

CITY OF DANVILLE, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015



Prepared by:

The Department of Finance
City of Danville, Virginia



CITY OF DANVILLE, VIRGINIA

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Letter of Transmittal.....	i
Certificate of Achievement for Excellence in Financial Reporting	ix
Organizational Chart	x
Directory of Principal Officials.....	xi

FINANCIAL SECTION

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4a

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:

Exhibit 1 Statement of Net Position.....	5
Exhibit 2 Statement of Activities	6

Fund Financial Statements:

Exhibit 3 Balance Sheet – Governmental Funds.....	7
Exhibit 4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	8
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	9
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.....	10
Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund	11
Exhibit 8 Statement of Net Position – Proprietary Funds	12
Exhibit 9 Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	14
Exhibit 10 Statement of Cash Flows – Proprietary Funds	15
Exhibit 11 Statement of Fiduciary Net Position – Fiduciary Funds	17
Exhibit 12 Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	18

Notes to Financial Statements	19
-------------------------------------	----

CITY OF DANVILLE, VIRGINIA

TABLE OF CONTENTS (Continued)

Page

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 13	Required Supplementary Information – Schedule of Changes in Net Pension Asset and Related Ratios – Danville Employees’ Retirement System	108
Exhibit 14	Required Supplementary Information – Schedule of Pension Contributions – Danville Employees’ Retirement System	109
Exhibit 15	Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios – Virginia Retirement System	110
Exhibit 16	Required Supplementary Information – Schedule of Pension Contributions – Virginia Retirement System.....	111
Exhibit 17	Required Supplementary Information – Schedule of Employer’s Share of Net Pension Liability – VRS Teacher Retirement Plan.....	112
Exhibit 18	Required Supplementary Information – Schedule of Pension Contributions – VRS Teacher Retirement Plan	113
Notes to Required Supplementary Information.....		114

OTHER SUPPLEMENTARY INFORMATION

Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds:

Exhibit 19	Combining Balance Sheet – Nonmajor Governmental Funds	117
Exhibit 20	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	118

Nonmajor Enterprise Funds:

Exhibit 21	Combining Statement of Net Position – Nonmajor Enterprise Funds	120
Exhibit 22	Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Nonmajor Enterprise Funds	121
Exhibit 23	Combining Statement of Cash Flows – Nonmajor Enterprise Funds	122

Internal Service Funds:

Exhibit 24	Combining Statement of Net Position – Internal Service Funds	124
Exhibit 25	Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Internal Service Funds	125
Exhibit 26	Combining Statement of Cash Flows – Internal Service Funds.....	126

Agency Fund:

Exhibit 27	Statement of Changes in Fiduciary Assets and Liabilities – Veterans’ Memorial Fund.....	128
------------	--	-----

CITY OF DANVILLE, VIRGINIA

TABLE OF CONTENTS (Continued)

	Page
STATISTICAL SECTION	
Table 1 Net Position by Component.....	130
Table 2 Changes in Net Position.....	131
Table 3 Governmental Activities Tax Revenues by Source	134
Table 4 Fund Balances of Governmental Funds.....	135
Table 5 Changes in Fund Balances of Governmental Funds.....	136
Table 6 Major Enterprise Funds – Charges for Services	137
Table 7 Full-time Equivalent City Government Employees by Function.....	138
Table 8 Schedule of Assessed Property Values.....	139
Table 9 Principal Real Estate Taxpayers	140
Table 10 Real Property Tax Levies and Collections.....	141
Table 11 Personal Property Tax Levies and Collections	142
Table 12 Ratios of Bonded Debt to Assessed Values and Bonded Debt per Capita	143
Table 13 Ratios of Outstanding Debt by Type	144
Table 14 Legal Debt Margin Information.....	145
Table 15 Schedule of Utility Revenue Bond Coverage	146
Table 16 Demographic and Economic Statistics	147
Table 17 Principal Employers.....	148
Table 18 Operating Indicators and Capital Asset Statistics by Function.....	149
COMPLIANCE SECTION	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	151
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	153
Summary of Compliance Matters.....	155
Schedule of Findings and Questioned Costs	156
Summary of Schedule of Prior Audit Findings	163
Schedule of Expenditures of Federal Awards	164
Notes to Schedule of Expenditures of Federal Awards.....	167



INTRODUCTORY SECTION





City of Danville Virginia

November 24, 2015

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, 2015.

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.

Brown, Edwards & Company, 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 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 costs 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 4a 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 42,975.

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-December of each year. The Budget Director uses these requests as a starting point for developing a work budget. The City Manager, in conjunction with the budget team, reviews departmental requests along with mandated costs and expected revenues. Once a complete budget is developed, it is presented as a recommended budget to the City Council by April 1 for review and deliberation. After City Council's approval, an introduction budget is released by April 30. 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

The City of Danville continued to pursue its strategic redevelopment of the River District during fiscal year 2015. This central district of the city has been a target for renewal for well over 30 years since the relocation of retail establishments to enclosed malls and distributed strip shopping centers essentially disrupted commercial activity in the district. Over the years, a variety of plans for the River District were developed, none of which made a meaningful impact on either traffic or taxable properties. Finally, around 2008, the concept of the River District was formalized and set in motion. The portion of the city now called "River District" consists of the former Central Business District and the Tobacco-Warehouse District. The Dan River, which flows adjacent to the district, has become a featured asset, and with renewed emphasis from the City government and support from by Industrial Development Authority of Danville (IDA), the River District is experiencing a renaissance; it has achieved palpable vitality. Residential properties are booming; commercial growth is sustainable; specialty retail has a renewed vigor. The City has been assisted in its efforts to revitalize downtown by a number of entities, and it has integrated this assistance into fully implemented programs where cooperative activity has supplanted competitive, "for credit" projects. The result has exceeded most expectations. The activity in the River District during fiscal year 2015 is as follows:

- The focus of development in the former Tobacco-Warehouse District has moved from Bridge Street to Craghead Street. This is consistent with redevelopment activity which is being driven by the private sector.
- The City of Danville, working with the Danville Redevelopment and Housing Authority, created a Community Development Entity which was successful in getting an award of \$20 million in New Market Tax Credits. This award, in its entirety, was applied to the River District Tower development project, which will convert the vacant and rapidly deteriorating Dan River Inc. Research Building into a new home for the Danville Orthopedic Clinic and training activities for the Danville Regional Medical Center, plus some retail and commercial tenancy in the building. The total cost of this project is estimated to be \$25 million. It is located in the center of the River District with high visibility throughout the district.
- Main Street has seen specialty retail development of a consistently higher caliber of merchandise. This activity along Main Street will be ongoing, and as the economy of the City improves, the merchandise along the street will continue to be upgraded. Projects currently underway will provide some additional residential space to the street, thereby enhancing activity and census in the district.
- Through the auspices of the Industrial Development Authority, Union Street is also being targeted for revitalization. The IDA has purchased four under-utilized properties along North Union Street, and has potential activity underway for redevelopment along South Union Street.
- Major parking facilities are being designed for the district. The implementation of these plans is still a couple of years away from realization, but a thorough design study has identified a parking deck design that will provide significant parking, while also providing both aesthetic appeal and additional commercial space.
- Through the offices of the Danville Regional Foundation, an investment group, Watershed Ventures, has been funded and begun to purchase properties in the River District that can be adapted for new uses. The Foundation's goal is to get a reasonable return on its investment in these properties, and the Watershed Ventures group provides the rehabilitation expertise for historic properties as an investment vehicle. The River District will be the beneficiary of this collaboration between the Danville Regional Foundation and the Watershed Ventures group. Once again, collaboration is proving to be a route to successful adaptive reuse of Danville's historic buildings.

Industrial development has been somewhat less robust than River District development during the most recent fiscal year, but the City has successfully developed several relationships that provide excellent opportunities for ongoing industrial development. The City has seen successful expansion or modernization projects underway at several existing businesses, including Telvista, Goodyear, and IKEA. Other important highlights in the City's economy for fiscal year 2015 are as follows:

- Engineered Biopharmaceuticals, a start-up business located in the Dan River Business Development Center, has finalized one commercial contract and is negotiating the details of another major commercial contract, where the product has successfully met the requirements for the product as delivered by Engineered Biopharmaceuticals. We expect these developments to be implemented in a large facility that will be built-to-suit.
- Sky Valley Foods was assisted with a financial package to allow the company to expand its operation and provide additional product to its retail customers.
- Precision machining has been a key strategic issue for attracting advanced manufacturing businesses to the community. This is an effort that involved Danville Public Schools, Danville Community College, and the Institute for Advanced Learning and Research. Just as with the River District project, we are utilizing a variety of organizations and funding sources to enable us to implement a world class training program that will motivate advanced manufacturers to capitalize on a structured and ongoing source of trained workers who are in short supply across the nation.

Economic development in Danville enjoys very broadly based support. City Council continues to be a strong supporter of the public effort to reinvigorate our economy. The Danville Regional Foundation, which is a private sector group that administers a \$200+ million fund from a hospital conversion sale, is very valuable to this effort also. The business community is committed to development in a variety of ways including both financial and political support at the local and state levels. There is every indication that this kind of collaborative support will continue, and we can realistically forecast a positive future for Danville's economic wellbeing.

The demographics of the City are challenging. More well-paying jobs and continued growth of advanced manufacturing and higher technology applications in the community will positively address both demographics and population decline. There are specific programs in place through organizations, including the Chamber of Commerce and the Danville Regional Foundation, to nurture and grow the younger cross section of people in the community to build future civic infrastructure and provide solid leadership in future years. Danville's future is bright!

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 \$12,321,710; Sewer and Wastewater Capital Improvements of \$1,800,000; Water and Gas Capital Improvements of \$2,655,000; and Electric and Telecom Capital Improvements of \$5,400,960.

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. CBN announced a second expansion in April 2013 to include 25 new jobs and an investment of \$8.2 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. The AVRC building has been sold to a local Danville entity, Daly Seven Inc., which uses the building for its hotel and cemetery equipment operations. 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. The EIT Cyber Park facility employs thirty-five people.

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. Elkay is currently adding new product lines to its operation in Cane Creek Centre, and employment is expected to increase in the next year as a result of these additions.

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. Swedwood began manufacturing in early 2008. Currently, Swedwood has 380 employees and has made a capital investment close to \$100 million. Swedwood is now known as IKEA Factory USA, and it has just announced that it will add a new production line to its factory.

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.

Another collaborative effort of RIFA has been the creation of the Berry Hill Industrial 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 park 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 Berry Hill Industrial Park, 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. RIFA received a \$6 million Tobacco Commission Mega Site grant in 2012 to grade approximately 400 acres on two sites, so clients can be shown "shovel ready" sites. The City continues to work towards obtaining the necessary permits from federal and state regulatory agencies before grading can begin and hope that grading can begin in early spring of 2016.

In November 2013, the Utilities Department contracted with Utility Financial Solutions (UFS) to provide general consulting services and specifically to provide expertise in the areas of rate making and Power Cost Adjustments (PCA). UFS completed a comprehensive biennial rate study and cost of service study for all five Utility funds in early 2015. The rate study recommended an increase on August 1, 2015 in the monthly Customer Charge for Wastewater from a low of 5.66% to a high of 10.21% (depending on meter size) and an increase of \$0.03 per hundred cubic feet of metered water for all Wastewater Customers. Additionally, the Utilities Department contracted with Tru-Check, Inc. to perform a system-wide audit of all electric, water, and gas meters. The purpose of the audit is to physically inspect meters, confirm the GPS coordinates and to document any abnormal conditions observed. The audit is approximately 50% complete.

A Steering Committee composed of Danville Utility Commission members and Danville City Council members was formed in October 2014 to determine how best to cost-effectively serve current and future needs of Danville Utilities electric customers and the City of Danville and maintain progress in transforming the area's economic base. The Committee conducted semi-monthly meetings through April 2015 and ultimately offered seven recommendations: (1) offer large industrial customers choice of power suppliers; (2) hire a power supply consultant to help develop a plan to reduce transmission and congestion charges and assist in future power purchases; (3) reduce the annual coincidental peak demand; (4) install electric power generation facilities locally; (5) evaluate the current policy for determining the Electric Fund contribution to the General Fund; (6) consider making the Utility Commission an independent governing body; (7) evaluate the recommendations made by the Hometown Connections check-up report and make improvements where needed. The following actions have been initiated as a result of the recommendations: the Department is currently developing distribution rates in collaboration with UFS for large industrial customers; the Department contracted with GDS Associates, Inc. for electric power planning services; a Request for Proposal (RFP) for behind-the-meter generation was issued and is under current evaluation. The Electric Division continues to collaborate with our rate consultant, as well as advisors with American Municipal Power, Inc. and GDS Associates, 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.

