash from operating activities				
Operating income (loss)	\$ (45,547)	\$ (3,832)	\$ -	\$ (49,379)
Adjustments:				
Depreciation charged to operations	522,516	14,503	-	537,019
Change in noncash employee benefits charged to operations	14,869	2,415	-	17,284
Changes in assets and liabilities:				
Accounts receivable	-	(256)	-	(256)
Inventories	-	10,023	-	10,023
Accounts payable	(20,316)	(22,853)	13,573	(29,596)
Net cash from operating activities	\$ 471,522	\$ -	\$ 13,573	\$ 485,095
Supplemental disclosure of noncash investing, capital and financing activities:				
Decrease in fair value of investments	\$ 2,134	\$ -	\$ 8,315	\$ 10,449

See report of independent auditors.

CITY OF DANVILLE, VIRGINIA

Combining Statements

Agency Funds

For the Year Ended June 30, 2012

- ❖ Veterans Memorial Fund – the City acts as custodian of monies donated to the Veterans Memorial in Danville, Virginia.

Schedules of Changes in Assets and Liabilities - Veterans Memorial Fund

Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Assets				
Cash	<u>\$ 3,334</u>	<u>\$ 7,214</u>	<u>\$ 2,494</u>	<u>\$ 8,054</u>
Liabilities - accounts payable	<u>\$ 3,334</u>	<u>\$ 7,214</u>	<u>\$ 2,494</u>	<u>\$ 8,054</u>

See report of independent auditors.

SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2012					
Function and Activity	Land and Land Improvements	Buildings	Furniture and Equipment	Infrastructure	Total
General government administration:					
General and financial administration	\$ 367,558	\$ -	\$ 3,714,516	\$ -	\$ 4,082,074
Social services building	-	139,826	64,312	-	204,138
Public safety:					
Law enforcement and traffic control	-	-	388,088	-	388,088
Fire and rescue services	-	1,883,263	636,322	-	2,519,585
Corrections and detention	-	6,625,670	156,974	-	6,782,644
Inspections and other	-	96,800	-	-	96,800
Public works:					
Airport	7,407,720	3,559,570	799	-	10,968,089
General	305,000	1,519,550	237,456	-	2,062,006
Maintenance of highways, bridges and sidewalks	7,973,519	502,350	487,015	8,131,914	17,094,798
Health and welfare	-	-	-	-	-
Parks, recreation and cultural	-	4,120,969	206,872	-	4,327,841
Community development	86,190	530,645	-	-	616,835
General property	3,458,654	3,258,319	-	-	6,716,973
	19,598,641	22,236,962	5,892,354	8,131,914	55,859,871
Construction in progress	2,911,491	1,033,568	6,564,980	5,320,495	15,830,534
	22,510,132	23,270,530	12,457,334	13,452,409	71,690,405
Capital assets from Danville School Board	3,408,072	565,224	5,616,765	-	9,590,061
	\$ 25,918,204	\$ 23,835,754	\$ 18,074,099	\$ 13,452,409	\$ 81,280,466

* All totals are net of depreciation

SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2012

Function and Activity	Balance June 30, 2011	Additions	Depreciation/ Deletions	Balance June 30, 2012
General government administration:				
General and financial administration	\$ 3,492,522	\$ 1,045,587	\$ (456,035)	\$ 4,082,074
Social services building	218,209	-	(14,071)	204,138
Public safety:				
Law enforcement and traffic control	166,032	448,655	(226,599)	388,088
Fire and rescue services	2,743,307	288,751	(512,473)	2,519,585
Corrections and detention	7,973,414	79,368	(1,270,138)	6,782,644
Inspections and other	96,800	-	-	96,800
Public works:				
Airport	6,809,107	4,209,592	(50,610)	10,968,089
General	2,107,744	45,205	(90,943)	2,062,006
Maintenance of highways, streets and bridges	17,246,267	956,379	(1,107,848)	17,094,798
Health and welfare	-	-	-	-
Parks, recreation and cultural	4,022,824	13,709	291,308	4,327,841
Community development	425,057	-	191,778	616,835
General property	6,786,907	-	(69,934)	6,716,973
	52,088,190	7,087,246	(3,315,565)	55,859,871
Construction in progress	11,034,485	11,147,483	(6,351,434)	15,830,534
	63,122,675	18,234,729	(9,666,999)	71,690,405
Capital assets from Danville School Board	11,513,501	-	(1,923,440)	9,590,061
	\$ 74,636,176	\$ 18,234,729	\$ (11,590,439)	\$ 81,280,466

* All totals are net of depreciation

SCHEDULE OF CAPITAL ASSETS - BY SOURCE**June 30, 2012**

Land and land improvements	\$	19,598,641
Buildings		22,236,962
Infrastructure		8,131,914
Equipment		5,892,354
Construction in progress		<u>15,830,534</u>
	\$	<u>71,690,405</u>
Capital projects funds:		
General obligation bonds	\$	39,487,522
General appropriations		9,368,369
General fund revenues		13,175,874
Special revenue fund revenues		538,329
Federal grants		3,023,877
State grants		5,099,009
Contributions		<u>997,425</u>
		71,690,405
Danville School Board		<u>9,590,061</u>
	\$	<u>81,280,466</u>

* All totals are net of depreciation



CITY OF DANVILLE, VIRGINIA

Statistical Section

For the Year Ended June 30, 2012

STATISTICAL SECTION

This part of the City of Danville’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.</i>	133
Revenue Capacity <i>These schedules contain information to help the reader assess the government’s most significant local revenue sources, the property tax and charges for utility services.</i>	139
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	144
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within the government’s financial activities take place.</i>	148
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.</i>	150

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF DANVILLE, VIRGINIA
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 14,927,384	\$ 20,589,644	\$ 21,592,954	\$ 24,811,422	\$ 28,858,705	\$ 29,933,932	\$ 37,094,092	\$ 43,276,891	\$ 41,235,117	\$ 49,638,230
Restricted	10,170,443	6,153,666	6,573,688	8,602,821	10,031,903	8,229,657	10,207,310	10,668,601	15,329,590	15,892,978
Unrestricted	38,991,299	39,360,575	38,433,286	40,651,729	47,172,244	50,143,933	46,202,951	48,669,847	52,958,594	53,563,068
Total governmental activities net assets	\$ 64,089,126	\$ 66,103,885	\$ 66,599,928	\$ 74,065,972	\$ 86,062,852	\$ 88,307,522	\$ 93,504,353	\$ 102,615,339	\$ 109,523,301	\$ 119,094,276
Business-type activities										
Invested in capital assets, net of related debt	\$ 125,436,377	\$ 141,102,057	\$ 158,570,378	\$ 162,072,054	\$ 172,325,000	\$ 189,153,872	\$ 190,621,794	\$ 197,322,894	\$ 205,342,317	\$ 215,409,229
Restricted	4,072,210	9,419,436	14,528,018	26,205,121	29,047,292	30,889,610	42,001,357	36,946,909	39,376,676	35,662,658
Unrestricted	59,009,400	48,615,924	35,172,773	30,425,855	34,299,631	32,524,963	34,605,909	47,102,049	49,019,935	50,668,344
Total business-type activities net assets	\$ 188,517,987	\$ 199,137,417	\$ 208,271,169	\$ 218,703,030	\$ 235,671,923	\$ 252,568,445	\$ 267,229,060	\$ 281,371,852	\$ 293,738,928	\$ 301,740,231
Primary government										
Invested in capital assets, net of related debt	\$ 140,363,761	\$ 161,691,701	\$ 180,163,332	\$ 186,883,476	\$ 201,183,705	\$ 219,087,804	\$ 227,715,886	\$ 240,599,785	\$ 246,577,434	\$ 265,047,459
Restricted	14,242,653	15,573,102	21,101,706	34,807,942	39,079,195	39,119,267	52,208,667	47,615,510	54,706,266	51,555,636
Unrestricted	98,000,699	87,976,499	73,606,059	71,077,584	81,471,875	82,668,896	80,808,860	95,771,896	101,978,529	104,231,412
Total primary government net assets	\$ 252,607,113	\$ 265,241,302	\$ 274,871,097	\$ 292,769,002	\$ 321,734,775	\$ 340,875,967	\$ 360,733,413	\$ 383,987,191	\$ 403,262,229	\$ 420,834,507

