

***Financial Statements
Year Ended
June 30, 2011***

***Danville Public Schools
City of Danville, Virginia***



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Danville Public Schools
City of Danville, Virginia
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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Report of Independent Auditors

Danville Public Schools
City of Danville, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Danville Public Schools***, a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the ***Danville Public Schools'*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of ***Danville Public School's*** management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Danville Public Schools*** as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 on our consideration of ***Danville Public Schools'*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and the budgetary information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the

required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the 2011 financial statements that collectively comprise the ***Danville Public Schools***' basic financial statements as a whole. The combining information on pages 33 and 34 are presented for purposes of additional analysis and are not a required part of the basic 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Dixon Hughes Goodman LLP

Danville, Virginia
October 24, 2011

Danville Public Schools
City of Danville, Virginia
Management's Discussion and Analysis
Year Ended June 30, 2011

This section of the financial report presents our discussion and analysis of Danville Public Schools' (**DPS**), Danville, Virginia financial performance during the fiscal year that ended June 30, 2011. The intent of this discussion and analysis is to look at **DPS's** financial performance as a whole. Please read it in conjunction with the financial statements.

Financial Highlights

Government-wide statements

General revenues accounted for \$44.2 million in revenues or 60.0 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$29.5 million or 40.0 percent of total revenues of \$73.7 million.

The school division had \$70.2 million in expenses related to governmental activities, of which only \$29.5 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily transfers from the City of Danville and Commonwealth of Virginia) were adequate to provide for these programs.

Fund Statements

Among major funds, the general fund had \$58.9 million in revenues and transfers in and \$58.2 million in expenditures and transfers out. There were no significant increases in fund balances.

Using this report

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

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

The government-wide statements report information about **DPS** as a whole using accounting methods similar to those used by private-sector companies. While this document contains a number of funds used by **DPS** to provide programs and activities, the view of **DPS** as a whole looks at all financial transactions and asks the question, "How did we do financially during FY2011?" The Statement of Net Assets and Statement of Activities answer this question. These statements report all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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Management's Discussion and Analysis
Year Ended June 30, 2011

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

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

Fund Financial Statements

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

DPS utilizes two types of funds:

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

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

Financial Analysis of DPS as a Whole

Net assets. The *Statement of Net Assets* provides the perspective of **DPS** as a whole. The following provides a summary of **DPS's** net assets as of June 30, 2011, 2010 and 2009

Danville Public Schools
City of Danville, Virginia
Management's Discussion and Analysis
Year Ended June 30, 2011

Net Assets

	Governmental Activities		
	2011	2010	2009
Assets			
Current and other assets	\$ 14,852,486	\$ 12,877,236	\$ 14,385,443
Capital assets - net	16,545,895	14,000,183	11,635,592
Total assets	\$ 31,398,381	\$ 26,877,419	\$ 26,021,035
Liabilities			
Current liabilities	\$ 7,867,741	\$ 8,498,386	\$ 8,991,359
Long-term liabilities	6,324,799	4,636,707	3,139,086
Total liabilities	\$ 14,192,540	\$ 13,135,093	\$ 12,130,445
Net assets			
Invested in capital assets – net of related debt	\$ 16,545,895	\$ 14,000,183	\$ 11,635,592
Unrestricted (deficit)	659,946	(257,857)	2,254,998
Total net assets	\$ 17,205,841	\$ 13,742,326	\$ 13,890,590

Total assets represent equity in pooled cash and investments, due from other governments, prepaid items and net capital assets. The net assets of **DPS** either are unrestricted or are invested in capital assets (buildings, land, furniture and equipment). The unrestricted net assets show a surplus of approximately \$659,000 and \$2,255,000 for years ended June 30, 2011 and 2009, respectively and a deficit of approximately \$258,000 for year ended June 30, 2010. This deficit includes the liabilities for compensated absences and retirement obligations.

Danville Public Schools
City of Danville, Virginia
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Year Ended June 30, 2011

Changes in net assets. The following shows the changes in net assets for FY 2011, 2010 and 2009.

	Governmental Activities		
	2011	2010	2009
Revenues			
Program revenues			
Charges for service	\$ 1,083,947	\$ 1,085,442	\$ 1,174,492
Operating grants and contributions	28,006,326	26,324,737	22,992,861
Capital grants and contributions	411,431	1,386,638	1,157,167
General revenues			
Transfers from the City of Danville	19,170,049	18,111,604	16,998,805
Commonwealth of Virginia	24,742,030	26,038,842	31,157,646
Investment income	2,079	4,991	18,019
Miscellaneous	274,182	345,375	338,935
Total revenues	\$ 73,690,044	\$ 73,297,629	\$ 73,837,925
Expenses			
General instruction	\$ 52,010,746	\$ 54,266,584	\$ 53,005,975
Administration, attendance, and health	3,081,344	4,752,147	4,900,101
Pupil transportation	2,288,851	2,244,526	2,166,075
Operation and maintenance	7,101,849	6,722,833	6,810,112
Technology	2,524,631	1,905,500	3,369,831
Cafeterias	3,210,102	3,156,968	3,359,298
Facilities	9,006	397,335	49,159
Total expenses	\$ 70,226,529	\$ 73,445,893	\$ 73,660,551
Change in net assets	\$ 3,463,515	\$ (148,264)	\$ 177,374

The change in net assets in fiscal year 2011 is due to the decrease expenditures for administration, attendance, and health and general instruction.