In 2007, Danville Utilities entered into a 20-year natural gas contract with MuniGas that has provided a discount on our wholesale gas purchases. This discount produced a cost savings of \$986,909 in 2015, which was passed on to customers.

During FY 2015, The Water & Gas Division installed new gas mains on all or portions of 36 streets (19 by City Crews and 17 by outside contractors). New water mains or main segments were installed on seven streets. The Phase 14 gas main replacement was completed by outside contractors under the guidance of Water & Gas Engineering.

At the City's Northside Wastewater Treatment Plant (NSWWTP), the construction of Phase III Improvements is under evaluation. Phase III includes the installation of grit removal facilities and would replace the use of high rate primary clarifiers and pumping equipment. Currently the NSWWTP is completing Phase I of the Large Diameter Pipe Replacement Project. This project replaces large diameter welded steel pipe between the influent head works and the primary clarifiers that have deteriorated due to corrosion.

In 2013, the City contracted with the firm Hazen and Sawyer to determine the most appropriate manner of mediating the high total trihalomethane (THM) concentrations in the distribution system. THMs are formed by the reaction of chlorine, used for disinfection, with the organics in the treated water. The installation of mixing and aeration equipment in the 8 million gallon reservoir in Ballou Park was completed in May 2015. Two significant episodes of taste and odor issues in the raw water drawn from the Dan River occurred in 2015. Additional testing is ongoing to determine the cause of the odor in the raw water (without proper treatment, this results in taste and odor issues in the distributed water). To prevent recurrences, a larger capacity powdered activated carbon feeder was installed in September 2015. The Water Treatment Plant is in the process of installing continuous solids removal equipment in the four settling basins. This installation will assist with the reduction of THMs and the release of other matter in the solids.

The nDanville fiber to the home expansion continued connecting homes in FY 2015 and finished approximately 250 homes, in addition to the 1,200 homes completed in FY2014. Future expansions will continue each year as funds allow until all Danville Utilities customers have access to fiber optic broadband. The nDanville network currently has three service providers and is continuing to grow as commercial and residential customers sign up for service. The three service providers are offering IP television, telephone, and high-speed internet at speeds higher than the competition, but at lower rates. More fiber to the home projects are being engineered and are being planned in this year's budget. This will allow the region to remain competitive with the broadband capabilities of other metropolitan areas.

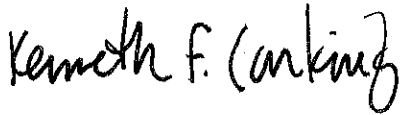
Awards and Acknowledgements

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, 2014. This was the twenty-ninth 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.

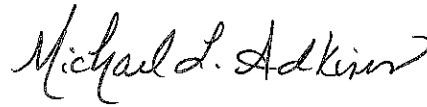
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,



Kenneth F. Larking
Acting City Manager



Michael L. Adkins
Director of Finance



Patricia K. Conner
Deputy Director of Finance



Government Finance Officers Association

**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

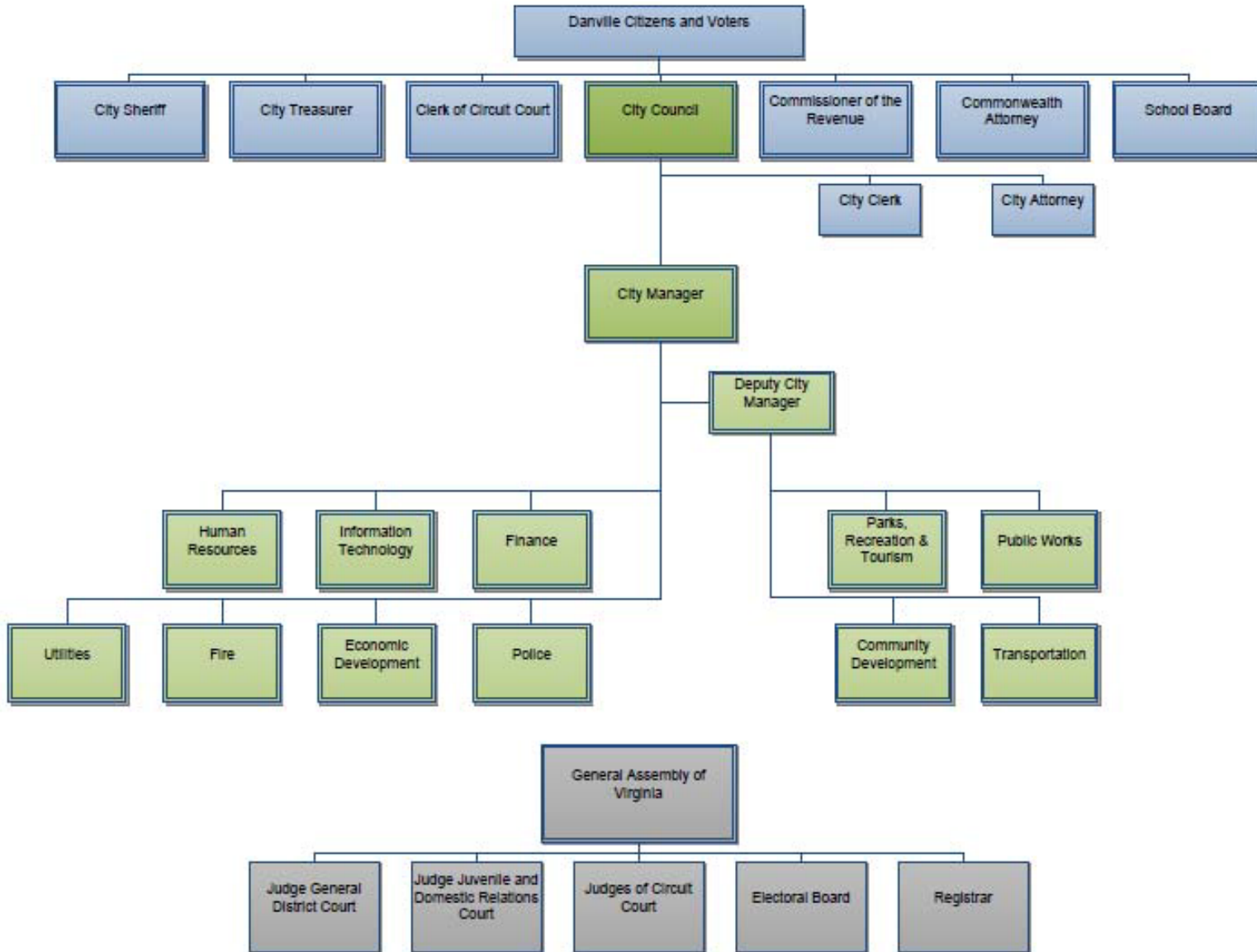
June 30, 2014

A handwritten signature in black ink, reading "Jeffrey R. Emen". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Executive Director/CEO

CITY OF DANVILLE, VIRGINIA

ORGANIZATIONAL CHART



CITY OF DANVILLE, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

CITY COUNCIL

Sherman M. Saunders – Mayor
Gary P. Miller, MD – Vice Mayor

L.G. “Larry” Campbell, Jr.
Alonzo L. Jones
Fred O. Shanks III
J. Lee Vogler

John B. Gilstrap
Albert K. “Buddy” Rawley, Jr.
James Buckner

LEGISLATIVE STAFF

W. Clarke Whitfield, Jr. City Attorney
Susan M. DeMasi City Clerk

ADMINISTRATIVE OFFICIALS

Joseph C. King City Manager
Kenneth F. Larking..... Deputy City Manager
Cynthia L. Thomasson Budget Director
Marc D. Adelman Director of Transportation Services
Michael L. Adkins Director of Finance
Richard I. Drazenovich..... Director of Public Works
Earl B. Reynolds, Jr..... Director of Community Development
Inez J. Rodenburg..... Director of Information Technology
David R. Eagle Fire Chief
Philip A. Broadfoot Chief of Police
Sara B. Weller Director of Human Resources
William O. Sgrinia Director of Parks, Recreation, and Tourism
Vacant..... Director of Utilities
Telly D. Tucker Director of Economic Development

CONSTITUTIONAL OFFICERS

Michael S. Mondul City Sheriff
Michael J. Newman Commonwealth Attorney
Gerald A. Gibson..... Clerk of Circuit Court
James M. Gillie..... Commissioner of the Revenue
Lynwood L. Barbour City Treasurer

CITY OF DANVILLE, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
(Continued)

SCHOOL BOARD

Dr. Edward C. Polhamus – Chairman
Terri Hall – Vice Chairman

Steven Gould
Sharon Dones
Cheryl Bryant

O. Renee' Hughes
Dr. Philip W. Campbell

SCHOOL ADMINISTRATIVE OFFICIALS

Dr. Kathy J. Osborne Interim Superintendent,
Assistant Superintendent for Administrative Services
Lori Cassada Clerk of School Board
Dr. Juliet C. Jennings Assistant Superintendent for Human Resource Services
Yvette Smith Assistant Superintendent for Instruction

EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES

City Employee Members

D. Joyce Obstler – Chairman – Assistant Director, Information Technology Department
Sandra M. Stevens – Lieutenant, Police Department
Robert E. Parham – HR Consultant, Human Resources Department

Citizen Members

T. Wayne Oakes – Vice-Chairman – Retired, DIMON Incorporated
Lenard D. Lackey, Jr. – Retired, Danville/Pittsylvania County Service Board
E. Linwood Wright – Retired, Dan River, Inc.

Ex-Officio Members

Sherman M. Saunders

Joseph C. King

Michael L. Adkins

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 16 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the other required supplementary information, as described in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the 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 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 24, 2015

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 \$526,741,245 (total net position – government-wide). Of this amount, \$208,880,629 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The net position of the City's business-type activities, as of June 30, 2015, was \$347,243,072, an increase of \$21,505,291 from the restated net position of \$325,737,781 at June 30, 2014. Of the net position, \$104,213,338 is reported as unrestricted, a \$19,910,575 increase from the unrestricted net position existing at June 30, 2014.
- As of June 30, 2015, the City's governmental activities for government-wide statements reported a net position of \$179,498,173, an increase of \$50,539,938 over a beginning restated net position of \$128,958,235. A net position of \$104,667,291 at June 30, 2015, is 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 \$71,649,553, an increase of \$5,316,133 in comparison to the restated fund balance at June 30, 2014 of \$66,333,420. Fifty-two percent of the total fund balance at June 30, 2015, \$37,048,908, 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 forty-three percent of total fund expenditures.

Governmental fund statements utilize the current financial resources 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 and proprietary fund statements use the economic resources measurement focus and accrual basis of accounting, which focuses on transactions and events that affect total economic resources; i.e., increase or decrease in net position during the period regardless of the timing of the related cash inflows or outflows.

Governmental 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 and deferred outflows) or deducted (liabilities and deferred inflows) to/from the fund balances of governmental funds to obtain the net position 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 \$107,848,620 to the combined balances of governmental funds when converting to net position of governmental activities. The reconciliation presented on pages 8 and 10 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 \$71,649,553 and an unassigned fund balance of \$37,048,908. Government-wide net position for governmental activities report a total net position of \$179,498,173 and an unrestricted net position of \$104,667,291.