CITY OF DANVILLE, VIRGINIA
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS

Fiscal Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 11,080,064	\$ 11,208,242	\$ 11,563,702	\$ 10,706,147	\$ 10,978,148	\$ 16,703,820	\$ 17,366,229	\$ 11,190,407	\$ 11,513,535	\$ 21,239,721
Judicial administration	5,290,396	4,232,325	4,506,834	4,803,342	5,218,767	4,853,835	4,680,120	4,677,118	4,895,286	5,349,323
Public safety	21,611,220	20,971,031	23,709,019	25,172,041	24,929,011	25,809,136	27,871,098	27,905,805	27,211,372	27,119,838
Public works	9,748,494	10,129,695	12,961,903	11,832,496	10,844,833	12,423,465	18,044,882	13,746,621	10,468,862	12,690,486
Health and welfare	11,908,642	10,589,382	10,751,310	12,285,520	12,844,409	13,743,677	14,011,832	13,662,743	12,236,155	11,614,813
Parks, recreation, cultural	4,926,303	5,621,196	5,456,588	5,009,150	5,367,886	5,666,299	5,834,463	5,831,486	6,227,105	5,235,582
Community development	5,444,251	7,893,504	7,893,276	7,392,661	11,796,198	4,133,310	4,127,674	4,429,763	3,862,302	1,633,174
Education	21,623,266	23,598,363	17,932,956	20,143,175	16,903,673	22,343,504	19,762,967	21,190,425	29,939,742	21,382,291
Interest on long-term debt	2,112,705	2,461,084	1,886,516	1,665,956	1,617,511	6,732,839	6,988,805	6,447,064	12,513,650	13,625,289
Nondepartmental	1,013,117	672,598	3,861,787	-	-	-	-	-	-	-
Total governmental activities expenses	<u>94,758,458</u>	<u>97,377,420</u>	<u>100,523,891</u>	<u>99,010,488</u>	<u>100,500,436</u>	<u>112,409,685</u>	<u>118,888,070</u>	<u>109,081,432</u>	<u>118,868,009</u>	<u>119,890,517</u>
Business-type activities:										
Wastewater	6,301,012	6,304,213	6,162,912	6,464,670	6,561,949	6,975,203	6,696,533	6,912,126	6,954,269	6,761,973
Water	4,355,081	4,204,395	4,545,575	4,598,119	4,739,464	5,035,842	5,299,264	5,676,850	5,407,252	5,541,327
Gas	27,037,186	22,667,165	22,305,387	31,008,668	23,320,491	28,436,785	29,694,406	21,633,916	20,911,099	17,955,882
Electric	38,815,555	40,030,479	41,008,206	61,160,771	72,817,037	75,313,686	84,712,087	92,884,951	95,215,780	89,185,930
Nonmajor	4,293,078	4,488,681	4,901,655	5,393,641	5,836,847	6,313,481	6,586,104	6,711,765	6,787,829	7,085,616
Total business-type activities expenses	<u>80,801,912</u>	<u>77,694,933</u>	<u>78,923,735</u>	<u>108,625,869</u>	<u>113,275,788</u>	<u>122,074,997</u>	<u>132,988,394</u>	<u>133,819,608</u>	<u>135,276,229</u>	<u>126,530,728</u>
Total primary government expenses	<u>\$ 175,560,370</u>	<u>\$ 175,072,353</u>	<u>\$ 179,447,626</u>	<u>\$ 207,636,357</u>	<u>\$ 213,776,224</u>	<u>\$ 234,484,682</u>	<u>\$ 251,676,464</u>	<u>\$ 242,901,040</u>	<u>\$ 254,144,238</u>	<u>\$ 246,421,245</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 4,316,677	\$ 4,853,085	\$ 5,000,863	\$ 5,103,657	\$ 5,685,591	\$ 5,727,677	\$ 6,071,953	\$ 6,838,951	\$ 6,171,322	\$ 5,780,801
Judicial administration	439,554	549,137	487,228	576,841	1,489,794	618,268	652,091	717,847	1,044,237	3,582,895
Public safety	381,372	191,826	242,548	219,838	231,309	312,503	201,788	253,638	223,330	182,461
Public works	230,255	-	-	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-	-	-
Parks, recreation, cultural	171,666	220,943	213,037	202,418	210,182	224,462	232,848	310,103	68,083	23,218
Community development	-	-	-	-	-	83,151	-	-	-	-
Education	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	28,413,626	30,964,009	32,700,459	36,552,849	38,205,373	41,172,782	43,012,678	39,784,055	39,799,066	41,329,002
Capital grants and contributions	5,102,140	4,807,968	2,905,657	1,596,539	4,055,930	2,139,975	6,580,922	5,887,846	4,654,262	8,702,174
Total governmental activities program revenues	<u>39,055,290</u>	<u>41,811,873</u>	<u>41,549,792</u>	<u>44,252,142</u>	<u>49,878,179</u>	<u>50,278,818</u>	<u>56,752,280</u>	<u>53,792,440</u>	<u>51,960,300</u>	<u>59,610,491</u>
Business-type activities:										
Charges for services:										
Wastewater	7,009,576	6,918,502	6,059,995	7,528,176	7,805,221	8,362,522	9,306,293	9,511,518	9,812,296	9,862,984
Water	5,388,944	5,223,867	5,075,326	6,117,848	7,012,772	7,142,932	6,930,045	6,480,696	6,230,140	5,897,749
Gas	30,029,152	25,999,471	25,211,996	33,414,367	26,290,132	32,949,771	32,501,486	27,060,176	24,700,569	21,475,496
Electric	54,793,952	55,491,259	53,740,565	72,751,817	88,910,376	90,181,855	98,949,812	106,248,337	109,022,347	102,304,323
Nonmajor	3,269,499	3,208,290	3,568,492	5,433,299	5,602,965	5,719,119	5,782,975	5,731,883	5,857,175	6,103,392
Operating grants and contributions	477,774	-	299,476	500,546	355,921	405,673	500,537	826,340	2,101,602	1,584,689
Capital grants and contributions	56,343	1,085,942	1,074,434	3,333,743	1,741,248	2,735,406	2,317,309	1,524,609	1,511,920	226,283
Total business-type activities program revenues	<u>101,025,240</u>	<u>97,907,331</u>	<u>95,030,284</u>	<u>129,079,796</u>	<u>137,718,635</u>	<u>147,497,278</u>	<u>156,288,457</u>	<u>157,383,559</u>	<u>159,236,049</u>	<u>147,454,896</u>
Total primary government program revenues	<u>\$ 140,080,530</u>	<u>\$ 139,719,204</u>	<u>\$ 136,580,076</u>	<u>\$ 173,331,938</u>	<u>\$ 187,596,814</u>	<u>\$ 197,776,096</u>	<u>\$ 213,040,737</u>	<u>\$ 211,175,999</u>	<u>\$ 211,196,349</u>	<u>\$ 207,065,387</u>
Net (expense)/revenue										
Governmental activities	\$ (55,703,168)	\$ (55,565,547)	\$ (58,974,099)	\$ (54,758,346)	\$ (50,622,257)	\$ (62,130,867)	\$ (61,935,790)	\$ (55,288,992)	\$ (66,907,709)	\$ (60,280,026)
Business-type activities	20,223,328	20,212,398	16,106,549	20,453,927	24,442,847	25,422,881	23,300,063	23,563,951	23,959,820	20,924,168
Total primary government net expense	<u>\$ (35,479,840)</u>	<u>\$ (35,353,149)</u>	<u>\$ (42,867,550)</u>	<u>\$ (34,304,419)</u>	<u>\$ (26,179,410)</u>	<u>\$ (36,708,586)</u>	<u>\$ (38,635,727)</u>	<u>\$ (31,725,041)</u>	<u>\$ (42,947,889)</u>	<u>\$ (39,355,858)</u>