Danville Public Schools
City of Danville, Virginia
Management's Discussion and Analysis
Year Ended June 30, 2011

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. For the years ended June 30, 2011, 2010 and 2009, the total cost of services and the net cost of services are listed as follows:

Governmental Activities

June 30, 2011

	Total Cost of Services	Net Expense (Revenue)
General instruction	\$ 52,010,746	\$ 26,568,726
Administration, attendance and health	3,081,344	3,081,344
Pupil Transportation	2,288,851	2,063,811
Operations and maintenance	7,101,849	7,101,849
Technology	2,524,631	2,524,631
Cafeterias	3,210,102	(213,111)
Facilities	9,006	(402,425)
Total expenses	<u>\$ 70,226,529</u>	<u>\$ 40,724,825</u>

Governmental Activities

June 30, 2010

	Total Cost of Services	Net Expense (Revenue)
General instruction	\$ 54,266,584	\$ 29,974,272
Administration, attendance and health	4,752,147	4,752,147
Pupil Transportation	2,244,526	1,696,019
Operations and maintenance	6,722,833	6,722,833
Technology	1,905,500	1,812,278
Cafeterias	3,156,968	(374,426)
Facilities	397,335	65,953
Total expenses	<u>\$ 73,445,893</u>	<u>\$ 44,649,076</u>

The cost of all governmental activities this year was \$70.2 million. The amount that the citizens of Danville paid for these activities through City taxes was \$19.2 million.

Danville Public Schools
City of Danville, Virginia
Management's Discussion and Analysis
Year Ended June 30, 2010

Governmental Activities

June 30, 2009

	Total Cost of Services	Net Expense (Revenue)
General instruction	\$ 53,005,975	\$ 31,490,563
Administration, attendance and health	4,900,101	4,900,101
Pupil Transportation	2,166,075	2,029,592
Operations and maintenance	6,810,112	6,810,112
Technology	3,369,831	3,096,922
Cafeterias	3,359,298	40,964
Facilities	49,159	(32,223)
	<hr/>	<hr/>
Total expenses	\$ 73,660,551	\$ 48,336,031

Danville Public Schools (DPS) Funds

Information about the **DPS's** major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$73.7 million and expenditures of \$70.2 million. The net change in fund balance was most significant in the General fund with a loss of \$3.5 million.

General Fund Budgetary Highlights

DPS's budget is prepared in accordance with Virginia School Laws. The most significant budgeted fund is the General Fund. During the course of fiscal year 2011, the General Fund transferred \$320,216 for support of the Textbook Fund

For the General Fund, revenue was \$58.9 million, approximately \$599,000 below the original budget estimate but this amount was reappropriated for designated future expenditures for specific projects. This revenue will be received in FY2012.

Facilities Fund Budgetary Change

Carryover appropriations are designated throughout the year for board approved projects. During fiscal year 2011, the projects approved by the board consisted of roofing projects at Bonner and Park Avenue and an addition to Johnson Elementary for a Pre-K building. The change, approximately \$3.2 million, from the original budget to the final budget consists primarily of the prior mentioned projects.

Capital Assets

At the end of fiscal year 2011, **DPS** had \$45.4 million invested in land, buildings, and furniture and equipment in governmental activities. However, due to legislation in Virginia, the School Board was required to transfer capital assets to the City of Danville to cover any outstanding long-term capital related debt (see Note 9 to the financial statements). The net balance of \$16.5 million is recorded on the records of **DPS**. Fiscal years 2011, 2010, and 2009 balances net of accumulated depreciation after the transfer to the City of Danville are as follows:

Danville Public Schools
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Management's Discussion and Analysis
Year Ended June 30, 2010

Capital Assets at June 30
(Net of accumulated depreciation)

	Governmental Activities		
	2011	2010	2009
Land	\$ 7,218,132	\$ 5,352,941	\$ 4,056,386
Buildings	27,005,912	26,761,848	27,159,183
Furniture and equipment	11,085,319	10,648,862	9,183,491
Totals	\$ 45,309,363	\$ 42,763,651	\$ 40,399,060
Transferred to the City of Danville to match long-term debt	\$ (28,763,468)	\$ (28,763,468)	\$ (28,763,468)
Totals	\$ 16,545,895	\$ 14,000,183	\$ 11,635,592

During FY2010, **DPS** concentrated on renovations and improvements to one elementary school which were primarily funded by the state lottery construction funds. The additions to furniture and equipment were primarily computer related equipment and buses.

Long-term Debt

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

Factors influencing future budgets:

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

These indicators were taken into account when adopting the General Fund budget for FY 2011. The Board approved a General Fund budget of \$59.2 million.