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

Non-spendable, restricted, committed, and assigned fund balance (fund statement)	\$ 34,600,645
Non-spendable inventory and prepaid items	(463,184)
Budget Stabilization, committed for fund statements	(3,000,000)
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(18,624,194)</u>
Restricted net position – governmental activities	<u>\$ 12,513,267</u>

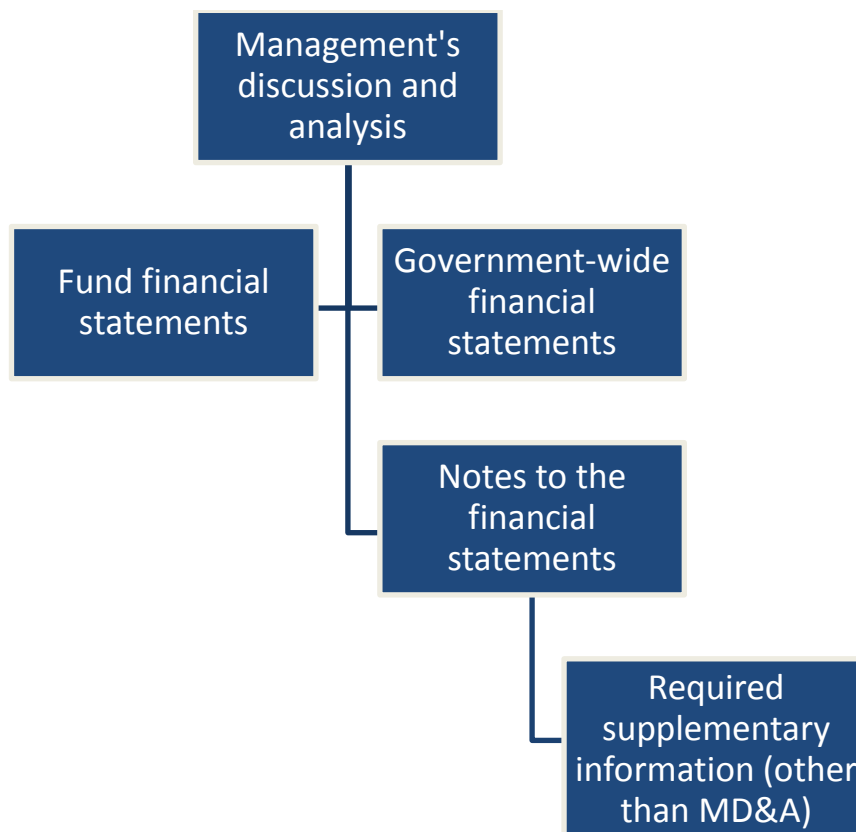
The Statement of Net Position – Enterprise Funds does not require a conversion to the Statement of Net Position Government-wide reporting of Business-type Activities because enterprise funds already use the economic resource measurement focus and the accrual basis of accounting. From a management-reporting 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.

Restatement

In 2015 the City adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The overall effect of this new standard is to reflect the City's long-term Virginia Retirement System (VRS) and Danville Employees' Retirement System (ERS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the City was current with its required pension contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the City record a net pension liability and asset directly on the statement of net position. Beginning net position has been restated as discussed in footnote 16, and this has had a significant impact on the City's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

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, 2015. 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 Position and the Statement of Activities.

The Statement of Net Position

The Statement of Net Position presents information on all the City's assets, liabilities, and deferred outflows/inflows. The difference between assets and liabilities is reported as net position. Net position is 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 position can be an indicator as to whether the financial position of the City is improving or deteriorating. To accurately use changes in net position 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 capital assets).

The Statement of Activities

The Statement of Activities presents information showing how the net position changed during the year. As mentioned earlier, government-wide statements use the accrual basis of accounting. Therefore, changes in net position 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 Position 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 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 that 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 seven 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, Virginia Department of Transportation (VDOT) Fund, Economic Development Fund, and the Cemetery Maintenance Fund are considered nonmajor funds. The data for these four funds are combined in a single column for the Balance Sheet-Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds.

Proprietary Funds

The City of Danville maintains two types of proprietary funds: (a) utility enterprise funds and (b) internal service funds. Enterprise 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. Enterprise 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 Position
June 30, 2015

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 144,873,362	\$ 101,304,186	\$ 125,406,272	\$ 112,579,009	\$ 270,279,634	\$ 213,883,195
Capital assets	94,714,103	93,690,573	294,584,735	294,547,056	389,298,838	388,237,629
Total assets	<u>239,587,465</u>	<u>194,994,759</u>	<u>419,991,007</u>	<u>407,126,065</u>	<u>659,578,472</u>	<u>602,120,824</u>
Deferred outflows	\$ 9,779,103	\$ 374,824	\$ 2,407,042	\$ -	\$ 12,186,145	\$ 374,824
Long-term liabilities outstanding	\$ 53,928,651	\$ 51,118,267	\$ 59,550,751	\$ 64,619,684	\$ 113,479,402	\$ 115,737,951
Other liabilities	13,629,033	14,808,268	15,135,931	16,209,732	28,764,964	31,018,000
Total liabilities	<u>\$ 67,557,684</u>	<u>\$ 65,926,535</u>	<u>\$ 74,686,682</u>	<u>\$ 80,829,416</u>	<u>\$ 142,244,366</u>	<u>\$ 146,755,951</u>
Deferred inflows	\$ 2,310,711	\$ 484,813	\$ 468,295	\$ 558,868	\$ 2,779,006	\$ 1,043,681
Net position:						
Invested in capital assets, net of related debt	\$ 62,317,615	\$ 63,746,102	\$ 243,029,734	\$ 241,435,018	\$ 305,347,349	\$ 305,181,120
Restricted for grants & contributions	6,528,727	3,731,869	-	-	6,528,757	3,731,869
Restricted for community development loans	3,217,743	3,303,951	-	-	3,217,743	3,303,951
Restricted for cemetery perpetual care	2,766,767	2,734,092	-	-	2,766,767	2,734,092
Unrestricted	<u>104,667,291</u>	<u>55,442,221</u>	<u>104,213,338</u>	<u>84,302,763</u>	<u>208,880,629</u>	<u>139,744,984</u>
Total net position	<u>\$ 179,498,173</u>	<u>\$ 128,958,235</u>	<u>\$ 347,243,072</u>	<u>\$ 325,737,781</u>	<u>\$ 526,741,245</u>	<u>\$ 454,696,016</u>

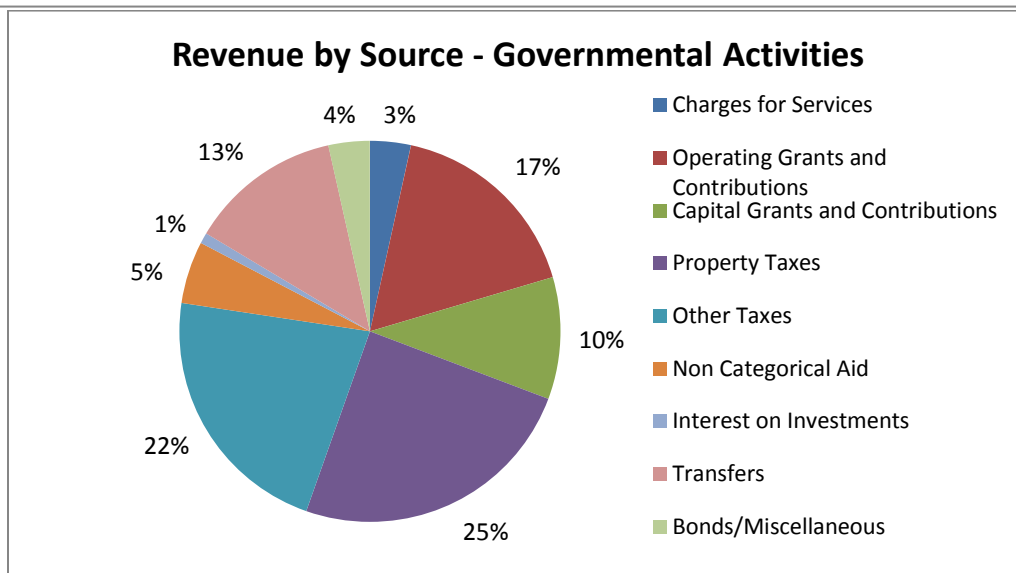
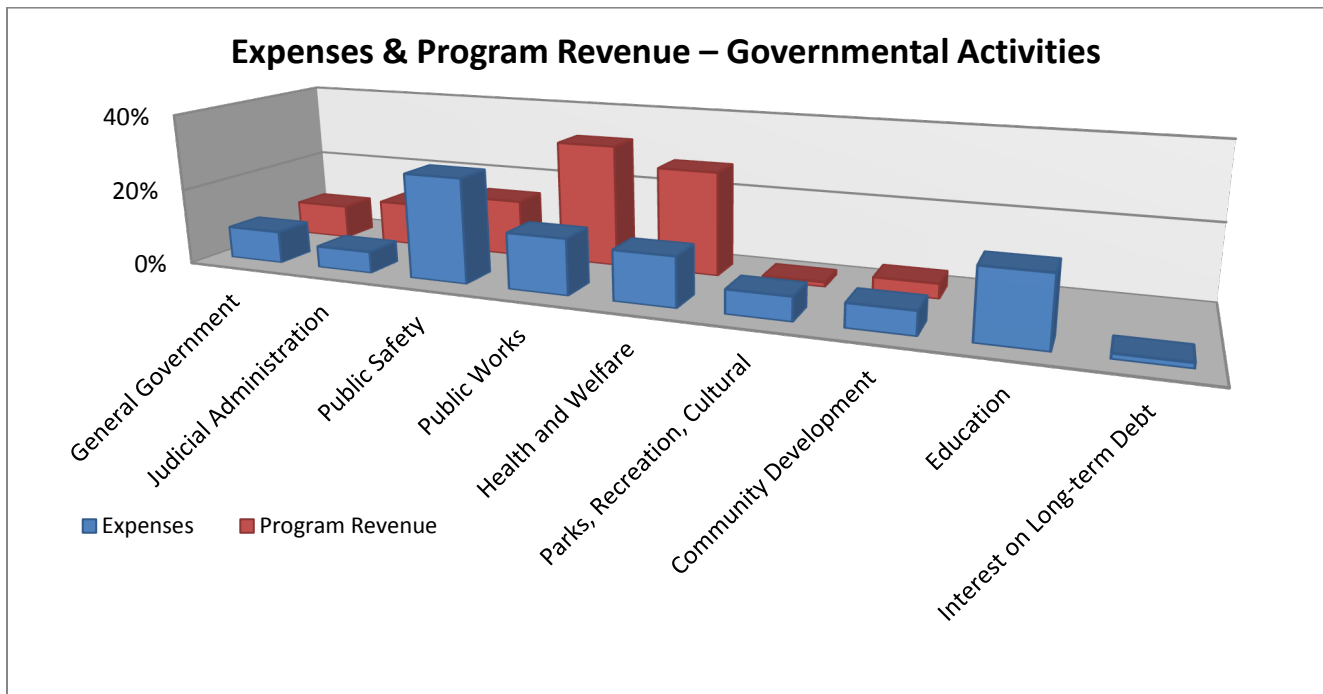
The City's combined net position at June 30, 2015 of \$526,741,245 represents an increase of \$72,045,229 from the combined net position at June 30, 2014. Forty percent of total net position (\$208,880,629) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Fifty-eight percent of total net position 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. The remaining two percent of net position (\$12,513,267) is restricted for other special projects (grants), community development loans, and the perpetual care of the municipal cemetery. The composition of net position at June 30, 2014 was as follows: Unrestricted net position – 31%, Invested in Capital Assets, Net of Related Debt – 67%, Restricted for special projects (grants) and cemetery care – 2%. For the City as a whole, unrestricted net position increased \$69,135,465, primarily due to the pension asset recorded within both the governmental and business-type activities.