**CITY OF DANVILLE, VIRGINIA
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in										
Net Assets										
Governmental activities:										
Taxes										
Property taxes	\$ 23,943,675	\$ 23,289,443	\$ 24,540,038	\$ 25,453,656	\$ 25,930,246	\$ 26,590,389	\$ 26,487,289	\$ 26,464,571	\$ 25,869,256	\$ 26,720,274
Sales taxes	6,630,318	6,767,056	6,941,295	7,326,695	7,598,276	8,071,419	7,800,856	7,662,498	7,745,308	8,109,198
Business licenses	3,536,402	3,597,621	3,777,830	4,889,518	4,572,218	4,989,707	4,474,854	4,419,042	4,677,012	4,704,465
Utility taxes	3,435,728	3,896,209	4,237,844	4,246,590	2,654,769	994,536	1,013,694	985,162	997,935	972,637
Hotel and meals taxes	3,784,413	4,196,327	4,334,822	4,499,854	5,165,368	5,495,291	5,488,960	6,629,741	7,008,520	7,335,791
Recordation and bank stock taxes	907,760	895,694	982,914	1,109,217	946,397	948,038	862,181	978,498	957,247	901,985
Auto license and recordation taxes	1,021,664	1,005,918	983,762	895,776	1,034,967	1,047,044	1,055,948	1,159,830	1,095,474	1,086,443
Investment income	1,247,279	104,591	758,666	701,529	885,861	1,626,835	1,327,296	683,469	591,487	986,545
Miscellaneous	3,400,681	3,297,463	3,183,697	775,157	1,047,591	1,235,600	5,260,403	2,044,711	11,461,568	2,602,443
Transfers	10,557,137	10,529,984	10,405,773	12,326,398	12,783,444	13,376,678	13,361,140	13,372,456	13,411,864	16,431,220
Total governmental activities	58,465,057	57,580,306	60,146,641	62,224,390	62,619,137	64,375,537	67,132,621	64,399,978	73,815,671	69,851,001
Business-type activities:										
Investment income	2,686,690	78,404	1,471,314	1,481,092	3,452,939	2,610,753	2,023,614	1,440,386	1,373,048	1,954,386
Miscellaneous	1,411,779	858,612	1,961,662	823,241	1,856,551	2,240,166	2,698,079	2,510,911	446,072	1,553,969
Transfers	(10,557,137)	(10,529,984)	(10,405,773)	(12,326,398)	(12,783,444)	(13,376,678)	(13,361,141)	(13,372,456)	(13,411,864)	(16,431,220)
Total business-type activities	(6,458,668)	(9,592,968)	(6,972,797)	(10,022,065)	(7,473,954)	(8,525,759)	(8,639,448)	(9,421,159)	(11,592,744)	(12,922,865)
Total primary government	\$ 52,006,389	\$ 47,987,338	\$ 53,173,844	\$ 52,202,325	\$ 55,145,183	\$ 55,849,778	\$ 58,493,173	\$ 54,978,819	\$ 62,222,927	\$ 56,928,136
Change in Net Assets										
Governmental activities	\$ 2,761,889	\$ 2,014,759	\$ 1,172,542	\$ 7,466,044	\$ 11,996,880	\$ 2,244,670	\$ 5,196,831	\$ 9,110,986	\$ 6,907,962	\$ 9,570,975
Business-type activities	13,764,660	10,619,430	9,133,752	10,431,862	16,968,893	16,896,522	14,660,615	14,142,792	12,367,076	8,001,303
Total primary government	\$ 16,526,549	\$ 12,634,189	\$ 10,306,294	\$ 17,897,906	\$ 28,965,773	\$ 19,141,192	\$ 19,857,446	\$ 23,253,778	\$ 19,275,038	\$ 17,572,278

CITY OF DANVILLE, VIRGINIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Other Local Taxes						Grand Total
	Property Taxes	Sales Taxes	Business License Taxes	Utility Taxes	Hotel & Meals Taxes	Recordation & Bank Stock Taxes	
						Auto License & Recordation Taxes	Total
2003	24,045,407	6,630,318	3,536,402	3,435,728	3,784,413	1,021,664	19,316,285
2004	23,289,443	6,767,056	3,597,621	3,896,209	4,196,327	1,005,918	20,358,825
2005	24,540,038	6,941,295	3,777,830	4,237,844	4,334,822	983,762	21,258,467
2006	25,453,656	7,326,695	4,889,518	4,246,590	4,499,854	895,778	22,967,652
2007	25,930,246	7,598,276	4,572,218	2,654,769	5,165,368	1,034,967	21,971,995
2008	26,590,389	8,071,419	4,989,707	994,536	5,495,291	1,047,044	21,546,035
2009	26,487,289	7,800,856	4,474,854	1,013,694	5,488,960	1,055,948	20,696,493
2010	26,464,571	7,662,498	4,419,042	985,162	6,629,741	1,159,830	21,834,771
2011	25,869,256	7,745,308	4,677,012	997,935	7,008,520	1,095,474	22,481,496
2012	26,720,274	8,109,198	4,704,465	972,637	7,335,791	1,086,443	23,110,519

City of Danville, Virginia
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
Nonspendable/Restricted/Committed/Assigned	\$ 3,042,193	\$ 2,476,902	\$ 3,851,704	\$ 5,526,954	\$ 7,242,459	\$ 8,568,727	\$ 9,436,920	\$ 9,872,609	\$ 7,721,548	\$ 6,473,442
Unassigned	21,324,394	21,001,767	20,393,893	24,843,213	26,731,939	27,812,317	24,728,115	26,107,235	30,350,466	30,690,145
Total general fund	<u>\$24,366,587</u>	<u>\$23,478,669</u>	<u>\$24,245,597</u>	<u>\$30,370,167</u>	<u>\$33,974,398</u>	<u>\$36,381,044</u>	<u>\$34,165,035</u>	<u>\$35,979,844</u>	<u>\$38,072,014</u>	<u>\$37,163,587</u>
All other governmental funds										
Nonspendable/Restricted/Committed Community Development	\$ 1,504,173	\$ 1,280,935	\$ 1,128,246	\$ 968,016	\$ 662,725	\$ 510,543	\$ 470,193	\$ 439,347	\$ 264,537	\$ 55,793
Nonspendable/Restricted/Committed Capital Projects	7,344,662	3,221,109	3,533,438	3,212,561	4,931,135	4,479,245	6,479,604	6,934,477	12,422,706	13,154,663
Restricted - Special Revenue	315,088	298,213	2,430,437	691,607	602,405	704,385	652,711	691,804	1,145,379	1,109,613
Nonspendable - Cemetery Maintenance	2,389,170	2,430,437	517,233	2,475,562	2,504,847	2,541,972	2,569,222	2,606,597	2,642,347	2,682,522
Total all other governmental funds	<u>\$11,553,093</u>	<u>\$7,230,694</u>	<u>\$7,609,354</u>	<u>\$7,347,746</u>	<u>\$8,701,112</u>	<u>\$8,236,145</u>	<u>\$10,171,730</u>	<u>\$10,672,225</u>	<u>\$16,474,969</u>	<u>\$17,002,591</u>