Contacting the Danville Public Schools' ("DPS") Financial Management

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

***Danville Public Schools
City of Danville, Virginia***

Statement of Net Assets

June 30, 2011

	Governmental Activities
Assets	
Cash and investments	\$ 2,016,014
Cash held by fiscal agents	2,278,177
Due from City of Danville	4,402,506
Due from other governments	5,077,456
Other receivables	13,163
Inventories	919,049
Prepayments	146,121
Capital assets	
Land and construction in progress, nondepreciable	7,218,132
Other capital assets, depreciable - net	9,327,763
Total assets	\$ 31,398,381
Liabilities	
Accounts payable	\$ 811,918
Accrued salaries	3,930,710
Accrued payroll taxes	300,704
Deferred grant revenue	2,759,185
OPEB liability	65,224
Long-term liabilities:	
Due within one year	1,724,409
Due in more than one year	4,600,390
Total liabilities	\$ 14,192,540
Net Assets	
Invested in capital assets, net of related debt	\$ 16,545,895
Unrestricted	659,946
Total net assets	\$ 17,205,841

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

**Danville Public Schools
City of Danville, Virginia**

Statement of Activities

Year Ended June 30, 2011

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants	
Governmental Activities					
Instructional service	\$ 52,010,746	\$ 135,296	\$ 25,306,724	\$ -	\$ (26,568,726)
General instruction					
Support services:					
Administration, attendance, and health	3,081,344	-	-	-	(3,081,344)
Pupil transportation	2,288,851	225,040	-	-	(2,063,811)
Operations and maintenance	7,101,849	-	-	-	(7,101,849)
Operation of noninstructional services					
Technology	2,524,631	-	-	-	(2,524,631)
Cafeterias	3,210,102	723,611	2,699,602	-	213,111
Facilities	9,006	-	-	411,431	402,425
Total governmental activities	\$ 70,226,529	\$ 1,083,947	\$ 28,006,326	\$ 411,431	(40,724,825)

General revenues:

Transfers from the City of Danville	19,170,049
State aid	24,742,030
Investment income	2,079
Miscellaneous	274,182
Total general revenues	44,188,340

Change in net assets

3,463,515

Net assets - beginning of year

13,742,326

Net assets - end of year

\$ 17,205,841

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

***Danville Public Schools
City of Danville, Virginia***

Balance Sheet - Governmental Funds

June 30, 2011

	General	Special Grants	Textbooks	Nonmajor	Total
Assets					
Cash and investments	\$ 113,412	\$ 121,575	\$ 440,632	\$ 1,340,395	\$ 2,016,014
Cash held by fiscal agents	2,278,177	-	-	-	2,278,177
Due from City of Danville	4,402,506	-	-	-	4,402,506
Due from other funds	-	-	1,746,122	180,312	1,926,434
Due from other governments	630,910	4,277,938	-	168,608	5,077,456
Other receivables	13,163	-	-	-	13,163
Inventories	-	-	889,001	30,048	919,049
Prepayments	146,121	-	-	-	146,121
Total assets	\$ 7,584,289	\$ 4,399,513	\$ 3,075,755	\$ 1,719,363	\$ 16,778,920
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 603,255	\$ 169,791	\$ -	\$ 38,872	\$ 811,918
Accrued salaries	3,493,304	390,104	415	46,887	3,930,710
Accrued payroll taxes	267,242	29,843	32	3,587	300,704
Due to other funds	942,136	984,298	-	-	1,926,434
Deferred grant revenue	-	2,759,185	-	-	2,759,185
Total liabilities	5,305,937	4,333,221	447	89,346	9,728,951
Fund Balances					
Nonspendable:					
Inventories	-	-	889,001	30,048	919,049
Prepayments	146,121				
Assigned for:					
Special grants	-	66,293	-	-	66,293
Insurance claims :					
Workmen's compensation	333,066	-	-	-	333,066
Health insurance	1,945,111	-	-	-	1,945,111
Petty cash	175	-	-	1,275	1,450
Asbestos removal	-	-	-	54,764	54,764
Textbooks			2,186,306	-	2,186,306
Unassigned:	(146,121)	-	-	1,543,930	1,397,809
Total fund balances	2,278,352	66,293	3,075,307	1,630,017	7,049,969
Total liabilities and fund balances	\$ 7,584,289	\$ 4,399,514	\$ 3,075,754	\$ 1,719,363	\$ 16,778,920

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

***Danville Public Schools
City of Danville, Virginia***

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

June 30, 2011

Total fund balances - governmental funds \$ 7,049,969

**Amounts reported for governmental activities in the
statement of net assets are different because:**

The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as expenditures in governmental funds. The Statement of Net Assets includes those capital assets among the assets of **DPS** as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect the financial resources, it is not reported in governmental funds. The State of Virginia via Bill 276 has mandated the School Board to transfer capital assets related to long-term debt to the City of Danville.

Capital Assets	\$ 97,900,263	
Less - accumulated depreciation	(52,590,900)	
	<u>45,309,363</u>	
Less - cumulative cost of capital assets transferred	(28,763,468)	
		<u>16,545,895</u>

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of compensated absences (vacation pay and sick pay), retirement obligations and other postemployment benefits. All liabilities are reported in the Statement of Net Assets.