City of Danville
Summary Statement of Changes in Net Position
June 30, 2015

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,896,965	\$ 3,957,226	\$ 164,386,142	\$ 175,450,098	\$ 168,283,107	\$ 179,407,324
Operating Grants and Contributions	19,065,751	19,523,936	1,742,109	1,473,919	20,807,860	20,997,855
Capital Grants and Contributions	11,661,581	18,332,445	29,772	268,697	11,691,353	18,601,142
General Revenues:						
Real Estate and Personal Property	27,726,602	27,868,180	—	—	27,726,602	27,868,180
Other Taxes (See Exhibit B for detail)	24,729,965	24,401,554	—	—	24,729,965	24,401,554
Interest on Investments	1,020,884	1,641,092	686,097	1,583,234	1,706,981	3,224,326
Non-categorical state and federal aid	5,939,560	6,038,488	—	—	5,939,560	6,038,488
Miscellaneous	<u>3,955,518</u>	<u>1,682,156</u>	<u>2,230,591</u>	<u>2,823,930</u>	<u>6,186,109</u>	<u>4,506,086</u>
Total Revenues	<u>\$ 97,996,826</u>	<u>\$ 103,445,077</u>	<u>\$ 169,074,711</u>	<u>\$ 181,599,878</u>	<u>\$ 267,071,537</u>	<u>\$ 285,044,955</u>
Expenses:						
General Government	\$ 8,772,098	\$ 10,985,447	\$ —	\$ —	\$ 8,772,098	\$ 10,985,447
Judicial Administration	5,879,586	6,210,609	—	—	5,879,586	6,210,609
Public Safety	28,403,082	26,273,320	—	—	28,403,082	26,273,320
Public Works	15,073,851	10,114,068	—	—	15,073,851	10,114,068
Health and Welfare	13,380,667	11,250,069	—	—	13,380,667	11,250,069
Parks, Recreation, and Culture	6,366,189	5,247,916	—	—	6,366,189	5,247,916
Community Development	6,255,078	21,838,752	—	—	6,255,078	21,838,752
Education (payment to school district)	18,342,352	20,646,479	—	—	18,342,352	20,646,479
Interest on Long Term Debt	1,382,842	1,552,148	—	—	1,382,842	1,552,148
Wastewater	—	—	6,447,892	6,328,929	6,447,892	6,328,929
Water	—	—	5,494,478	5,352,732	5,494,478	5,352,732
Gas	—	—	20,545,403	22,819,175	20,545,403	22,819,175
Electric	—	—	104,497,754	113,273,134	104,497,754	113,273,134
Transportation	—	—	2,379,059	2,105,000	2,379,059	2,105,000
Telecommunication	—	—	859,405	849,998	859,405	849,998
Sanitation	—	—	3,012,652	3,771,298	3,012,652	3,771,298
Cemetery Operations	<u>—</u>	<u>—</u>	<u>864,257</u>	<u>886,585</u>	<u>864,257</u>	<u>886,585</u>
Total Expenses	<u>\$ 103,855,745</u>	<u>\$ 114,118,808</u>	<u>\$ 144,100,900</u>	<u>\$ 155,386,851</u>	<u>\$ 247,956,645</u>	<u>\$ 269,505,659</u>
Subtotal Revenue over Expenses	<u>\$ (5,858,919)</u>	<u>\$ 10,673,731)</u>	<u>\$ 24,973,811</u>	<u>\$ 26,213,027</u>	<u>\$ 19,114,892</u>	<u>\$ 15,539,296</u>
Transfers	<u>14,533,937</u>	<u>14,548,860</u>	<u>(14,533,937)</u>	<u>(14,548,860)</u>	<u>—</u>	<u>—</u>
Increase in Net Position	\$ 8,675,018	\$ 3,875,129	\$ 10,439,874	\$ 11,664,167	\$ 19,114,892	\$ 15,539,296
Beginning Net Position	128,958,235	125,083,106	325,737,781	314,073,614	454,696,016	439,156,720
Effect of Restatements (Note 16)	<u>41,864,920</u>	<u>—</u>	<u>11,065,417</u>	<u>—</u>	<u>52,930,337</u>	<u>—</u>
Ending Net Position	<u>\$ 179,498,173</u>	<u>\$ 128,958,235</u>	<u>\$ 347,243,072</u>	<u>\$ 325,737,781</u>	<u>\$ 526,741,245</u>	<u>\$ 454,696,016</u>

Governmental Activities

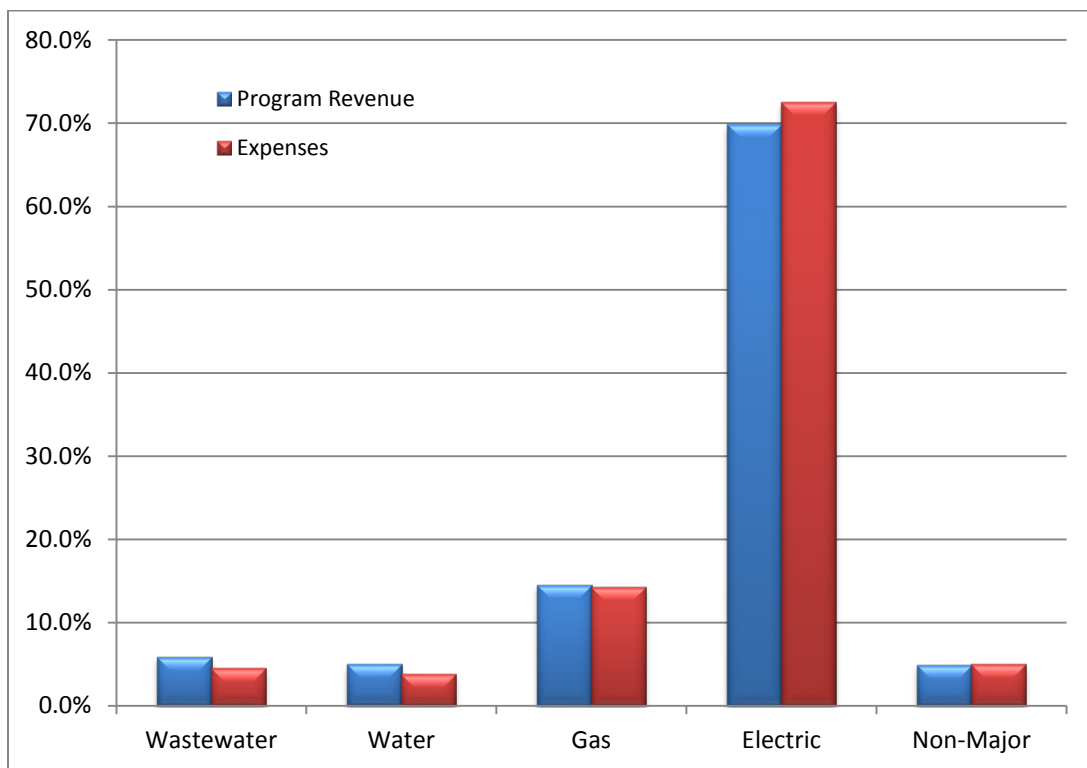
Governmental activities increased the City of Danville's net position by \$8,675,018. Revenues (including transfers) from governmental activities totaled \$112,530,763, with Property Taxes 25%, Other Taxes 22%, Operating Grants and Contributions 17%, Capital Grants and Contributions 10%, and Transfers 13%, representing 87% of the City's revenues. Expenses for governmental activities totaled \$103,855,745, of which 33% was supported from program revenues and the remaining 67% from general revenues. Expenses for Public Safety 27%, Education 18%, Community Development 6%, Health & Welfare 13%, General Government 8%, and Public Works 15%, make up 87% of the total governmental expenses for the fiscal year.



Business-type Activities

Business-type activities increased the City's net position by \$10,439,874 compared to last year's increase in net position of \$11,664,167. At June 30, 2015, total net position was \$347,243,072 of which \$243,029,734 represented investments in capital assets and \$104,213,338 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). Revenues for business-type activities were \$169,074,711 of which 97% 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 \$71,649,553, an increase of \$5,316,133 when compared with the combined restated fund balance at June 30, 2014 of \$66,333,420. The fund balance in the Capital Projects Fund, also known as Construction In Progress (CIP), decreased \$2,644,052. Of the \$10,336,877 expended in the CIP fund, \$4,846,172 was expended on blight removal and improvements to public buildings and grounds. Funds of \$145,444 were expended for streets and parking lot improvement and construction within the City's developing River District. \$1,870,139 was expended for economic development, equipment, and information technology upgrades, \$240,830 was expended for improvements at the municipal airport, \$2,231,633 was expended for Fire and Emergency Operations Center Headquarters, and \$206,159 was expended for improvements to the Adult Detention center.

Fifty-one percent (\$37,048,908) of the combined governmental funds balance is unassigned fund balance, which is available for spending at the government's discretion. Thirty-nine percent (\$28,152,951) 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 ten percent (\$6,447,694) of fund balance is not spendable as it represents inventories, loans receivable or prepaid expenses (\$3,680,927) and investments for the perpetual care of the municipal cemetery (\$2,766,767).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2015 of \$48,065,711. This is an increase of \$5,193,951 compared to last year's fund balance of \$42,871,760. The General Fund reported an unassigned fund balance of \$37,048,908, an increase of \$1,970,128 from the June 30, 2014 unassigned fund balance of \$35,078,780. The adopted budget for the General Fund included drawing \$3,108,750 from fund balance in FY 2015. 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 43% of total General Fund expenditures while total fund balance represents 55% of total fund expenditures. When transfers out of \$10,633,923 are added to expenditures, then unassigned fund balance is 38% percent of expenditures and transfers out. The following table represents General Fund support shown as transfers out:

Support of CIP Projects	\$ 6,986,705
Support of Regional Industrial Facility Authority	454,600
Support of Economic Development	1,748,000
Support of Grants	1,245,155
Support of Cemetery Operations	-
Support of Transportation	199,463
	<u>\$ 10,633,923</u>

The increase in fund balance of \$5,193,951 was \$12,608,589 more than the final budgeted decrease of \$7,414,638. The actual increase resulted from \$10,558,195 unexpended budgeted expenditures and \$2,050,394 in additional revenue (including bond issuance items and transfers in). Unexpended budget of \$2,225,201 was encumbered at June 30, 2015.

Some key factors of unexpended appropriations are as follows:

- City Support of Public Schools had an unexpended balance of \$2,177,558. 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 2016.
- The City's self-insured group health insurance plan had an unexpended balance of \$2,356,460. Over the last few years, the City has offered employees with a new high-deductible plan. This has resulted in lower utilization and decreased costs to the City. The City has also gradually allocated a larger share of the premium to the employees in order to obtain an employer-employee allocation that is aligned with industry norms.
- Savings in wages, related payroll taxes, and retirement contributions of over \$2.6 million were realized through vacancies in the General Fund in various departments.
- Expenditures that were encumbered and remained unexpended at June 30, 2015 amounted to nearly \$2.2 million. 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 2015.

Key factors of the additional revenue are as follows:

- General Property Tax collections were \$395,423 under budget. The primary components of this variance exist in the following areas:

Real Estate	\$	(578,022)
Personal Property	\$	200,365
Public Service	\$	(10,436)
Penalties & Interest	\$	(7,330)

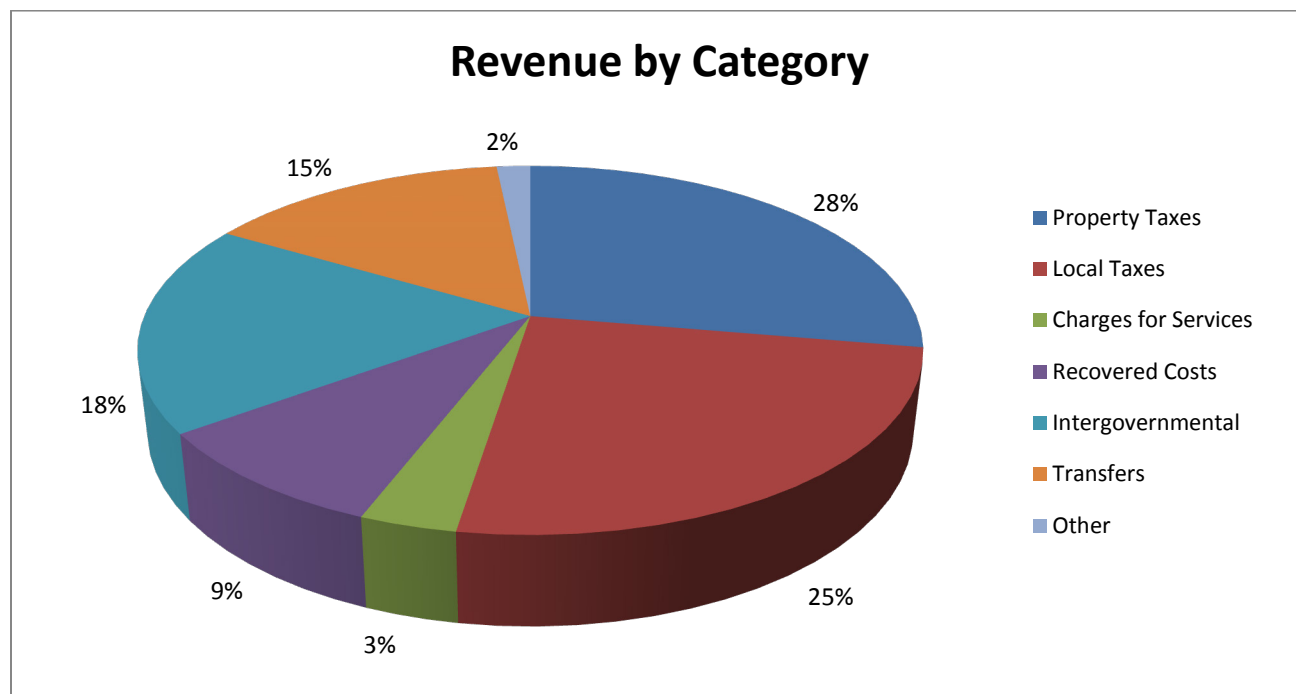
- Real Estate tax collections were under budget due to the actual assessments coming in lower than the estimated assessments used for budget preparation for FY 2015. Personal Property realized additional revenues in delinquent taxes due to increased efforts in collections. Collection of delinquent personal property taxes is pursued through utilization of the Virginia Debt Set-off Program, as well as the DMV Stop Program. Property taxes on public service entities and penalties and interest collections performed very closely to budget for FY 2015.