City of Danville, Virginia
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Fiscal Year</u>				<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues											
Property taxes	\$ 24,045,407	\$ 23,289,443	\$ 24,540,038	\$ 25,453,656	\$ 25,930,246	\$ 26,556,332	\$ 27,085,091	\$ 26,898,585	\$ 26,150,093	\$ 27,284,133	
Local taxes	19,316,285	20,358,825	21,258,467	22,963,374	21,971,995	21,546,035	20,696,492	21,834,771	22,481,496	23,110,519	
Fines and forfeitures	480,224	487,400	430,796	505,328	541,399	560,327	564,204	614,983	597,250	589,063	
Permits, privilege fees, and regulatory licenses	221,100	189,405	239,617	219,668	235,358	270,052	170,178	225,791	210,694	182,461	
Revenue from use of money and property	1,826,965	680,314	1,185,015	957,075	2,194,319	2,013,713	2,753,033	1,331,257	1,296,328	1,530,398	
Charges for services	4,573,521	3,555,551	3,689,094	3,511,114	3,770,733	3,562,920	3,679,665	3,543,026	3,536,954	3,572,557	
Miscellaneous	877,071	2,937,622	2,538,070	2,600,487	1,838,547	1,014,896	5,006,274	944,433	1,074,889	1,258,407	
Recovered costs	3,688,855	4,129,121	4,032,607	4,194,578	5,173,681	4,951,992	5,270,698	5,166,640	5,502,072	5,779,290	
Intergovernmental	27,803,342	28,431,487	29,972,172	28,728,127	34,136,326	35,080,153	39,894,367	37,863,690	36,122,952	40,497,593	
Total revenues	<u>82,832,770</u>	<u>84,059,168</u>	<u>87,885,876</u>	<u>89,133,407</u>	<u>95,792,604</u>	<u>95,556,420</u>	<u>105,120,002</u>	<u>98,423,176</u>	<u>96,972,728</u>	<u>103,804,421</u>	
Expenditures											
General government	7,055,245	7,121,782	7,815,842	6,024,273	9,211,810	9,753,673	7,809,264	6,362,187	5,459,861	9,349,502	
Judicial administration	4,123,767	4,242,578	4,409,910	4,584,788	5,128,684	5,379,273	5,423,448	5,256,851	5,114,279	5,431,560	
Public safety	24,249,727	23,402,433	23,392,708	22,423,516	24,673,695	25,657,267	27,704,661	27,249,668	26,797,585	26,649,896	
Public works	10,553,828	10,483,502	11,117,739	10,277,641	10,407,920	12,114,049	19,096,899	11,528,184	11,784,512	14,686,446	
Health and welfare	10,690,249	10,483,034	11,495,688	11,808,295	15,352,675	13,675,562	14,066,073	13,632,948	12,652,403	11,678,445	
Education	16,776,100	19,453,244	18,772,404	18,219,735	17,370,028	19,918,463	17,538,766	17,931,496	19,608,733	22,462,199	
Parks, recreation, and cultural	5,249,673	5,509,938	4,833,862	5,131,578	6,144,838	5,150,624	5,266,742	5,064,459	5,172,499	5,023,585	
Community development	3,410,345	3,937,381	4,464,673	4,757,407	3,026,397	4,164,824	4,284,071	3,982,907	4,044,531	3,871,343	
Nondepartmental	4,320,956	3,356,058	3,861,787	3,301,482	3,542,949	3,952,931	4,370,594	5,494,121	6,062,030	6,390,130	
Capital outlay	2,715,548	5,876,051	1,878,935	3,298,494	2,993,314	1,544,060	7,704,522	10,482,170	9,063,568	11,687,731	
Debt service											
Principal	4,429,139	3,812,362	3,516,046	3,438,597	4,181,152	4,242,206	4,275,988	1,410,402	992,617	4,911,916	
Interest	2,112,704	2,461,084	1,886,516	1,654,538	1,567,139	1,438,487	1,654,426	1,086,885	916,047	2,323,243	
Total expenditures	<u>95,687,281</u>	<u>100,139,447</u>	<u>97,446,110</u>	<u>94,920,344</u>	<u>103,600,601</u>	<u>106,991,419</u>	<u>119,195,454</u>	<u>109,482,278</u>	<u>107,668,665</u>	<u>124,465,996</u>	
Ratio of debt service to total non-capital expenditures	7.0%	6.7%	5.7%	5.6%	5.7%	5.4%	5.3%	2.5%	1.9%	6.4%	
Excess of revenues over (under) expenditures	(12,854,511)	(16,080,279)	(9,560,234)	(5,786,937)	(7,807,997)	(11,434,999)	(14,075,452)	(11,059,102)	(10,695,937)	(20,661,575)	
Other financing sources (uses)											
Transfers in	15,238,926	15,086,335	17,068,419	16,878,713	20,753,576	20,415,323	24,236,283	20,420,329	18,714,276	25,446,671	
Transfers out	(5,121,837)	(4,206,351)	(6,362,647)	(4,552,315)	(7,987,982)	(7,038,645)	(10,875,142)	(7,045,923)	(5,302,412)	(9,015,451)	
Bonds issued	-	8,647,271	-	-	-	-	-	-	-	-	
Refunding bonds issued	-	23,490,000	-	-	-	-	12,227,851	-	9,721,943	-	
Payments to refunded bond escrow agent	-	(32,147,294)	-	-	-	-	(11,793,964)	-	(4,542,956)	-	
Total other financing sources (uses)	<u>10,117,089</u>	<u>10,869,961</u>	<u>10,705,772</u>	<u>12,326,398</u>	<u>12,765,594</u>	<u>13,376,678</u>	<u>13,795,028</u>	<u>13,374,406</u>	<u>18,590,851</u>	<u>20,280,770</u>	
Net change in fund balances	<u>\$ (2,737,422)</u>	<u>\$ (5,210,318)</u>	<u>\$ 1,145,538</u>	<u>\$ 6,539,461</u>	<u>\$ 4,957,597</u>	<u>\$ 1,941,679</u>	<u>\$ (280,424)</u>	<u>\$ 2,315,304</u>	<u>\$ 7,894,914</u>	<u>\$ (380,805)</u>	

CITY OF DANVILLE
MAJOR ENTERPRISE FUNDS - CHARGES FOR SERVICES
FOR THE LAST TEN YEARS

Fiscal Year	Electric Fund	Gas Fund	Wastewater Fund	Water Fund	Total Major Enterprise Funds
2002-03	54,793,952	30,029,152	7,009,576	5,388,944	97,221,624
2003-04	55,491,259	25,999,471	6,918,502	5,223,867	93,633,099
2004-05	53,740,565	25,211,996	6,059,995	5,075,326	90,087,882
2005-06	72,751,817	33,414,367	7,528,176	6,117,848	119,812,208
2006-07	88,910,376	26,290,132	7,805,221	7,012,772	130,018,501
2007-08	90,181,855	32,949,607	8,362,522	7,142,932	138,636,916
2008-09	98,949,807	32,455,492	9,306,293	6,930,045	147,641,637
2009-10	106,248,337	27,060,176	9,511,518	6,480,696	149,300,727
2010-11	109,022,347	24,700,569	9,812,296	6,230,140	149,765,352
2011-12	102,304,323	21,475,496	9,862,984	5,897,749	139,540,552

CITY OF DANVILLE
SCHEDULE OF ASSESSED PROPERTY VALUES
FOR THE LAST TEN YEARS

Fiscal Year	Assessed Value of Real Property (1)	Assessed Value of Personal Property (2)	Assessed Value of Machinery and Tools (2)	Assessed Value of Mobile Homes (2)	Assessed Value of Public Service Corp. (2)	Assessed Value of Aircraft (2)	Total Assessed Value
2003	1,740,967,100	257,461,270	94,496,913	4,663,036	51,413,068	3,869,920	2,152,871,307
2004	1,765,839,000	246,282,106	97,002,334	5,065,627	54,285,263	5,165,235	2,173,629,565
2005	1,864,447,500	257,033,492	90,504,892	4,977,283	52,021,885	4,306,540	2,273,291,592
2006	1,953,694,100	277,466,101	82,870,885	4,548,776	51,149,212	3,135,840	2,372,864,914
2007	2,067,848,400	291,749,737	79,708,821	4,261,308	50,697,018	3,394,102	2,497,659,386
2008	2,089,774,400	302,143,014	79,506,859	4,229,328	50,798,716	4,858,771	2,531,311,088
2009	2,252,885,600	272,726,836	84,884,957	4,347,353	45,683,587	4,218,048	2,664,746,381
2010	2,267,080,000	275,696,657	84,694,634	4,232,127	50,738,735	4,433,349	2,686,875,502
2011	2,235,675,600	279,862,350	86,749,356	4,286,745	49,939,634	4,448,493	2,660,962,178
2012	2,257,904,600	297,930,560	91,384,107	4,070,257	46,789,855	4,259,000	2,702,338,379

Rate for all years shown:

See note (3) below \$3.00 per \$100 \$1.50 per \$100 See note (3) below See note (4) below \$0.30 per \$100

(1) Assessed on a fiscal year basis.