Early leave benefit plans	\$ (4,891,037)	
Compensated absences	(1,433,762)	
OPEB liability	<u>(65,224)</u>	
		<u>(6,390,023)</u>

Total net assets - governmental activities \$ 17,205,841

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

**Danville Public Schools
City of Danville, Virginia**

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

Year Ended June 30, 2011

	General	Special Grants	Textbooks	Nonmajor	Total
Revenues:					
Intergovernmental:					
City of Danville	\$ 19,170,049	\$ -	\$ -	\$ -	\$ 19,170,049
Commonwealth of Virginia	37,050,303	1,358,505	-	70,566	38,479,374
Federal government	2,123,997	9,856,814	-	2,699,602	14,680,413
Charges for services	135,103	-	193	723,611	858,907
Revenue from the use of money and property	225,040	252	867	960	227,119
Miscellaneous	217,319	56,863	-	-	274,182
Total revenues	58,921,811	11,272,434	1,060	3,494,739	73,690,044
Expenditures:					
Current:					
General instruction	40,897,511	10,387,671	488,793	-	51,773,975
Administration, attendance, and health	2,952,675	244,843	-	-	3,197,518
Pupil transportation	2,287,475	98,177	-	-	2,385,652
Operations and maintenance	7,096,381	6,972	-	-	7,103,353
Technology	2,582,708	100,896	-	-	2,683,604
Facilities	2,089,022	398,942	-	-	2,487,964
Cafeteria	-	34,682	-	3,260,435	3,295,117
Total expenditures	57,905,772	11,272,183	488,793	3,260,435	72,927,183
Excess (deficiency) of revenues over expenditures	1,016,039	251	(487,733)	234,304	762,861
Other financing sources (uses)					
Transfers in	-	-	320,216	-	320,216
Transfers out	(320,216)	-	-	-	(320,216)
Total other financing sources (uses)	(320,216)	-	320,216	-	-
Net change in fund balances	695,823	251	(167,517)	234,304	762,861
Fund balances - beginning of year	1,582,529	66,042	3,242,824	1,395,713	6,287,108
Fund balances - end of year	\$ 2,278,352	\$ 66,293	\$ 3,075,307	\$ 1,630,017	\$ 7,049,969

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

***Danville Public Schools
City of Danville, Virginia***

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

Year Ended June 30, 2011

Net change in fund balances - total governmental funds **\$ 762,861**

**Amounts reported for governmental activities in the statement
of activities are different because:**

Governmental funds report capital outlays as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays less maintenance costs exceeded depreciation expense in the current period.

Capital assets acquired	\$ 2,888,307	
Depreciation expense	<u>(342,595)</u>	2,545,712

Some expenses reported in the Statement of Activities, such as compensated absences and retirement obligations do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Early leave benefit plans	\$ 74,752	
Compensated absences	(35,984)	
OPEB liability	<u>116,174</u>	
		<u>154,942</u>

Change in net assets of governmental activities **\$ 3,463,515**

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

*Danville Public Schools
City of Danville, Virginia*

Statement of Fiduciary Net Assets

June 30, 2011

	Agency Fund
Assets	
Cash held on behalf of student activity funds	<u>\$ 335,858</u>
Total assets	<u>\$ 335,858</u>
Liabilities	
Due to student activity funds	<u>\$ 335,858</u>
Total liabilities	<u>\$ 335,858</u>

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

Danville Public Schools
City of Danville, Virginia

Notes to Financial Statements

June 30, 2011

1. Organization and Nature of Operation
Reporting Entity

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

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

2. Summary of Significant Accounting Policies

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

A. Government-wide and Fund Accounting Financial Statements

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

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

allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

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

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

- **General Fund** - The General Fund is the general operating fund of **DPS**. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Special Grants Fund** - The Special Grants Fund is used to account for revenue sources (other than those for Capital Projects) that are legally restricted to expenditures for specific purposes.
- **Textbook Fund** - The Textbook Fund is used to account for revenue sources that are legally restricted to expenditures for specific purposes.
- **Nonmajor Funds** – Nonmajor funds are used to account for the activity in capital projects and cafeteria.

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

- **Agency Fund** - The Agency Fund accounts for student activity monies held by the school principals of the 18 schools in the district for the benefit of the students.

B. Basis of Accounting

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grant proceeds received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred under the modified accrual basis of accounting. The fair value of donated commodities used during the year is reported in the operating statement as revenue when received. The amount of unused commodities at balance sheet date are reported as deferred revenue since title does not pass to the school division until the commodities are used.

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

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

C. Budgets and Budgetary Accounting

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

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

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual operating budget is adopted by the School Board for the General Fund. An annual budget for the Textbook Fund is adopted for management control. Effective budgetary control is achieved for the Capital Projects Fund and Special Grants Fund on a project-by-project basis when funding sources become available.

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

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

statement presentation. Annual appropriations that are not spent, encumbered, or designated at year end lapse.

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

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

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

D. Cash and Investments

DPS cash balances include amounts in demand deposits and cash on hand. Investments include amounts in investment pools which are carried at fair value, based on quoted market prices, at year end. The cash in the Agency Fund represents the student activity fund cash balances in separate bank accounts maintained by the individual schools. Cash held by fiscal agents represents funds held by fiscal agents for self insurance and workers compensation (Note 7).

E. Due From Other Governments

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

F. Prepayments

Prepayments, at June 30, 2011, consist primarily of program fees and liability insurance.