- Other Local Taxes exceeded the final budget of \$23,532,056 by \$1,188,676. Most categories of local tax revenue exceeded budgeted expectations, while others were close to budgeted expectations. The primary components of this positive variance relate to local sales tax, business licenses and prepared meals tax collections. The FY 2015 budget was conservative with respect to these consumer taxes and the continued improvement in the local economy contributed to the positive variance. Local Sales Taxes were collected at 104% of budget, Business Licenses were collected at 107% of budget, Hotel Taxes were at 107% of budget, and Prepared Meals Tax collections also met or outperformed estimates at 105% of budget. Areas contributing to the budget variance include:

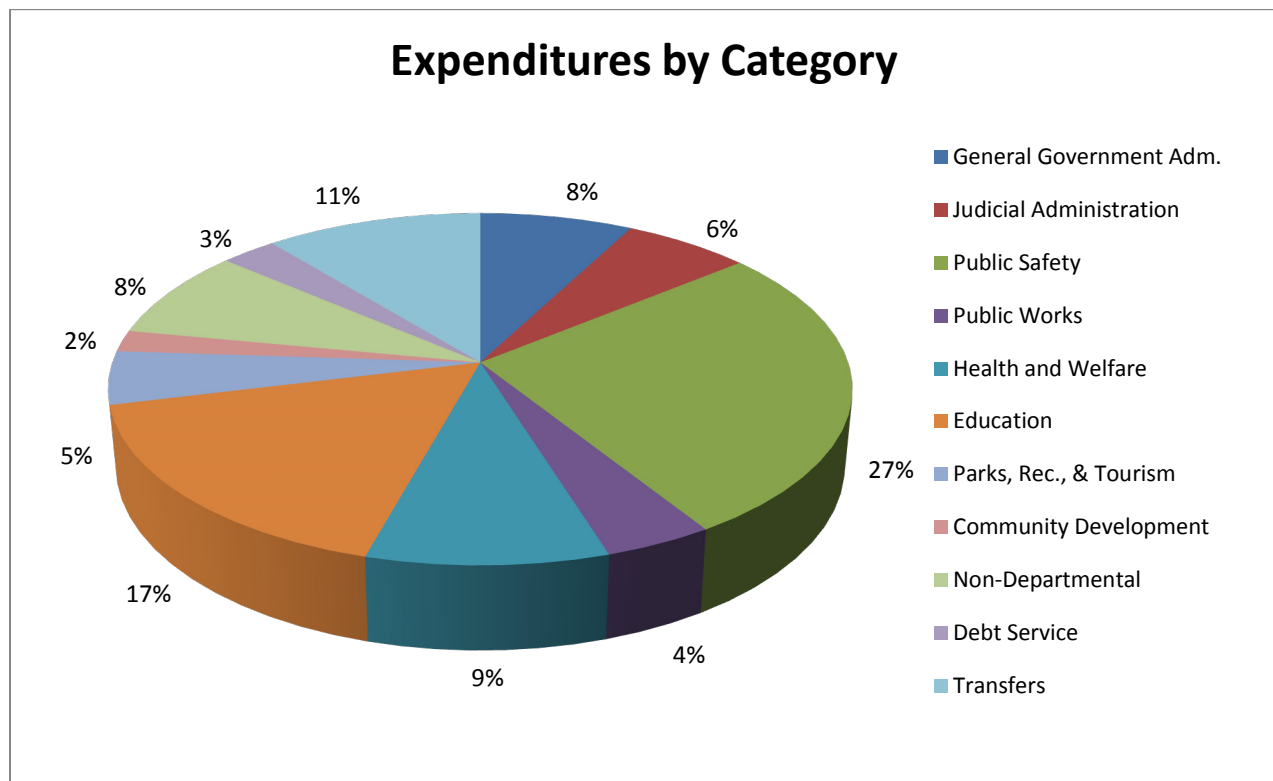
Local Sales Tax	\$ 319,504
Prepared Meals Tax	\$ 313,637
Business Licenses	\$ 327,999
Vehicle License & DMV Fees	\$ 44,226
Hotel & Lodging Tax	\$ 49,397
Others	\$ 133,913

- Recovered costs exceeded budget by \$2,694,417. This is primarily due to the termination of the City's Other Post-Employment Benefits Trust Fund. It was actuarially determined that the City eliminated its other post-employment benefits liability; the Trust was terminated and the Trust proceeds of \$2,709,551 were returned to the City in May 2015.
- Revenue from all other categories performed closely to budgeted amounts for FY 2015.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2015. Total revenues are \$99,666,016, including transfers in of \$14,830,000.



The next graph shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2015. Total expenditures are \$97,425,065, including transfers out of \$10,633,923.



Enterprise Funds

Enterprise funds reported a combined ending net position of \$347,243,072; an increase of \$21,505,291 compared to a combined net position reported at June 30, 2014 of \$325,737,781. Each of the following enterprise funds contributed to this increase: Wastewater Fund, 15% or \$3,247,376; Water Fund, 16% or \$3,470,796; Gas Fund, 10% or \$2,147,122; Electric Fund, 39%, or \$8,431,054; Transportation Fund, 5% or \$1,031,693; Sanitation Fund, 9% or \$1,880,903; Telecommunications Fund, 3% or \$675,711; and the Cemetery Operations Fund, 3% or \$620,636.

FY 2015 revenues from all sources combined, excluding contributed capital and transfers in, decreased \$12,340,634 when compared to the previous fiscal year ended June 30, 2014. The details of this net decrease in revenue result from the following:

Charges for Services	\$ (11,063,956)
Recovered Costs	\$ (534,653)
Jobbing Income	\$ (53,922)
Interest Income & Market Value Adjustment	\$ (900,137)
Grants	\$ 273,880
Sales/Rental/Gain on Disposal/Inkind	\$ (61,846)

Despite the increases in electric rates related to consumption and demand charges in FY 2015, Charges for Services decreased in the Electric Fund by \$9,630,785 due to the change in the accrual of revenue related to the Power Cost Adjustment. The Power Cost Adjustment allows for the recording of a regulatory asset that represents purchased power costs that have not yet been billed to the customers. The winter season of FY 2015 was milder than that of the previous fiscal year. Likewise, the cost of purchased power decreased proportionately. There was also an increase in utility rates during FY 2015 related to consumption charges and customer charges in the Water Fund. This resulted in an increase of \$906,389 in Charges for Services in the Water Fund. A decrease of \$2,506,796 in gas revenue resulted from decreased consumption of approximately 4% in residential, commercial, industrial customer classes. The Wastewater Fund remained fairly constant with an increase of \$286,575 in charges for services. No rate increases occurred in FY 2015; however, rate increases were implemented for the Wastewater Fund for FY 2016 as a result of the completed biennial rate study. Currently, the study proposes increases in rates for Gas, Water, and Electric in FY 2017. Non-major Funds (Transportation, Sanitation, Cemetery, and Telecommunication) were stable with a combined decrease in revenues of \$119,339.

The variance in Recovered Costs is due to the prior year recovery in the Gas Fund of \$372,354 from a class action settlement regarding overpricing of purchased gas, which as a one-time recovery was not experienced in FY 2015. The decrease in the interest income and market value adjustment category resulted from downward changes in the market value in the current fiscal year versus prior fiscal year. Income before contributions and transfers for all enterprise funds combined decreased \$1,000,291 from the prior year, primarily because of the decrease in Charges for Services and the lower market value resulting in a downward adjustment.

The Utilities contributed \$14,830,000 in transfers to the General Fund for fiscal year ending June 30, 2015. Enterprise Funds' net position of \$347,243,072 include \$75,361,336 unrestricted and undesignated, \$28,852,002 unrestricted and designated for incomplete projects, and \$243,029,734 invested in capital assets, net of related debt.

General Budgetary Highlights

City of Danville
General Fund Budget
Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual
Revenues, Transfers, and Other Financial Sources			
Taxes	\$ 51,537,500	\$ 51,545,556	\$ 52,338,809
Intergovernmental	19,065,410	19,288,703	18,449,044
Transfers and Other	25,417,070	29,390,147	31,831,163
Total	96,019,980	100,224,406	102,619,016
Expenditures, Transfers, and Other Financial Uses			
Expenditures	92,216,650	97,349,337	86,791,142
Transfers and other	6,912,080	10,289,707	10,633,923
Total	99,128,730	107,639,044	97,4725,065
Change in Fund Balance	<u>\$ (3,108,750)</u>	<u>\$ (7,414,638)</u>	<u>\$ 5,193,591</u>

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 \$2,245,506 and additional appropriations totaling \$6,154,426. \$4,204,426 of the additional appropriations had matching revenues and the remaining \$1,950,000 was appropriated from fund balance, represented as follows:

Appropriations with matching revenue:

Police & Commonwealth Attorney – Forfeited Funds	\$ 109,193
Juvenile Detention – Electronic Monitoring	\$ 58,201
Unanticipated Funding – Parks & Recreation	\$ 85,355
Unanticipated Funding – Social Services	\$ 114,100
Additional Funding – DMV Fees	\$ 8,056
Police – Special Duty Pay	\$ 368,512
Additional Funding of Various City Departments	\$ 7,750
Funds Returned to Repay Tobacco Commission	\$ 425,000
Project Lifesaver	\$ 2,725
General Obligation Bonds – Transfer to CIP Fund	\$ 3,025,534

Appropriations from fund balance:

Repayments of Incentives to Tobacco Commission	\$ 1,500,000
Funding for One Time Bonus to City Retirees	\$ 450,000

As explained on pages 36 and 37, local tax revenues performed better than budget, providing a positive budget variance for FY 2015 revenues. The positive budget variance in expenditures resulted primarily from delayed transfers to the Danville City School System (\$2.2 million). The school funds have been encumbered and will be transferred during fiscal 2016 as needed. Budget savings were also realized through lower utilization of group health insurance (\$2.4 million), personnel vacancies (\$2.6 million) and cost cutting measures taken in all City departments.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$389,298,838 (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 11 in the notes to the financial statements.

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

- Over \$2 million was spent to complete construction of the new Fire Department headquarters and Emergency Operation Center; over \$9 million was spent in the prior year. The new headquarters replaces an 88-year-old building that had become insufficient in meeting current needs. Bond proceeds of nearly \$6 million were allocated to this capital project.
- Improvements exceeding \$5 million were made to the infrastructure, such as streets, parking lots, and various public buildings, parks, trails, and facilities throughout the City. Of this amount, \$500,000 was spent for renovation of Courtroom facilities and \$240,000 was spent to complete improvements to Airport facilities. The City also spent \$2.4 million in its blight eradication efforts.
- Various improvements were made to the information technology infrastructure used by City departments, in the amount of \$657,000.