(2) Assessed on a calendar year basis.

(3) 2002 \$0.785 per \$100
2003 - 2004 \$0.80 per \$100
2005 - 2008 \$0.77 per \$100
2009 - 2012 \$0.73 per \$100

(4) Public Service Corp. - Real Property rate as in note (3), Personal Property rate is \$3.00 per \$100, .

**CITY OF DANVILLE, VIRGINIA
PRINCIPAL REAL ESTATE TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Taxpayer</u>	2012			2003		
	Total	Percentage of		Total	Percentage of	
	Assessed	Total	Assessed	Assessed	Total	Assessed
	<u>Value</u>	<u>Rank</u>	<u>Value¹</u>	<u>Value</u>	<u>Rank</u>	<u>Value</u>
Danville Regional Medical Center LLC	\$ 75,652,800	1	3.35%			
Goodyear Tire and Rubber Company	32,466,900	2	1.44%	33,647,500	2	1.93%
Piedmont Mall LLC	25,393,300	3	1.12%	22,638,500	4	1.30%
NAP Coleman Marketplace LLC	24,536,600	4	1.09%			
Daniel Group Inc.	18,543,200	5	0.82%			
JTI Leaf Services US LLC	13,673,800	6	0.61%			
Industrial Development Authority of Danville	² 10,593,400	7	0.47%			
Nestle USA Inc. (formerly Carnation Co.)	10,136,500	8	0.45%	9,780,100	7	0.56%
Sams Real Estate Business Trust	10,108,500	9	0.45%			
EBI LLC	10,102,300	10	0.45%			
Wal-Mart Real Estate Business Trust	9,854,500	11	0.44%	8,330,900	10	0.48%
Lorillard Tobacco Company	8,208,200	12	0.36%	8,732,600	9	0.50%
Finlay Interests 5 LTD	7,961,800	13	0.35%			
Marshall, Robert & Margaret D. (Rev Trust)	7,278,700	14	0.32%			
Dan Shopping Center Inc	7,069,600	15	0.31%	6,560,100	14	0.38%
MJRW Inc.				9,166,400	8	0.53%
Dan River Inc.				46,834,800	1	2.69%
General Development Co., Inc				22,998,100	3	1.32%
Dibrell Brothers Inc.				13,676,700	6	0.79%
Southern Processors				15,500,200	5	0.89%
Lowe's Home Centers, Inc.				8,300,300	11	0.48%
Belk Stores of Virginia				7,374,800	12	0.42%
Medical Facilities of America XXII				7,148,900	13	0.41%
Sears, Roebuck and Co.				6,342,400	15	0.36%
	<u>\$ 271,580,100</u>		<u>12.03%</u>	<u>\$ 227,032,300</u>		<u>13.04%</u>

¹ Total 2012 Assessed Real Estate Value is \$2,257,904,600 for the City of Danville.

² Industrial Development Authority of Danville includes Esselpropack only in Fiscal Year 2012.

**CITY OF DANVILLE, VIRGINIA
REAL PROPERTY TAX LEVIES AND COLLECTIONS
FOR THE LAST TEN YEARS**

Fiscal Year	Tax Rate Per \$100	Original Levy (1)	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Uncollected at End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due (1)	Collections & Adjustments After Month in which 2nd Half Tax Due (1)	Uncollected Balance June 30, 2012	Percentage of Original Levy Uncollected June 30, 2012
2003	0.8	13,927,737	13,103,406	824,331	5.92	790,906	33,425	0.24
2004	0.8	14,126,712	13,185,128	941,584	6.67	899,176	42,408	0.30
2005	0.77	14,356,246	13,540,558	815,688	5.68	763,158	52,530	0.37
2006	0.77	15,043,445	14,242,460	800,985	5.32	740,204	60,781	0.40
2007	0.77	15,922,433	14,964,100	958,333	6.02	875,551	82,782	0.52
2008	0.77	15,980,915	15,126,749	854,166	5.34	724,312	129,854	0.81
2009	0.73	16,320,733	15,419,024	901,709	5.52	731,537	170,172	1.04
2010	0.73	16,415,615	15,475,506	940,109	5.73	636,164	303,945	1.85
2011	0.73	16,156,634	15,134,880	1,021,754	6.32	566,569	455,185	2.82
2012	0.73	16,321,848	15,319,292	1,002,556	6.14	-	1,002,556	6.14

(1) Real Estate taxes are assessed on a fiscal year basis with 1st half taxes due December 5th and 2nd half taxes due June 5th.

**CITY OF DANVILLE, VIRGINIA
PERSONAL PROPERTY TAX LEVIES AND COLLECTIONS
FOR THE LAST TEN YEARS**

Year	Tax Rate Per \$100	Levy (1)	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Uncollected at End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due (1)	Collections & Adjustments After Month in which 2nd Half Tax Due (1)	Uncollected Balance June 30, 2012 (2)	Percentage of Original Levy Uncollected June 30, 2012
2003	3.00	9,227,252	9,034,063	193,189 (3)	2.09	193,189	-	-
2004	3.00	8,897,075	8,259,740	637,335 (3)	7.16	637,335	-	-
2005	3.00	9,112,715	8,826,339	286,376 (3)	3.14	286,376	-	-
2006	3.00	9,581,768	9,238,435	343,333 (3)	3.58	343,333	-	-
2007	3.00	9,722,045	9,391,605	330,440 (3)	3.40	224,878	105,562	1.09
2008	3.00	10,114,292	9,837,085	277,207 (3)	2.74	156,639	120,568	1.19
2009	3.00	9,360,208	9,123,802	236,405 (3)	2.53	101,310	135,095	1.44
2010	3.00	9,708,729	9,527,123	181,606 (3)	1.87	69,041	112,565	1.16
2011	3.00	9,516,667	9,315,272	201,395 (3)	2.12	-	201,395	2.12
2012	3.00	10,330,962	3,396,759	6,934,204 (4)	67.12	-	6,934,204	67.12

(1) Beginning on January 1, 1999, the City has levied taxes on a calendar year basis with 1st half taxes due June 5th and 2nd half taxes due December 5th.

(2) According to state law uncollected personal property taxes are collectible five years following the year of levy.

(3) Personal property tax uncollected reported as of June 30 of subsequent fiscal year.

(4) This includes second half of the tax levy which is not due until December 5th and also the Personal Property Tax Relief Act (PPTRA) funds from the Commonwealth of Virginia. PPTRA funds amounting to \$3,593,576 are received in three installments during July, August and November each year; therefore, are shown as uncollected at June 30.

CITY OF DANVILLE, VIRGINIA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Bond Debt Per Capita	Ratio of Bond Debt to Danville MSA Personal Income ¹
	General Obligation Bonds	Lease		Revenue Bonds	General Obligation Bonds	Capital Leases			
		Revenue Bonds	Capital Leases						
2003	42,352,275	16,381,472		223,163	8,256,918	37,583,274	-	2,225	40.14
2004	39,269,396	12,622,935		45,718	7,628,686	35,081,625	-	2,031	35.35
2005	35,666,775	11,841,989		-	6,990,317	31,770,451	-	1,880	30.94
2006	32,105,970	11,047,929		-	6,349,929	37,001,542	-	1,875	31.02
2007	28,488,092	10,230,059		-	5,708,574	38,073,432	-	1,810	29.59
2008	24,819,277	9,394,098		-	5,133,548	33,909,608	-	1,614	26.51
2009	22,068,904	8,535,748		-	4,575,890	40,766,777	-	1,682	26.59
2010	21,223,853	7,651,912		-	4,011,631	52,266,777	-	1,978	29.82
2011	29,882,557	3,681,077		-	3,440,544	55,336,177	-	2,152	29.00
2012	31,732,974	-		-	2,862,396	53,062,359	-	2,023	26.95

¹ Danville MSA includes Danville and Pittsylvania County.