G. Inventories

Inventories consist of various consumable supplies and food commodities maintained by the Food Nutrition Service office. Inventory records are maintained on a perpetual basis, with periodic verification based on physical count. Commodities received from the United States Department of Agriculture are valued at fair market value and recognized as revenue when received. The costs of consumable supplies are recorded as expenditures when purchased. Reported inventories in the Textbook Fund are equally offset by an assignment of fund balance. Reported inventories in the Cafeteria Fund are not assigned in the fund balance. The amount of unused donated commodities is reported as deferred revenue.

H. Capital Assets

General capital assets have been acquired for general school purposes. Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Board's capitalization threshold has been met.

All capital assets over the \$5,000 capitalization threshold are recorded at historical cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are

recorded at their fair market values as of the date received. **DPS** does not possess any infrastructure. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extended an asset's life are expensed, not capitalized.

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

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

I. Due from City of Danville

Amounts due from the City of Danville represent **DPS** expenditures from FY2010 support of the schools requested but not yet received at June 30, 2011.

J. Compensated Absences

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

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

K. New Accounting Pronouncements

Effective for the fiscal year ending June 30, 2011, **DPS** has adopted the following Statement of the Governmental Accounting Standards Board (GASB):

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness, including the understandability, of governmental fund balance information, provides more clearly defined categories, and clarifies the existing governmental fund type definitions.

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.

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.

L. Use of Estimates

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

M. Fund Balance

Beginning July 1, 2010, DPS has 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.

Assigned - fund balance category includes amounts intended to be used by the School Board for specific purposes but which do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

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

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

N. Net Assets

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

O. Interfund Receivables and Payables

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

	Due from other funds	Due to other funds
General fund	\$ -	\$ 942,136
Textbook fund	1,746,122	-
Special grants fund		984,298
Nonmajor funds:		
Capital projects fund	54,764	-
Cafeteria fund	125,548	-
Total	<u>\$ 1,926,434</u>	<u>\$ 1,926,434</u>

P. Subsequent Events

In preparing these financial statements, **DPS** has evaluated events and transactions for potential recognition or disclosure through October 24, 2011, the date the financial statements were available to be issued.

3. Deposits

As of June 30, 2011, the carrying value of **DPS's** deposits was \$1,191,308 and the bank balance was \$3,125,693. **DPS** had \$1,450 in petty cash funds at June 30, 2011. The carrying value of **DPS's** student activity deposits was \$335,858 and the bank balance was \$301,284. The entire bank balances for these accounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act provides for the pooling of collateral pledged to the Treasurer of Virginia to secure public deposits as a class. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by banks and saving and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance.

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

4. Investments

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

Credit Risk - **DPS's** current investment policy limits investments to the LGIP. Standard & Poor has assigned a rating of AAA to this pool and the length of the investment was less than 90 days.

Investments were as follows:

Investment	Fair Value
LGIP	\$ 823,256

5. Other Receivables

Other receivables consist of the following:

Summer school tuition	\$ 11,196
Reimbursements due from employees and vendors	527
Summer school transportation	1,440
	<u>\$ 13,163</u>

6. Due From Other Governments

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

Federal government	\$ 4,315,004
Commonwealth of Virginia	761,231
Local	1,221
	<u>\$ 5,077,456</u>

7. Risk Management

Self-Insurance Coverage

In October 2005, **DPS** entered into an agreement with Anthem Blue Cross Blue Shield (Anthem) to administer a self-insurance plan for employee medical and pharmacy insurance. **DPS'** contingent liability is limited to an annual stop loss amount of \$100,000 per participant. The escrow balance of \$1,945,111 is the balance of premiums paid net of claims received by Anthem of \$2,419,186 less the estimated claims incurred but not paid as of for the same period (\$474,075) for the period ended June 30, 2011.

Workers Compensation

DPS is a member of the School Systems of Virginia Group Self-Insurance Association (Association), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since **DPS** entered the pool in 1982. **DPS** has elected to have the Association hold the Board's dividends in escrow as a reserve against possible future claims. At June 30, 2011 the cumulative amount held in escrow by the Association for **DPS** amounted to \$333,066.

Other Risks

DPS carries commercial insurance for all other risks of loss, including property insurance, theft, auto liability, physical damage and general liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

8. Accrued Salaries

Teachers' payroll is prorated over 10, 11, or 12 months based on teacher elections rather than the 10 month school year in an effort to assist employees in financial planning. Consequently, accrued salaries at June 30, include salaries earned prior to year end but not distributed until the months of July and August 2011.

9. Capital Assets

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

	Balance July 1, 2010	Additions/ (Retirements)	Balance June 30, 2011
Capital assets not being depreciated:			
Land and construction in process:	\$ 5,352,941	\$ 1,865,191	\$ 7,218,132
Other capital assets:			
Buildings	66,232,094	622,773	66,854,867
Furniture and equipment	23,426,921	400,343	23,827,264
Total other capital assets	89,659,015	1,023,116	90,682,131
Less – accumulated depreciation			
Buildings	(39,470,246)	(378,709)	(39,848,955)
Furniture and equipment	(12,778,059)	36,114	(12,741,945)
Total accumulated depreciation	(52,248,305)	(342,595)	(52,590,900)
Capital assets – net	42,763,651	2,545,712	45,309,363
Assets transferred to City of Danville to match long-term debt	(28,763,468)	-	(28,763,468)
Total	\$ 14,000,183	\$ 2,545,712	\$ 16,545,895

Depreciation was charged to government functions as follows:

General instruction	\$ 46,213
Administration, attendance and health	-
Pupil transportation	58,312
Operations and Maintenance	2,493
Technology	336,066
Cafeteria	34,681
Facilities	378,709
Total	\$ 856,474

The City of Danville has recorded \$1,923,440 in depreciation expense for the year ended June 30, 2011 on the assets transferred to match long-term debt.