City of Danville
Capital Assets (net of depreciation)
Year Ended June 30, 2015

	Governmental Activities	Business-type Activities	Total
Land	\$ 19,615,342	\$ 1,455,212	\$ 21,070,554
Building & Improvements	33,351,381	247,884,605	281,235,986
Machinery & Equipment	7,771,130	23,480,949	31,252,079
Infrastructure	25,492,254	-	25,492,254
Construction in Progress	4,661,143	21,763,969	26,425,112
Subtotal	90,891,250	294,584,735	85,475,985
Assets Transferred from School Board	3,822,813	-	3,822,813
Total	<u>\$ 94,714,063</u>	<u>\$ 294,584,735</u>	<u>\$ 389,298,798</u>

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation debt of \$86,419,252 and revenue bonded debt of \$1,318,940 for a total of \$87,738,192.

City of Danville's Outstanding Debt Bonds and Related Loans						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 35,910,736	\$ 34,381,908	\$ 50,508,516	\$ 54,028,720	\$ 86,419,252	\$ 88,410,628
Revenue Bonds	-	-	1,318,940	1,683,940	1,318,940	1,683,940
Total	\$ 35,910,736	\$ 34,381,908	\$ 51,827,456	\$ 55,712,660	\$ 87,738,192	\$ 90,094,568

During fiscal year 2015, the City of Danville issued \$8,632,000 in General Obligation Public Improvement and Refunding Bonds, Series 2014. The Series 2014 was issued to use proceeds of \$2,953,000 to finance capital expenditures for general governmental projects, such as capital expenditures for improvements to various public buildings and grounds and to pay the costs of issuing the bonds and to use proceeds of \$5,679,000 for an advance refunding of General Obligation Bond Series 2005, which was issued for Electric capital expenditures.

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, 2015, debt to assessed value was 1.33%.

Additional information on the City of Danville's long-term debt can be found in note 12 of the notes to the financial statements.

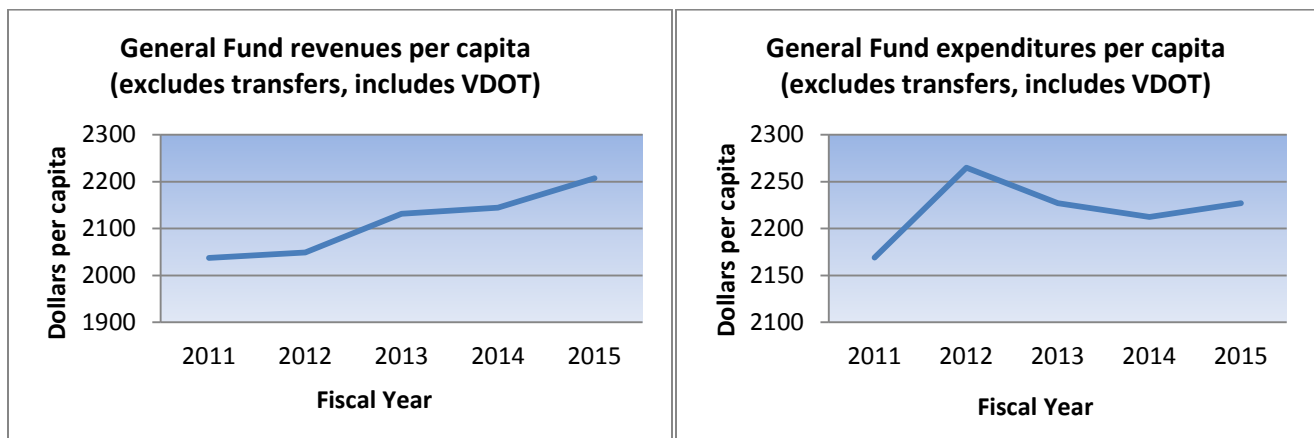
Economic Factors and Next Year's Budget and Rates

- As of October 31, 2015, the average unemployment rate for the City of Danville was 8.9%, which is an increase from a rate of 6.7% at October 31, 2014. This compares to the Commonwealth's average unemployment rate of 4.2% and the national average rate of 5.0% at October 31, 2015.
- Danville continues to make economic development a priority in its effort to reduce unemployment. In June 2014, Danville received word that its Community Development Entity was awarded \$20 million of New Market Tax Credits. This award will be used to finalize the redevelopment of the former Dan River Inc. Research Building at the corner of Main and Bridge Streets. Successful deployment of the tax credits will potentially lead to additional allocations of credits for future projects.

- During fiscal year 2014-2015, management continued its goal to stabilize utility rates for electric services charged to its consumers despite congestion charges incurred during the winter. The Power Cost Adjustment utilized by Danville Utilities will allow these costs, along with increasing operating costs, to be recovered through gradual, small rate increases over the next four years. There was a rate change raising the Electric consumption and demand rates in FY 2015. The second phase of water rate increases went into effect, raising the rate from \$2.20 to \$2.40 per 100 cubic feet and raising the rate for customer charges. There is an average 3.5% rate increase imposed for FY 2016 for wastewater, spread across customer classes, customer charges, and consumption rates.
- Danville has an estimated population of 42,975, based on the 2010 census. The most recent data shows per capita income of \$33,244 for the Danville Metropolitan Area and \$33,493 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 previous years. Although the overall increase in revenue per capita is partially attributable to a declining population, revenues have increased 8.5% over the five year period. Expenditures remained relatively stable from 2014 to 2015, demonstrating management's efforts to contain costs despite ever increasing costs of goods and services. Danville's population has shown decreases up until FY 2012 and has been consistent since that time. It is anticipated that through the economic development efforts, and downtown revitalization, the City will see the population increase even more in the future.

Requests for Information

This financial report is designed to provide a general overview of the City of Danville's finances. Separately issued audited financial statements are available for the City's component units. 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.



BASIC FINANCIAL STATEMENTS

EXHIBIT 1

CITY OF DANVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Danville Public Schools	Industrial Development Authority
ASSETS					
Cash and investments (Note 2)					
Unrestricted	\$ 71,562,968	\$ 76,793,546	\$ 148,356,514	\$ 1,606,481	\$ 3,647,017
Restricted	3,705,594	887,411	4,593,005	-	1,676,557
Cash and investments – held by fiscal agents	85,000	-	85,000	-	-
Receivables, net (Note 4)	17,597,644	17,340,194	34,937,838	643,709	155,722
Due from primary government/component units (Note 9)	56,707	-	56,707	7,121,955	477,333
Due from other governments (Note 5)	5,410,741	788,613	6,199,354	3,759,933	-
Prepays and other	230,152	-	230,152	403,956	-
Inventories	357,619	3,103,050	3,460,669	37,699	-
Loans receivable, net (Note 7)	3,217,743	-	3,217,743	-	406,966
Power cost adjustment (Note 6)	-	17,095,997	17,095,997	-	-
Net pension asset (Note 17)	38,202,628	9,416,665	47,619,293	-	-
Internal balances	19,204	(19,204)	-	-	-
Due from primary government/component unit, long-term (Note 9)	1,085,043	-	1,085,043	-	6,205,334
Net investment in sales-type leases (Note 10)	-	-	-	-	7,357,239
Property held for sale	3,342,319	-	3,342,319	-	1,292,430
Capital assets:					
Non-depreciable (Note 11)	24,276,485	23,219,181	47,495,666	2,176,690	9,975,102
Depreciable, net (Note 11)	70,437,618	271,365,554	341,803,172	6,141,649	21,142,111
Total assets	239,587,465	419,991,007	659,578,472	21,892,072	52,335,811
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pension plans (Note 16)	9,603,372	2,221,153	11,824,525	4,754,301	-
Deferred loss on refunding	175,731	185,889	361,620	-	-
Total deferred outflows of resources	9,779,103	2,407,042	12,186,145	4,754,301	-
LIABILITIES					
Accounts payable and escrow	3,548,441	11,166,578	14,715,019	314,456	448,081
Accrued payroll and related liabilities	1,022,405	-	1,022,405	3,833,346	-
Accrued interest payable	487,776	680,356	1,168,132	-	145,610
Due to primary government/component unit (Note 9)	7,599,291	-	7,599,291	-	56,707
Due to other governments (Note 5)	511,436	-	511,436	-	-
Refundable deposits	459,684	3,288,997	3,748,681	-	567,790
Long-term liabilities:					
Due to primary government/component unit, long-term (Note 9)	6,205,334	-	6,205,334	-	1,085,043
Net pension liability (Notes 18 and 19)	2,029,192	-	2,029,192	54,667,526	-
Due within one year (Note 12)	5,490,265	6,382,301	11,872,566	1,982,442	1,081,144
Due in more than one year (Note 12)	40,203,860	53,168,450	93,372,310	4,544,568	28,390,708
Total liabilities	67,557,684	74,686,682	142,244,366	65,342,338	31,775,083
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue (Note 14)	1,004,738	-	1,004,738	30,707	-
Deferred inflows of resources related to pension plans (Note 16)	1,305,973	-	1,305,973	12,064,294	-
Natural gas cost adjustment (Note 6)	-	468,295	468,295	-	-
Total deferred inflows of resources	2,310,711	468,295	2,779,006	12,095,001	-
NET POSITION					
Net investment in capital assets	62,317,615	243,029,734	305,347,349	8,318,339	8,079,300
Restricted for:					
Debt service	-	-	-	-	588,105
Grant and contributions	6,528,757	-	6,528,757	-	-
Community development loans	3,217,743	-	3,217,743	-	-
Cemetery perpetual care	2,766,767	-	2,766,767	-	-
Unrestricted	104,667,291	104,213,338	208,880,629	(59,109,305)	11,893,323
Total net position	\$ 179,498,173	\$ 347,243,072	\$ 526,741,245	\$ (50,790,966)	\$ 20,560,728

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

EXHIBIT 2

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Danville Public Schools	Industrial Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 8,772,098	\$ 47,057	\$ 2,533,233	\$ 540,427	\$ (5,651,381)		\$ (5,651,381)		
Judicial administration	5,879,586	3,424,310	543,130	-	(1,912,146)		(1,912,146)		
Public safety	28,403,082	9,313	5,200,593	-	(23,193,176)		(23,193,176)		
Public works	15,073,851	-	-	11,121,154	(3,952,697)		(3,952,697)		
Health and welfare	13,380,667	-	9,438,348	-	(3,942,319)		(3,942,319)		
Parks, recreation, and cultural	6,366,189	416,055	10,356	-	(5,939,778)		(5,939,778)		
Community development	6,255,078	230	1,340,091	-	(4,914,757)		(4,914,757)		
Education	18,342,352	-	-	-	(18,342,352)		(18,342,352)		
Interest on long-term debt	1,382,842	-	-	-	(1,382,842)		(1,382,842)		
Total governmental activities	103,855,745	3,896,965	19,065,751	11,661,581	(69,231,448)		(69,231,448)		
Business-type activities:									
Wastewater	6,447,892	9,697,361	-	29,772		\$ 3,279,241	3,279,241		
Water	5,494,478	8,251,968	-	-		2,757,490	2,757,490		
Gas	20,545,403	23,991,058	-	-		3,445,655	3,445,655		
Electric	104,497,754	116,039,450	-	-		11,541,696	11,541,696		
Transportation	2,379,059	371,675	1,742,109	-		(265,275)	(265,275)		
Telecommunications	859,405	1,728,117	-	-		868,712	868,712		
Sanitation	3,012,652	3,585,517	-	-		572,865	572,865		
Cemetery operations	864,257	720,996	-	-		(143,261)	(143,261)		
Total business-type activities	144,100,900	164,386,142	1,742,109	29,772		22,057,123	22,057,123		
Total primary government	\$ 247,956,645	\$ 168,283,107	\$ 20,807,860	\$ 11,691,353	(69,231,448)	22,057,123	(47,174,325)		
Component units:									
Danville Public Schools	\$ 65,061,097	\$ 702,138	\$ 25,835,384	\$ -	-	-	-	\$ (38,523,575)	\$ -
Industrial Development Authority	4,343,844	1,556,088	1,410,272	-	-	-	-	-	(1,377,484)
Total component units	\$ 69,404,941	\$ 2,258,226	\$ 27,245,656	\$ -	-	-	-	(38,523,575)	(1,377,484)
General revenues:									
Real estate and personal property taxes					27,726,602	-	27,726,602	-	-
Other taxes:									
Sales and use					8,419,504	-	8,419,504	-	-
Business and other licenses					5,344,704	-	5,344,704	-	-
Utility					981,093	-	981,093	-	-
Hotel and meals					7,840,067	-	7,840,067	-	-
Recordation and bank stock					1,030,735	-	1,030,735	-	-
Auto license and recordation					1,113,862	-	1,113,862	-	-
Contributions from Component Unit/City					3,342,319	-	3,342,319	16,408,422	26,833
Noncategorical state and federal aid					5,939,560	-	5,939,560	24,828,017	-
Investment income					1,020,884	686,097	1,706,981	207,997	461,318
Gain on sale of assets					106,979	34,733	141,712	-	-
Miscellaneous					506,220	2,195,858	2,702,078	570,923	13,222
Transfers					14,533,937	(14,533,937)	-	-	-
Total general revenues and transfers					77,906,466	(11,617,249)	66,289,217	42,015,359	501,373
Change in net position					8,675,018	10,439,874	19,114,892	3,491,784	(876,111)
Net position – beginning, as restated (Note 16)					170,823,155	336,803,198	507,626,353	(54,282,750)	21,436,839
Net position – ending					\$ 179,498,173	\$ 347,243,072	\$ 526,741,245	\$ (50,790,966)	\$ 20,560,728