**RATIO OF BONDED DEBT TO ASSESSED VALUES AND BONDED DEBT PER CAPITA
FOR THE LAST TEN YEARS**

Fiscal Year Ended June 30	Population	Assessed Value		Bonded Debt		Ratio of Bonded Debt To Assessed Value		Bonded Debt Per Capita	
		Real & Personal Property		General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities
2003	48,411	2,152,871,307		42,352,275	45,840,192	1.97	2.13	874.85	946.90
2004	46,600	2,173,629,565		39,269,396	42,710,311	1.81	1.96	842.69	916.53
2005	45,900	2,273,291,592		35,666,775	38,760,768	1.57	1.71	777.05	844.46
2006	46,143	2,372,864,914		32,105,970	43,351,471	1.35	1.83	695.79	939.50
2007	45,586	2,497,659,386		28,488,092	43,782,006	1.14	1.75	624.93	960.43
2008	45,385	2,531,311,088		24,819,277	39,043,156	0.98	1.54	546.86	860.27
2009	45,152	2,664,746,381		22,068,904	45,342,667	0.83	1.70	488.77	1,004.22
2010	43,055	2,686,875,502		21,223,853	56,278,408	0.79	2.09	492.95	1,307.13
2011	42,918	2,660,962,178		29,882,557	55,924,755	1.12	2.10	696.27	1,303.06
2012	43,332	2,702,338,379		31,732,974	55,924,755	1.17	2.07	732.32	1,290.61

CITY OF DANVILLE, VIRGINIA
STATE LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	2012
Assessed Value:										
Real Property	1,740,967,100	1,765,839,000	1,864,447,500	1,953,694,100	2,067,848,400	2,089,774,400	2,252,885,600	2,267,080,000	2,235,675,600	2,257,904,600
Public Service - Real Property	50,836,156	53,667,444	51,432,100	50,633,290	50,191,401	50,416,709	45,331,826	50,347,484	49,603,302	46,416,815
Total Assessed value	<u>\$ 1,791,803,256</u>	<u>\$ 1,819,506,444</u>	<u>\$ 1,915,879,600</u>	<u>\$ 2,004,327,390</u>	<u>\$ 2,118,039,801</u>	<u>\$ 2,140,191,109</u>	<u>\$ 2,298,217,426</u>	<u>\$ 2,317,427,484</u>	<u>\$ 2,285,278,902</u>	<u>\$ 2,304,321,415</u>
Debt Limit Per State (10% of Assessed Value - Real Property)	179,180,326	181,950,644	191,587,960	200,432,739	211,803,980	214,019,111	229,821,743	231,742,748	228,527,890	230,432,142
Gross bond debt	88,192,467	81,979,707	74,427,543	75,457,441	72,270,098	63,862,433	67,411,571	77,502,261	88,659,278	87,657,729
Less bond debt not applicable to limit:										
Revenue Bonds	8,256,918	7,628,686	6,990,317	6,349,929	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396
Total debt not applicable to limit	<u>8,256,918</u>	<u>7,628,686</u>	<u>6,990,317</u>	<u>6,349,929</u>	<u>5,708,574</u>	<u>5,133,548</u>	<u>4,575,890</u>	<u>4,011,631</u>	<u>3,440,544</u>	<u>2,862,396</u>
Total net debt applicable to state limit	79,935,549	74,351,021	67,437,226	69,107,512	66,561,524	58,728,885	62,835,681	73,490,630	85,218,734	84,795,333
Legal debt margin per state	\$ 99,244,777	\$ 107,599,623	\$ 124,150,734	\$ 131,325,227	\$ 145,242,456	\$ 155,290,226	\$ 166,986,062	\$ 158,252,118	\$ 143,309,156	\$ 145,636,809
Total net debt applicable to the limit as a percentage of debt limit	44.61%	40.86%	35.20%	34.48%	31.43%	27.44%	27.34%	31.71%	37.29%	36.80%
Total net debt applicable to the limit as a percentage of assessed value	4.46%	4.09%	3.52%	3.45%	3.14%	2.74%	2.73%	3.17%	3.73%	3.68%

¹ Years prior to FY 2012 revised to include Public Service - Real Estate.

CITY OF DANVILLE
SCHEDULE OF UTILITY REVENUE BOND COVERAGE
FOR THE LAST TEN YEARS

Fiscal Year Ended June 30	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			
				Principal	Interest	Total	Coverage
2003	99,876,892	68,128,146	31,748,746	808,462	406,581	1,215,043	26.13
2004	93,618,466	64,551,919	29,066,547	628,232	345,917	974,149	29.84
2005	91,551,655	64,946,537	26,605,118	638,369	293,344	931,713	28.56
2006	122,978,875	94,409,837	28,569,038	640,388	267,776	908,164	31.46
2007	134,864,905	97,930,083	36,934,822	641,355	242,102	883,457	41.81
2008	142,592,168	106,285,500	36,306,668	575,026	216,425	791,451	45.87
2009	151,047,640	112,334,067	38,713,572	557,658	194,366	752,025	51.48
2010	152,152,488	113,953,671	38,198,818	564,259	173,348	737,607	51.79
2011	152,286,825	115,389,621	36,897,204	571,087	152,103	723,190	51.02
2012	142,677,853	105,695,821	36,982,032	578,148	130,624	708,772	52.18

(1) Total revenue includes interest earned and other miscellaneous revenues.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of revenue bonds only. It does not include the general obligation bonds reported in the utility funds.

**CITY OF DANVILLE
DEMOGRAPHIC AND ECONOMIC STATISTICS
FOR THE LAST TEN YEARS**

Year	Population (1)	Per Capita Income (2)	Median Age (3)	% of Population with Bachelor's Degree or Higher (4)	School Enrollment (5)	Danville MSA Personal Income (6)	% Unemploy- ment Rate (7)
2003	48,411	24,373	40.5	13.9	7,668	2,611,053	10.90
2004	46,600	25,469	40.5	13.9	7,232	2,677,216	12.30
2005	45,900	26,414	40.5	13.9	7,114	2,788,486	10.80
2006	46,143	27,082	40.5	13.9	6,951	2,788,486	10.60
2007	45,586	27,544	40.5	13.9	6,904	2,788,486	7.20
2008	45,385	28,803	40.5	13.9	6,606	2,763,550	8.90
2009	45,152	29,789	40.5	13.9	6,303	2,855,919	14.40
2010	43,055	29,789	40.5	13.9	6,237	2,855,919	13.50
2011	42,918	30,092	42.6	15.7	6,120	3,184,116	12.00
2012	43,332	30,587	42.6	16.2	6,076	3,253,086	11.10

(1) Source: Weldon Cooper Center for Public Services, University of Virginia estimated population for 2003 - 2009 & 2011-2012. US Census Bureau actual count for 2010.

(2) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
Data includes both the City of Danville and Pittsylvania County.

(3) Source: U.S. Census Bureau. Profile of Selected Social characteristics.

(4) Source: U.S. Census Bureau. Profile of Selected Social characteristics.
Percent based on population 25 years and over.

(5) Source: 2002-2003 through National Center for Education Statistics.
2004-2011 through Weldon Cooper Center for Public Services, University of Virginia.
2012 provided by Danville City Schools.

(6) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
Danville MSA includes Danville and Pittsylvania County.

(7) Source: Virginia Employment Commission, June 2012.