10. Defined Benefit Pension Plan

DPS follows Governmental Accounting Standards Board No. 27 (GASB 27) - *Accounting For Pensions by State and Local Government Employers*. This Statement establishes standards for the measurement, recognition and display of pension expenditures and related liabilities, assets and note disclosures. **DPS** participates in the Virginia Retirement System (VRS). Disclosures concerning **DPS's** participation are outlined as follows:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering entity: Virginia Retirement System (VRS)

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 with 5 years of service for participating local law enforcement officers and firefighters) or at age 50 with at least 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service (1.85% for eligible law enforcement officers and firefighters). 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 adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters 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/2010-annual-report.pdf> or writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia (1950)*, as amended, to contribute 5% of their annual reported compensation to the VRS. **DPS** has assumed this 5% member contribution. In addition, **DPS** is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees.

The required contributions for **DPS** for professional employees were determined as part of an actuarial valuation performed as of June 30, 2009 using the entry age normal actuarial cost method. **DPS's** employer and employee contributions to the VRS cost sharing multiple-employer plan for the three years ended June 30, 2011, 2010 and 2009 were \$3,156,512, \$4,190,176 and \$5,218,972, respectively, equal to the required contributions for each year. **DPS's** contribution rate for FY2011 was 14.17% (9.17% plus 5% employee portion) for professional employees and 11.49% (6.49% and 5% for employee portion) for nonprofessional of the annual covered payroll. See additional required disclosures below.

C. Annual Pension Cost

For the year ended June 30, 2011, **DPS's** annual pension cost of \$197,148 for nonprofessional employees and \$3,156,512 for professional employees was equal to **DPS's** required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age

normal cost method. The actuarial assumptions for nonprofessional employees included (a) 7.00% investment rate of return, (b) projected salary increases of 3.0% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of **DPS's** 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. **DPS** participates in the VRS teacher cost sharing pool for professional employees. The following information is required for three years in accordance with GASB No. 27.

Schedule of Employer Contributions

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011 – Professional	\$ 3,156,512	100%	\$ -
2011 – Nonprofessional	\$ 197,148	100%	\$ -
2010 – Professional	\$ 4,190,176	100 %	\$ -
2010 – Nonprofessional	\$ 203,790	100 %	\$ -
2009 – Professional	\$ 5,218,972	100 %	\$ -
2009 – Nonprofessional	\$ 203,404	100 %	\$ -

Schedule of Funding Progress (Nonprofessional employees)

The following information is from the most recent actuarial valuation (June 30, 2010):

	Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liabilities (2)	Actuarial Accrued Liabilities (2) – (1)	Funded Ratio (1) / (2)	Annual Covered Payroll (4)	Liabilities Percentage of Payroll (2-1)(4)
DPS							
Nonprofessional							
employees	June 30, 2010	\$ 5,550,187	\$ 6,430,420	\$ 880,233	86.31%	\$ 1,764,491	49.89%
	June 30, 2009	\$ 5,456,196	\$ 5,771,480	\$ 315,284	94.54 %	\$ 1,752,370	17.99 %
	June 30, 2008	\$ 5,344,343	\$ 5,409,356	\$ 65,012	98.80 %	\$ 1,610,061	4.04 %

Notes to Schedules of Employer Contributions and Funding Progress – VRS

Valuation date	June 30, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3.0 %
Remaining amortization period	20 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	7.00 %
Projected salary increases*	
Nonprofessional	3.75 – 5.60 %
Professional	3.50 – 4.75 %
Cost of living adjustment	2.50 %

*Includes inflation of 2.50%

11. Post Employment Benefits

DPS allows employees who participate in the Supplemental Retirement Plan to continue coverage under the **DPS**'s health insurance program, but the retiree must pay the entire premium. Retirees who qualify to receive VRS retirement benefits may continue in the VRS group life insurance program. The VRS does not charge a premium for this coverage.