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

CITY OF DANVILLE, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2015**

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and investments	\$ 49,652,691	\$ 18,078	\$ 7,504,534	\$ 9,420,336	\$ 66,595,639
Cash and investments – restricted	-	-	3,705,594	-	3,705,594
Cash and investments – held by fiscal agents	35,000	-	-	-	35,000
Receivables, net					
Taxes	11,586,705	-	-	-	11,586,705
Accounts	4,146,871	-	-	15,977	4,162,848
Other	1,845,783	-	-	-	1,845,783
Due from other funds	364,363	-	-	-	364,363
Due from component unit	1,141,750	-	-	-	1,141,750
Due from other governments	2,831,510	310,265	1,554,225	714,741	5,410,741
Prepays	230,152	-	-	-	230,152
Inventories	233,032	-	-	-	233,032
Loans receivable, net	-	3,217,743	-	-	3,217,743
Total assets	\$ 72,067,857	\$ 3,546,086	\$ 12,764,353	\$ 10,151,054	\$ 98,529,350
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,088,042	\$ 29,272	\$ 1,248,143	\$ 1,039,915	\$ 3,405,372
Accrued payroll and related liabilities	1,022,405	-	-	-	1,022,405
Due to other funds	-	257,270	-	-	257,270
Due to component unit	7,121,958	-	-	-	7,121,958
Due to other governments	263,165	-	248,271	-	511,436
Refundable deposits	459,684	-	-	-	459,684
Total liabilities	9,955,254	286,542	1,496,414	1,039,915	12,778,125
Deferred inflows of resources:					
Unavailable/unearned revenue	14,046,892	40,580	-	14,200	14,101,672
Fund balances					
Nonspendable	463,184	3,217,743	-	2,766,767	6,447,694
Restricted	198,585	-	3,489,879	6,330,172	10,018,636
Committed	5,237,475	1,221	3,802,922	-	9,041,618
Assigned	5,117,559	-	3,975,138	-	9,092,697
Unassigned	37,048,908	-	-	-	37,048,908
Total fund balances	48,065,711	3,218,964	11,267,939	9,096,939	71,649,553
Total liabilities, deferred inflows of resources, and fund balances	\$ 72,067,857	\$ 3,546,086	\$ 12,764,353	\$ 10,151,054	\$ 98,529,350

CITY OF DANVILLE, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015**

Total fund balances – governmental funds \$ 71,649,553

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

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

Capital assets at historical cost	\$ 246,786,028	
Property held for sale	3,342,319	
Accumulated depreciation	(152,071,925)	
		98,056,422

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

Deferred loss on refunding		175,731
----------------------------	--	---------

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

Net pension asset	38,202,628	
Deferred outflows of resources related to pensions	9,603,372	
Deferred inflows of resources related to pensions	(1,305,973)	
Net pension liability	(2,029,192)	
		44,470,835

Certain other assets are also not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.

Deferred taxes	9,002,525	
Amounts due from the IDA	1,141,750	
Other receivables	2,952,659	
		13,096,934

The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position.

Internal service fund net position – Exhibit 8	8,158,842	
Less: internal service fund capital assets	(2,424,497)	
Less: internal service fund net pension asset	(701,528)	
Less: internal service fund deferred outflows of resources related to pension	(165,473)	
Add: internal service fund accrued interest	280	
Add: internal service fund long-term liabilities	45,643	
		4,913,267

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

Long-term liabilities	(45,694,125)	
Due to component unit – IDA	(6,682,667)	
Accrued interest	(487,777)	
		(52,864,569)

Total net position – governmental activities		\$ 179,498,173
---	--	----------------

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES					
Property taxes	\$ 27,618,077	\$ -	\$ -	\$ -	\$ 27,618,077
Other local taxes	24,720,732	-	-	-	24,720,732
Fines and forfeitures	487,897	-	-	-	487,897
Permits, privilege fees, and regulatory licenses	216,705	-	-	-	216,705
Revenue from use of money and property	872,916	-	4,187	5,537	882,640
Charges for services	3,376,394	-	-	-	3,376,394
Miscellaneous	70,627	116,422	-	137,380	324,429
Contributions	1,805	-	6,516	640,427	648,748
Recovered costs	9,021,819	-	7,402	-	9,029,221
Intergovernmental	18,449,044	1,220,894	1,093,415	14,452,009	35,215,362
Total revenues	<u>84,836,016</u>	<u>1,337,316</u>	<u>1,111,520</u>	<u>15,235,353</u>	<u>102,520,205</u>
EXPENDITURES					
Current:					
General government	7,485,370	-	1,905,519	213,676	9,604,565
Judicial administration	6,205,932	-	-	124,561	6,330,493
Public safety	26,269,528	-	2,636,252	589,296	29,495,076
Public works	4,023,483	-	2,726,552	8,964,240	15,714,275
Health and welfare	8,903,633	-	-	4,346,828	13,250,461
Education	16,420,448	-	-	-	16,420,448
Parks, recreation, and cultural	4,758,806	-	589,935	683,319	6,032,060
Community development	1,909,305	1,386,034	2,478,619	1,351,636	7,125,594
Nondepartmental	8,037,822	-	-	-	8,037,822
Debt service:					
Principal	1,424,172	-	-	-	1,424,172
Interest	1,316,796	-	-	-	1,316,796
Bond issuance costs	35,847	-	-	-	35,847
Total expenditures	<u>86,791,142</u>	<u>1,386,034</u>	<u>10,336,877</u>	<u>16,273,556</u>	<u>114,787,609</u>
Deficiency of revenues under expenditures	<u>(1,955,126)</u>	<u>(48,718)</u>	<u>(9,225,357)</u>	<u>(1,038,203)</u>	<u>(12,267,404)</u>
OTHER FINANCING SOURCES (USES):					
Bond issuance	2,953,000	-	-	-	2,953,000
Transfers in	14,830,000	-	6,581,305	4,303,155	25,714,460
Transfers out	(10,633,923)	-	-	(450,000)	(11,083,923)
Total other financing sources	<u>7,149,077</u>	<u>-</u>	<u>6,581,305</u>	<u>3,853,155</u>	<u>17,583,537</u>
Net change in fund balances	5,193,951	(48,718)	(2,644,052)	2,814,952	5,316,133
FUND BALANCES – Beginning, restated (Note 27)	<u>42,871,760</u>	<u>3,267,682</u>	<u>13,911,991</u>	<u>6,281,987</u>	<u>66,333,420</u>
FUND BALANCES – Ending	<u>\$ 48,065,711</u>	<u>\$ 3,218,964</u>	<u>\$ 11,267,939</u>	<u>\$ 9,096,939</u>	<u>\$ 71,649,553</u>

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

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, 2015**

Net change in fund balances – total governmental funds \$ 5,316,133

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

Governmental funds report outlays for capital assets 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. The components of capital outlay, depreciation expense, and other various transactions involving capital assets are as follows:

Outlays for capital assets	\$ 8,136,643	
Transfer of property held for sale from schools	3,342,319	
Book value of capital assets disposed	(48,288)	
Depreciation	<u>(7,154,714)</u>	
		4,275,960

Transactions involving debt principal and cash flows relating to other long-term items are expenditures in the governmental funds, however these transactions increase or decrease long-term items in the Statement of Net Position.

Principal payments on long-term debt	1,424,172	
Bond proceeds	(2,953,000)	
Amortization of premium	67,144	
Change in other bond related items	(199,093)	
Change in reimbursement agreements	87,004	
Other post-employment benefit asset returned to general fund	(2,511,494)	
Change in accrued interest	<u>14,338</u>	
		(4,070,929)

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

Employer pension contributions	333,102	
Pension expense	<u>1,271,253</u>	
		1,604,355

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in obligation to IDA	477,333	
Change in Tobacco Commission obligation payable	(645,000)	
Incentive grant provision	1,000,000	
Change in workers' compensation	(103,339)	
Change in compensated absences	<u>(135,506)</u>	
		593,488

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

1,031,220

The net loss of internal service funds is reported with governmental activities.

(75,209)

Total change in net position – governmental activities \$ 8,675,018

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2015**

	Budgeted Amounts			Variances with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 28,013,500	\$ 28,013,500	\$ 27,618,077	\$ (395,423)
Other local taxes	23,524,000	23,532,056	24,720,732	1,188,676
Fines and forfeitures	500,200	500,200	487,897	(12,303)
Permits, privilege fees, and regulatory licenses	209,180	209,180	216,705	7,525
Revenue from use of money and property	919,280	919,280	872,916	(46,364)
Charges for services	3,309,270	3,413,846	3,376,394	(37,452)
Miscellaneous	123,000	164,705	72,432	(92,273)
Recovered costs	5,526,140	6,327,402	9,021,819	2,694,417
Intergovernmental	19,065,410	19,288,703	18,449,044	(839,659)
Total revenues	81,189,980	82,368,872	84,836,016	2,467,144
EXPENDITURES				
Current:				
General government	7,697,970	8,140,731	7,485,370	655,361
Judicial administration	6,166,780	6,466,819	6,205,932	260,887
Public safety	25,635,260	27,526,760	26,269,528	1,257,232
Public works	4,277,500	4,581,622	4,023,483	558,139
Health and welfare	8,908,350	9,047,057	8,903,633	143,424
Education	17,399,860	18,585,983	16,420,448	2,165,535
Parks, recreation, and cultural	5,198,760	5,598,724	4,758,806	839,918
Community development	3,060,830	2,831,332	1,909,305	922,027
Nondepartmental	11,069,080	11,657,665	8,037,822	3,619,843
Debt service:				
Principal	1,474,430	1,474,430	1,424,172	50,258
Interest	1,327,830	1,327,830	1,316,796	11,034
Bond issuance costs	-	110,384	35,847	74,537
Total expenditures	92,216,650	97,349,337	86,791,142	10,558,195
Excess (deficiency) of revenues over expenditures	(11,026,670)	(14,980,465)	(1,955,126)	13,025,339
OTHER FINANCING SOURCES (USES):				
Bond issuance	-	3,025,534	2,953,000	(72,534)
Bond issuance costs	-	(110,384)	-	110,384
Transfers in	14,830,000	14,830,000	14,830,000	-
Transfers out	(6,912,080)	(10,179,323)	(10,633,923)	(454,600)
Total other financing sources	7,917,920	7,565,827	7,149,077	(416,750)
Net change in fund balance	\$ (3,108,750)	\$ (7,414,638)	\$ 5,193,951	\$ 12,608,589