**City of Danville, Virginia
Principal Employers
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2012</u>			<u>2003</u>		
	<u>Employees¹</u>	<u>Rank</u>	<u>Percentage of Total City Employment²</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
City of Danville	2,381	1	13.29%	2,258	2	11.42%
Goodyear Tire & Rubber Co.	2,250	2	12.56%	2,120	3	10.72%
Danville Regional Health System	1,294	3	7.22%	1,511	4	7.64%
Telvista	780	4	4.35%			
Nestle Refrigerated Food	600	5	3.35%	480	6	2.43%
Averett University	550	6	3.07%			
EBI	550	7	3.07%			
Wal-Mart	474	8	2.65%	540	5	2.73%
Food Lion	376	9	2.10%			
Swedwood	375	10	2.09%			
Dan River, Inc.				3,876	1	19.60%
VF Playwear				450	7	2.28%
Corning Glass Works				269	10	1.36%
Dimon						
Intertape Polymer						
Wood Fiber Industries						

¹ Source: City of Danville, Office of Economic Development.

² Source: Virginia Employment Commission - employed civilian labor force for June 2012 (17,914) and June 2003 (19,779).

CITY OF DANVILLE, VIRGINIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
General Government Administration	88	96	97	97	98	98	102	102	99	95
Judicial Administration	92	94	95	98	98	97	97	97	97	99
Public Safety	402	403	403	403	403	406	406	406	408	394
Public Works	110	110	110	110	111	111	111	111	111	106
Health, Welfare & Social Services	98	100	100	100	101	101	101	101	101	98
Park, Recreational and Cultural	65	64	49	49	49	49	49	49	51	49
Community Development	12	18	18	18	18	19	19	19	18	17
Total General Fund	867	885	872	875	878	881	885	885	885	858
Wastewater Fund	11	11	11	11	11	11	11	11	11	11
Water Fund	16	16	16	16	16	16	16	16	19	18
Gas Fund	56	56	56	55	55	55	55	56	54	53
Electric Fund	115	115	115	116	114	114	114	113	106	99
Telecommunications Fund	-	-	-	-	2	2	4	4	4	4
Transportation Fund	17	17	17	17	16	16	16	17	17	18
Central Services Fund	4	4	4	4	4	4	4	3	3	3
Motorized Equipment Fund	23	22	22	22	22	22	20	20	20	19
Sanitation Fund	53	53	57	53	53	46	43	43	43	37
Cemetery Fund	-	-	16	16	16	16	16	16	16	16
Total Other Funds	295	294	314	310	309	302	299	299	293	278
Total	1,162	1,179	1,186	1,185	1,187	1,183	1,184	1,184	1,178	1,136

Source: City Council Approved Budget - Authorized Positions

City of Danville, Virginia
Operating Indicators and Capital Asset Statistics by Function
Last Ten Fiscal Years

Date of Incorporation Form of Government Area in Square Miles	1830 Council / Manager 44										
		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Number of Employees (Full & Part-Time)		1,240	1,240	1,173	1,219	1,212	1,237	1,267	1,258	1,235	1,222
<u>Name of Government Facilities and Services:</u>											
Miles of streets	314	314	314	315	315	316	316	318	318	318	318
Number of street lights	8,407	8,477	8,477	8,703	8,485	8,483	8,804	8,804	8,822	8,822	8,827
<u>Culture and Recreation:</u>											
Recreation Centers	12	12	12	12	12	12	10	10	10	8	8
Number of parks	9	9	9	10	10	10	10	11	11	11	12
Park Acreage	344	344	344	349	349	349	466	575	575	575	680
Number of trails	10	11	11	8	8	8	8	8	8	8	6
Trail Mileage	9	10	10	18	25	25	28	28	28	38	41
Number of athletic fields	23	23	23	23	23	23	31	31	31	31	22
Athletic field acreage	45	45	45	45	45	45	49	49	49	49	46
Number of playgrounds	24	24	24	24	24	24	22	20	20	21	16
Playground acreage	88	88	88	88	74	74	74	74	74	74	64
Number of outdoor basketball courts	10	10	10	10	10	10	12	10	10	10	10
Number of tennis courts	19	19	19	19	19	19	21	21	21	21	19
<u>Fire Protection:</u>											
Number of stations	7	7	7	7	7	7	7	7	7	7	7
Number of fire personnel and officers	123	123	123	123	123	123	123	123	123	123	122
Number of calls answered	4,529	4,648	4,734	4,734	4,860	5,002	5,143	5,176	5,836	6,326	6,432
Number of inspections conducted	2,935	2,542	2,542	3,170	2,821	2,152	1,030	1,569	929	997	1,042
<u>Police Protection:</u>											
Number of stations	3	3	3	3	3	3	3	2	2	2	2
Number of police officers	139	139	139	137	137	137	137	136	136	133	133
Number of police vehicles and trailers	12	12	12	12	40	53	53	53	53	54	56
Number of law violations:											
Criminal arrests	8,499	6,399	6,399	7,075	7,253	7,434	5,840	7,427	7,603	8,183	9,188
Traffic violations	7,780	6,481	6,481	5,498	6,127	6,571	7,896	8,276	9,476	8,190	7,447
Parking violations	2,179	1,831	1,831	1,178	2,132	2,515	1,813	1,599	2,042	2,374	2,537

City of Danville, Virginia
Operating Indicators and Capital Asset Statistics by Function
Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Sewerage System:										
Miles of sanitary sewers	354	384	384	384	386	386	386	371	385	385
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	17,194	17,302	16,883	16,651	16,589	16,665	16,665	16,511	16,511	16,663
Average daily treatment	13.99	13.57	10.54	6.26	5.46	5.95	6.71	6.81	6.47	6.70
- Million Gallons per Day (MGD)										
Maximum daily capacity of treatment plant - MGD	24	24	24	24	24	24	24	24	24	24
Water System:										
Miles of water mains	310	312	312	312	317	319	319	319	331	337
Active number of service connections	17,957	17,949	17,956	17,880	17,826	17,942	19,029	17,734	17,426	17,837
Number of fire hydrants	1,909	1,930	1,945	1,951	1,967	2,029	2,050	2,056	2,065	2,073
Average daily consumption - MGD	7.88	7.54	6.76	6.38	6.39	4.76	5.79	5.28	5.40	5.30
Maximum daily capacity of treatment plant - MGD	18	18	18	18	18	18	18	18	18	18
Electric Distribution System:										
Square Miles of service	500	500	500	500	500	500	500	500	500	500
Number of distribution stations	16	16	14	14	14	14	14	17	17	17
Facilities and services not included in the primary government:										
Education:										
Number of preschools	-	-	-	1	1	1	1	1	1	1
Number of elementary schools	10	10	10	9	9	9	9	9	9	9
Number of middle schools	3	3	3	3	3	3	3	3	3	3
Number of high schools	2	2	2	2	2	2	2	2	2	2
Number of alternative schools	1	1	1	1	1	1	1	1	1	1
Number of preschool instructors				21	18	19	22	21	21	21
Number of elementary school instructors	388	271	276	255	250	251	254	252	251	251
Number of middle school instructors		136	136	134	137	144	134	127	125	125
Number of high school instructors		202	188	186	183	182	174	172	175	175
Number of secondary school instructors	252									
Facilities and services not included in the reporting entity:										
Hospitals:										
Number of hospitals	1	1	1	1	1	1	1	1	1	1
Number of patient beds	350	350	350	350	350	350	290	290	290	290

CITY OF DANVILLE, VIRGINIA

Single Audit Section

For The Year Ended June 30, 2012



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

***Report On Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards***

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

We have audited the financial statements of ***City of Danville, Virginia*** as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of ***City of Danville, Virginia*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ***City of Danville, Virginia's*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***City of Danville, Virginia's*** internal control over the financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***City of Danville, Virginia's*** internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters we reported to management of *City of Danville, Virginia* in a separate letter dated November 29, 2012.