12. Long-Term Liabilities

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

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within 1 Year
January 1, 2008 early leave benefit plan (A)	\$ 3,445,369	\$ 1,208,566	\$ (720,669)	\$ 3,933,266	\$ 562,649
July 1, 1997 early leave benefit plan (B)	1,520,420	-	(562,649)	957,771	605,660
Accrued vacation pay (C)	791,983	416,390	(387,207)	821,166	492,700
Vested sick leave (D)	605,795	68,700	(61,899)	612,596	63,400
	<u>\$ 6,363,567</u>	<u>\$ 1,693,656</u>	<u>\$ (1,732,424)</u>	<u>\$ 6,324,799</u>	<u>\$ 1,724,409</u>

- A. Effective January 1, 2007, the Board replaced the 1997 early leave benefit plan with the new Entering Retirement In Phases Plan (ERIP). An employee's years of full-time service as of July 1, 2007 and year of birth will determine that employee's ERIP group. ERIP is only available to individuals who are full-time employees on June 30, 2007. All full-time employees at June 30, 2007 are eligible for benefits at four levels ranging from minimum age of 50 with 10 more years of service (last 5 consecutive) and 25 years of VRS service for level 1 to level 4 employees with a minimum age of 55 and 20 years of service (last 5 consecutive). Benefits based on these levels range from 7 years at 20% of employee's final salary to 4 years at 10% of your final salary. The Board maintains the right to terminate this benefit.
- B. Effective July 1, 1997, the Board implemented an early leave benefit retirement plan. Employees must be in a full-time VRS covered position, have at least ten years full employment with Danville Public Schools, including the five years immediately preceding retirement, have at least 20 years in VRS and be age 55 on or before August 31, 1997. Annual benefits (payable over 7 years) are based on 20% of final salary before retirement. Payments due under this plan were discounted at 5%. Fiscal year 2007 additions are to record the additional obligations pursuant to this amendment.
- C. Vacation pay accumulates to a maximum of 30 days, and may be used by employees to retire early. Vacation pay is not paid at retirement. Only an employee's wages are used to calculate monthly benefits.
- D. Accumulated sick leave is not paid to employees upon termination of employment prior to retirement. Employees who retire with 5 or more years of service are paid \$15 per day for unused sick leave accumulated at the time of retirement.

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

Year Ending June 30,	July 1, 1997 Incentive Program for Early Retirement		January 1, 2008 Incentive Program for Early Retirement	
	Principal	Interest	Principal	Interest
2012	\$ 458,755	\$ 109,105	\$ 783,761	\$ 44,841
2013	340,637	94,804	750,823	77,779
2014	158,379	49,426	715,070	113,533
2015	-	-	660,728	141,294
2016	-	-	519,713	131,625
2017 - 2018	-	-	503,171	146,890
	<u>\$ 957,771</u>	<u>\$ 253,335</u>	<u>\$ 3,933,266</u>	<u>\$ 655,962</u>

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

13. Commitments and Contingencies

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

14. Employment Benefits Other Than Pensions

In accordance with governmental accounting standards, **DPS** recorded the liability for non-pension postemployment benefits, chiefly the health care premiums for retirees. In accordance with these standards, **DPS** is not required to obtain an actuarial report every year, therefore, **DPS's** liability was recorded using the June 30, 2010 valuation. 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, **DPS** provides post-employment healthcare (OPEB) for retired employees through a single-employer defined benefit plan. The benefit levels, employee contributions and employer contributions are governed by **DPS** and can be amended by **DPS** through its personnel manual.

B. Funding Policy

DPS does not intend to establish a trust to prefund 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. **DPS** has used the fresh start method of amortization for the unfunded actuarial accrued liability each year for this estimate. The data has 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 Danville Public Schools.

C. Plan Description

The **DPS** provides post-employment health care benefits to its retirees and spouses. Participants are eligible for the plan when they are eligible to retire under the provisions of the Virginia Retirement System. The earliest retirement would be at age 50 with 10 years of service.

At retirement, retirees may stay in one of two medical plans. These plans are offered by the School System through Anthem. They are a KeyCare 500 and a KeyCare 1000 plan. Both have office visit co-pays and cover prescription drugs. Retirees and their spouses may be covered by the plans until age 65 or until they become eligible for Medicare. Most of the retirees as well as the active employees are in the KeyCare 500 plan.

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

Retirees contribute the full “rate” towards their coverage. The rates are not specific to the retirees as a segregated group, and, therefore, result in an implicit rate subsidy.

Membership at June 30, 2010, membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	\$ 657,191
Active Employees	<u>3,830,172</u>
Total	<u>\$ 4,487,363</u>

D. Annual OPEB Costs and Net OPEB Obligation

The net OPEB obligation as of June 30, 2011 was calculated as follows:

	2011	2010	2009
Annual Required Contribution	\$ 569,675	\$ 531,888	\$ 581,364
Interest on Net OPEB Obligation	22,787	21,276	-
Adjustment to Annual Required Contribution	31,677	29,576	-
Annual OPEB Cost	624,139	582,740	581,364
Contributions Made	(740,313)	(1,092,568)	(235,751)
Increase in Net OPEB Obligation	(116,174)	(509,828)	345,613
Net OPEB Obligation, beginning of year	181,398	691,226	345,613
Net OPEB Obligation, end of year	<u>\$ 65,224</u>	<u>\$ 181,398</u>	<u>\$ 691,226</u>

E. Actuarial Methods and Assumptions

The valuation of the liabilities as of June 30, 2011 is based on a closed group. Current employees and retirees only are considered; no provision is made for future hires. For the five-year projection, we have assumed one new entrant will enter the plan for every active employee who either retires or terminates from Danville Public Schools. Therefore, the active population will remain at a constant level based on the June 30, 2010 count.