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

Dixon Hughes Goodman LLP

Danville, Virginia
November 29, 2012



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

***Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133***

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

Compliance

We have audited ***City of Danville, Virginia's*** compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on ***City of Danville, Virginia's*** major federal program for the year ended June 30, 2012. ***City of Danville, Virginia's*** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the management of ***City of Danville, Virginia***. Our responsibility is to express an opinion on ***City of Danville, Virginia's*** compliance based on our audit.

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

In our opinion, ***City of Danville, Virginia*** complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

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

Dixon Hughes Goodman LLP

Danville, Virginia
November 29, 2012



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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

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

We have audited the basic financial statements of the ***City of Danville, Virginia***, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 2012.

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 and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance with the Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the ***City of Danville, Virginia***, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Tax

State Agency Requirements

- Social Services
- Education
- Comprehensive Services Act Funds
- Highway Maintenance Funds
- Economic Development Opportunity Fund

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph, except for the exception in the Conflicts of Interest compliance section noted below. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

Finding 01-FY12

Requirement - The State and Local Government Conflict of Interests Act (Section 2.2-3100 et. seq.) of Title 2.2 of the Code of Virginia requires all local officials must file an annual disclosure form. For the year ended June 30, 2012, the deadline was January 16, 2012.

Finding – One local official failed to file the required disclosure form, one form was submitted timely but was not notarized as required and six were filed late.

This report is intended solely for the information of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Danville, Virginia
November 29, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
<u>CITY OF DANVILLE</u>		
DEPARTMENT OF AGRICULTURE		
Department of Social Services - City of Danville, Virginia:		
Supplemental Nutrition Assistance Program Cluster		
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	\$ 674,336
Direct Payments:		
Fresh Fruit and Vegetable Program	10.582	106,276
Wildland Fire Management		
American Recovery and Reinvestment Act of 2009 funds	10.688	26,529
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct payments:		
CDBG - Entitlement Grants Cluster		
Community development block grant program and entitlement grants	14.218	1,017,685
HOME investment partnership program	14.239	684,135
Economic Development Initiative - Special Projects,		
Neighborhood Initiative, Misc Grants	14.251	427,339
DEPARTMENT OF JUSTICE		
Direct payments:		
State Criminal Alien Assistance Program	16.606	2,910
Juvenile Accountability Block Grants	16.523	10,063
Cops Technology Grant		
American Recovery and Reinvestment Act of 2009 funds	16.710	17,881
JAG Program Cluster		
Justice Assistance Act Grant Program	16.738	62,669
DEPARTMENT OF TRANSPORTATION		
Direct payments:		
Airport improvements	20.106	964,755
Highway Safety Cluster		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	13,570
Alcohol Open Container Requirements	20.607	9,235
Highway Planning and Construction Cluster		
Highway Planning and Construction		
American Recovery and Reinvestment Act of 2009 funds	20.205	15,530
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Department of Emergency Services		
Assistance to Firefighters	97.044	88,910
Department of Homeland Security		
Emergency Management Preparedness Grant	97.073	107,559

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Department of Social Services:		
Temporary Assistance for Needy Families Cluster		
Temporary assistance for needy families	93.558	715,914
Low income energy assistance	93.568	62,750
Child Care and Development Funds (CCDF) Cluster		
Child Care and Development Block Grant	93.575	204,208
Child Care Mandatory and Matching Funds of the CCDF	93.596	245,635
Refugee and Entrant Assistance	93.566	731
Independent Living	93.674	14,709
State Children's Insurance Program (SCHIP)	93.767	19,139
Aging Cluster		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	112,223
Foster care - Title IV-E		
American Recovery and Reinvestment Act of 2009 funds	93.658	548,570
Adoption assistance		
American Recovery and Reinvestment Act of 2009 funds	93.659	252,130
Social services block grant	93.667	519,901
Medicaid assistance program-Administrative expenses only	93.778	400,919
Promoting Safe & Stable Families	93.556	33,246
Chafee education & Training Vouchers Program	93.599	4,886
Child welfare services-state grant	93.645	2,504
Department of Mental Health, Mental Retardation and Substance Abuse:		
Block grants for community mental health services	93.958	73,655
Block grants for prevention and treatment of substance abuse	93.959	759,995
Early Retirement Reinsurance Program	93.546	159,911
Total assistance - City of Danville		<u>\$ 8,360,408</u>

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
<u>DANVILLE PUBLIC SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Department of Agriculture (USDA):		
Child Nutrition Cluster		
School breakfast program	10.553	\$ 1,339,309
National school lunch program	10.555	2,094,818
Department of Agriculture and Consumer Services		
Food distribution - donated commodities	10.555	43,518
Department of Energy		
Department of Education:		
Conservation research and development	81.086	113,636
Department of Energy:		
Weatherization Assistance for Low-Income Persons	81.042	108,402
DEPARTMENT OF EDUCATION		
Department of Education:		
Adult education - state administered basic grant program	84.002	67,958
Title I, Part A Cluster		
Title I Grants to Local Education Agencies	84.010	4,648,291
American Recovery and Reinvestment Act of 2009 funds	84.389	840,452
Detention Facilities	84.013	236
Special Education (IDEA) Cluster		
Special Education - Grants to States (IDEA, Part B)	84.027	1,510,227
Special Education - Preschool Grants (IDEA Preschool)	84.173	44,141
American Recovery and Reinvestment Act of 2009 funds	84.391	38,323
Vocational education - consumer and homemaking education	84.048	205,489
Education Technology State Grants Cluster		
Education Technology State Grants (Enhancing Education Through Technology)	84.318	16,286
American Recovery and Reinvestment Act	84.386	20,650
Twenty-First Century Community Learning Centers	84.287	181,778
English language acquisition grants	84.365	23,351
Improving teacher quality state grants	84.367	487,289
School Improvement Grants Cluster		
American Recovery and Reinvestment Act	84.388	905,126
Early Intervention Services (IDEA) Cluster		
Special Education - Grants for Infants and Families	84.181	72,931
American Recovery and Reinvestment Act of 2009 funds	84.393	19,198
Gear Up	84.334	42,945
Education Jobs Fund	84.410	1,807,454
Total assistance - Danville Public Schools		\$ 14,631,808
Total assistance - reporting entity		\$ 22,992,216

See report of independent auditors

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the City's basic financial statements. However, due to the City's involvement in determining eligibility, they are considered federal awards to the City and are included on this schedule.

Federal Cognizant Agency

The Federal Cognizant Agency for the City of Danville, Virginia is the United States Department of Health and Human Services.

Subrecipients

The City provided the following amounts to subrecipients during FY 2012:

Program Title	CFDA	Amount
Block grants for prevention and treatment of substance abuse	20.607	\$ 9,235
Early Intervention Services (IDEA) Cluster		
Special Education - Grants for Infants and Families	84.181	72,931
American Recovery and Reinvestment Act of 2009 Funds	84.393	19,198

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Summary of Auditor's Results:

Financial Statements

The type of report issued on the financial statements: Unqualified

Internal control over financial reporting

- Material weaknesses identified: None
- No significant deficiencies noted in internal control to disclose

Noncompliance material to the financial statements noted: None

Federal Awards

Internal control over major programs

- Material weaknesses identified: None reported
- No significant deficiencies noted in internal control over major programs to disclose

The type of report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: No

Major programs:

- Airport improvements (20.106)
- Temporary assistance for needy families (93.558)
- Foster care – Title IV-E (93.658)
- Block grants for prevention and treatment of substance abuse (93.959)
- School improvement grants, American recovery and reinvestment act (84.388)
- Education jobs fund (84.410)
- Child nutrition cluster
 - o School breakfast program (10.553)
 - o National school lunch program (10.555)
 - o Food distribution – donated commodities (10.555)
- Title I, Part A cluster
 - o Title I grants to local education agencies (84.010)
 - o Title I grants to local education agencies - ARRA (84.389)

(Continued on next page)

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Dollar threshold used to distinguish between Type A and Type B programs: \$689,766

Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133?: Yes

Findings relating to the basic financial statements which are required to be reported in accordance with generally accepted governmental auditing standards: None

Findings and questioned costs for federal awards: None