In the June 30, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included on investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 8% reduced by 1% each year to arrive at an ultimate healthcare cost trend rate of 5%. Both rates include a 4% inflation assumption. The actuarial accrued liability was \$4,487,363. The plan's unfunded actuarial accrued liability is being amortized using the fresh start method. The remaining amortization period at June 30, 2010 was 30 years.

F. Schedule of Funding Progress

The following table presents multiyear trend information about the actuarial value of plan assets over time relative to the actuarial accrued liability.

Actuarial Valuation Date June 30,	(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)
2011	-	\$ 4,487,363	-	% \$ 4,487,363	\$ 38,826,790	11.56%
2010	-	\$ 4,487,363	-	% \$ 4,487,363	\$ 38,826,790	11.56%
2009	-	\$ 4,264,380	-	% \$ 4,264,380	\$ 38,826,790	10.98%

G. Schedule of Employer Contributions

Year Ended December 31,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2011	\$ 740,313	\$ 569,675	129.95%
2010	\$ 1,092,568	\$ 531,888	187.49%
2009	\$ 235,751	\$ 581,364	40.55%

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***DANVILLE PUBLIC SCHOOLS
CITY OF DANVILLE, VIRGINIA***

Required

Supplementary

Information

(RSI)

For The Year Ended June 30, 2011

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

Year Ended June 30, 2011

	Original Budget	Budget as Amended	Actual
Revenues			
Intergovernmental			
City of Danville	\$ 19,424,857	\$ 19,424,857	\$ 19,170,049
Commonwealth of Virginia	38,064,868	38,064,868	37,050,303
Federal government	1,078,937	1,078,937	2,123,997
Charges for services	144,000	144,000	135,103
Revenue from the use of money and property	136,000	136,000	225,040
Miscellaneous	672,000	356,000	217,319
Total revenues	59,520,662	59,204,662	58,921,811
Expenditures			
Current			
General instruction	42,681,555	41,196,817	40,897,511
Administration, attendance, and health	3,508,706	3,760,803	2,952,675
Pupil transportation	2,320,225	2,305,923	2,287,475
Operations and maintenance	7,406,962	7,174,002	7,096,381
Technology	2,513,080	2,765,301	2,582,708
Facilities	1,961,369	5,246,445	2,089,022
Total expenditures	60,391,897	62,449,291	57,905,772
Excess of revenues over expenditures	(871,235)	(3,244,629)	1,016,039
Other financing uses			
Transfer to textbook fund	-	-	(320,216)
Total other financing uses	-	-	(320,216)
Net change in fund balance	(871,235)	(3,244,629)	695,823
Fund balance - beginning of year	11,552,268	16,560,739	1,582,529
Fund balance - end of year	\$ 10,681,033	\$ 13,316,110	\$ 2,278,352

See independent auditor's report.

***DANVILLE PUBLIC SCHOOLS
CITY OF DANVILLE, VIRGINIA***

Combining Statements

Nonmajor Governmental Funds

For The Year Ended June 30, 2011

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2011

	Capital Projects	Cafeteria	Total
Assets			
Cash and investments	\$ -	\$ 1,340,395	\$ 1,340,395
Due from other funds	54,764	125,548	180,312
Due from other governments	-	168,608	168,608
Inventories	-	30,048	30,048
Total assets	\$ 54,764	\$ 1,664,599	\$ 1,719,363
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 38,872	\$ 38,872
Accrued salaries	-	46,887	46,887
Accrued payroll taxes	-	3,587	3,587
Total liabilities	-	89,346	89,346
Fund Balances			
Nonspendable:			
Inventories	-	30,048	30,048
Assigned for:			
Petty cash	-	1,275	1,275
Asbestos removal	54,764	-	54,764
Cafeteria	-	1,543,930	1,543,930
Total fund balances	54,764	1,575,253	1,630,017
Total liabilities and fund balances	\$ 54,764	\$ 1,664,599	\$ 1,719,363

See independent auditor's report.

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds**

Year Ended June 30, 2011

	Capital Projects	Cafeteria	Total
Revenues:			
Intergovernmental:			
Commonwealth of Virginia	\$ -	\$ 70,566	\$ 70,566
Federal government	-	2,699,602	2,699,602
Charges for services	-	723,611	723,611
Revenue from the use of money and property	-	960	960
Total revenues	-	3,494,739	3,494,739
Expenditures:			
Current:			
Cafeteria	-	3,260,435	3,260,435
Total expenditures	-	3,260,435	3,260,435
Excess (deficiency) of revenues over expenditures	-	234,304	234,304
Other financing sources			
Transfers in from general fund	-	-	-
Net change in fund balances	-	234,304	234,304
Fund balances - beginning of year	54,764	1,340,949	1,395,713
Fund balances - end of year	\$ 54,764	\$ 1,575,253	\$ 1,630,017

See independent auditor's report.

Compliance Report



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***

Danville Public Schools

We have audited the financial statements of ***Danville Public Schools*** as of and for the year ended June 30, 2011 and have issued our report thereon dated October 24, 2011. 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

In planning and performing our audit, we considered ***Danville Public Schools'*** 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 ***Danville Public Schools'*** internal control over the financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Danville Public Schools'*** 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, Board of Directors, 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
October 24, 2011