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2015**

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
ASSETS							
Current assets							
Cash and investments	\$ 6,259,871	\$ 7,730,210	\$ 12,065,238	\$ 47,715,808	\$ 3,022,419	\$ 76,793,546	\$ 4,967,329
Cash and investments – held by fiscal agent	-	-	-	-	-	-	50,000
Receivables, net	1,063,035	655,904	1,576,716	13,863,983	180,556	17,340,194	2,308
Due from other funds	-	-	144,094	187,992	-	332,086	-
Due from other governments	-	-	-	-	788,613	788,613	-
Inventories	-	405,165	586,534	1,820,277	291,074	3,103,050	124,587
Total current assets	7,322,906	8,791,279	14,372,582	63,588,060	4,282,662	98,357,489	5,144,224
Noncurrent assets							
Cash and investments – restricted	-	-	-	887,411	-	887,411	-
Due from other funds	-	-	466,069	612,208	-	1,078,277	-
Power cost adjustment	-	-	-	17,095,997	-	17,095,997	-
Net pension asset	440,703	1,306,583	957,535	4,251,991	2,459,853	9,416,665	701,528
Capital assets:							
Non-depreciable	2,000,569	956,680	14,944	19,684,396	562,592	23,219,181	-
Depreciable, net	51,644,510	34,481,643	39,931,855	135,656,136	9,651,410	271,365,554	2,424,497
Total noncurrent assets	54,085,782	36,744,906	41,370,403	178,188,139	12,673,855	323,063,085	3,126,025
Total assets	61,408,688	45,536,185	55,742,985	241,776,199	16,956,517	421,420,574	8,270,249
DEFERRED OUTFLOWS OF RESOURCES							
Net difference between projected and actual investment earnings on pension plan investments (Note 16)	85,190	252,567	185,095	821,926	475,499	1,820,277	135,608
Changes in expected and actual pension experience (Note 16)	18,761	55,622	40,763	181,011	104,719	400,876	29,865
Deferred gain on refunding	-	-	-	185,889	-	185,889	-
Total deferred outflows of resources	103,951	308,189	225,858	1,188,826	580,218	2,407,042	165,473

(Continued)

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

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2015**

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
LIABILITIES							
Current liabilities							
Accounts payable	\$ 516,094	\$ 817,735	\$ 1,152,052	\$ 8,394,717	\$ 285,980	\$ 11,166,578	\$ 143,068
Accrued interest	113,272	97,681	35,368	433,854	181	680,356	280
Due to other funds	332,086	-	-	-	19,204	351,290	87,889
Refundable deposits	-	-	-	3,268,997	20,000	3,288,997	-
Long-term liabilities – due within one year	1,109,492	903,363	235,431	3,929,497	204,518	6,382,301	28,555
Total current liabilities	2,070,944	1,818,779	1,422,851	16,027,065	529,883	21,869,522	259,792
Noncurrent liabilities							
Due to other funds	1,078,277	-	-	-	-	1,078,277	-
Long-term liabilities – due in more than one year	6,012,249	5,432,782	1,873,220	38,455,272	1,394,927	53,168,450	17,088
Total noncurrent liabilities	7,090,526	5,432,782	1,873,220	38,455,272	1,394,927	54,246,727	17,088
Total liabilities	9,161,470	7,251,561	3,296,071	54,482,337	1,924,810	76,116,249	276,880
DEFERRED INFLOWS OF RESOURCES							
Natural gas cost adjustment	-	-	468,295	-	-	468,295	-
Total deferred inflows of resources	-	-	468,295	-	-	468,295	-
NET POSITION							
Net investment in capital assets	46,642,842	29,273,708	37,893,460	119,026,910	10,192,814	243,029,734	2,407,616
Unrestricted, reserved for capital assets	4,129,198	410,182	2,064,603	21,953,038	294,981	28,852,002	-
Unrestricted, undesignated	1,579,129	8,908,923	12,246,414	47,502,740	5,124,130	75,361,336	5,751,226
	\$ 52,351,169	\$ 38,592,813	\$ 52,204,477	\$ 188,482,688	\$ 15,611,925	\$ 347,243,072	\$ 8,158,842

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

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Enterprise Funds				Nonmajor Enterprise Funds	Total	Internal Service Funds
	Wastewater	Water	Gas	Electric			
OPERATING REVENUES							
Charges for services	\$ 9,697,361	\$ 8,251,968	\$ 23,991,058	\$ 116,039,450	\$ 6,406,305	\$ 164,386,142	\$ 6,118,442
OPERATING EXPENSES							
Purchased power and gas	-	-	15,733,778	84,078,765	-	99,812,543	-
Production	-	-	-	618,587	-	618,587	-
Transmission	2,569,906	1,503,532	-	1,298,502	-	5,371,940	-
Engineering	-	285,348	481,418	794,196	-	1,560,962	-
Distribution	934,317	538,252	543,852	3,210,807	-	5,227,228	-
Services	91,908	38,606	17,660	-	6,321,361	6,469,535	-
Depreciation	1,945,160	1,710,131	1,448,078	7,866,883	727,692	13,697,944	617,802
Meters/regulators	-	106,200	126,810	266,274	-	499,284	-
General and administrative	572,579	1,032,069	2,097,267	5,702,731	-	9,404,646	5,620,472
Total operating expenses	6,113,870	5,214,138	20,448,863	103,836,745	7,049,053	142,662,669	6,238,274
Operating income (loss)	3,583,491	3,037,830	3,542,195	12,202,705	(642,748)	21,723,473	(119,832)
NONOPERATING REVENUES (EXPENSES)							
Sales income	-	47,266	(11,879)	-	160,275	195,662	-
Jobbing income, net	52,964	11,964	-	211,511	-	276,439	-
Recovered costs	-	(14)	458,444	643,519	104,205	1,206,154	2,548
Gain (loss) on sale of capital assets	-	10,420	462	33,137	(74,953)	(30,934)	103,087
Other income	-	-	13,253	503,206	1,144	517,603	-
Federal and state grants	-	-	-	-	1,516,439	1,516,439	-
In-kind contributions	-	-	-	-	225,670	225,670	-
Net change in the fair value of investments	(8,890)	(11,421)	(16,950)	(72,224)	(8,784)	(118,269)	(6,997)
Interest income	55,309	70,920	135,256	488,179	54,702	804,366	43,601
Interest expense	(334,022)	(280,340)	(96,540)	(661,009)	(653)	(1,372,564)	(1,016)
Total nonoperating revenues (expenses)	(234,639)	(151,205)	482,046	1,146,319	1,978,045	3,220,566	141,223
Income before contributions and transfers	3,348,852	2,886,625	4,024,241	13,349,024	1,335,297	24,944,039	21,391
Capital contributions	29,772	-	-	-	-	29,772	-
Transfers in	-	-	-	-	296,063	296,063	-
Transfers out	(685,760)	(937,300)	(3,008,330)	(9,896,610)	(302,000)	(14,830,000)	(96,600)
Total	(655,988)	(937,300)	(3,008,330)	(9,896,610)	(5,937)	(14,504,165)	(96,600)
Change in net position	2,692,864	1,949,325	1,015,911	3,452,414	1,329,360	10,439,874	(75,209)
Total net position – beginning – as restated (Note 16)	49,658,305	36,643,488	51,188,566	185,030,274	14,282,565	336,803,198	8,234,051
Total net position – ending	\$ 52,351,169	\$ 38,592,813	\$ 52,204,477	\$ 188,482,688	\$ 15,611,925	\$ 347,243,072	\$ 8,158,842

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

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	Enterprise Funds		
	Wastewater	Water	Gas
OPERATING ACTIVITIES			
Received from customers	\$ 9,445,697	\$ 8,336,379	\$ 25,086,424
Received from interfund services	-	-	-
Payments to suppliers for goods and services	(3,228,192)	(1,595,856)	(18,130,084)
Payments to employees for services	(503,213)	(1,328,524)	(1,029,761)
Payments to internal service funds for goods and services	(191,483)	(3,479)	(1,774)
Net cash provided by operating activities	<u>5,522,809</u>	<u>5,408,520</u>	<u>5,924,805</u>
NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	-	-
Transfers to other funds	(685,760)	(937,300)	(3,008,330)
Interfund borrowing	(319,313)	-	-
Operating grants received	52,687	-	138,551
Net cash provided by (used in) noncapital financing activities	<u>(952,386)</u>	<u>(937,300)</u>	<u>(2,869,779)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(1,328,009)	(2,018,298)	(3,158,142)
Principal payments on long-term debt	(1,036,241)	(762,284)	(178,948)
Proceeds from bond refunding	-	-	-
Escrow payments to refunding trust	-	-	-
Interest payments on long-term debt	(349,410)	(290,394)	(100,082)
Proceeds from sale of capital assets	-	10,420	461
Contributed capital	29,772	-	-
Net cash used in capital and related financing activities	<u>(2,683,888)</u>	<u>(3,060,556)</u>	<u>(3,436,711)</u>
INVESTING ACTIVITIES			
Interest on investments	55,309	70,920	135,256
Net activity in investment securities	(8,890)	(11,421)	(16,950)
Net cash provided by investing activities	<u>46,419</u>	<u>59,499</u>	<u>118,306</u>
Net increase (decrease) in cash and investments	1,932,954	1,470,163	(263,379)
CASH AND CASH EQUIVALENTS			
Beginning	4,326,917	6,260,047	12,328,617
Ending	<u>\$ 6,259,871</u>	<u>\$ 7,730,210</u>	<u>\$ 12,065,238</u>
RECONCILIATION TO EXHIBIT 8			
Cash and investments	\$ 6,259,871	\$ 7,730,210	\$ 12,065,238
Cash and investments – held by fiscal agent	-	-	-
Cash and investments – restricted	-	-	-
	<u>\$ 6,259,871</u>	<u>\$ 7,730,210</u>	<u>\$ 12,065,238</u>

(Continued)

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

EXHIBIT 10

Enterprise Funds			Internal Service Funds
Electric	Nonmajor Enterprise Funds	Total	
\$ 118,126,392	\$ 6,646,129	\$ 167,641,021	\$ -
-	-	-	6,132,180
(94,163,270)	(2,926,742)	(120,044,144)	(4,151,002)
(4,620,523)	(2,655,917)	(10,137,938)	(1,370,496)
(17,626)	(603,173)	(817,535)	(98,922)
19,324,973	460,297	36,641,404	511,760
-	296,063	296,063	-
(9,896,610)	(302,000)	(14,830,000)	(96,600)
180,762	19,204	(119,347)	14,016
-	1,104,122	1,295,360	-
(9,715,848)	1,117,389	(13,357,924)	(82,584)
(6,280,778)	(1,041,095)	(13,826,322)	(802,551)
(2,294,446)	(1,641)	(4,273,560)	(3,518)
5,679,000	-	5,679,000	-
(5,305,000)	-	(5,305,000)	-
(687,041)	(668)	(1,427,595)	(1,040)
37,884	11,000	59,765	197,946
-	-	29,772	-
(8,850,381)	(1,032,404)	(19,063,940)	(609,163)
488,179	54,702	804,366	41,703
(423,183)	(8,784)	(469,228)	(5,099)
64,996	45,918	335,138	36,604
823,740	591,200	4,554,678	(143,383)
47,779,479	2,431,219	73,126,279	5,160,712
\$ 48,603,219	\$ 3,022,419	\$ 77,680,957	\$ 5,017,329
\$ 47,715,808	\$ 3,022,419	\$ 76,793,546	\$ 4,967,329
-	-	-	50,000
887,411	-	887,411	-
\$ 48,603,219	\$ 3,022,419	\$ 77,680,957	\$ 5,017,329

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2015**

	<u>Enterprise Funds</u>		
	<u>Wastewater</u>	<u>Water</u>	<u>Gas</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,583,491	\$ 3,037,830	\$ 3,542,195
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation charged to operations	1,945,160	1,710,131	1,448,078
Pension expense net of employer contributions	(14,939)	(44,292)	(32,460)
In-kind contributions	-	-	-
Nonoperating revenue, net	-	59,216	459,817
Change in noncash employee benefits charged to operations	-	23,393	(1,242)
(Increase) decrease in receivables	(251,664)	25,195	635,548
Increase (decrease) in reserve for uncollectibles	32,060	36,363	50,776
(Increase) decrease in inventories	-	29,645	173,564
Increase (decrease) in accounts payable	228,701	531,039	(351,471)
Increase (decrease) in refundable deposits	-	-	-
Decrease in landfill postclosure liability	-	-	-
Net cash provided by operating activities	<u>\$ 5,522,809</u>	<u>\$ 5,408,520</u>	<u>\$ 5,924,805</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Non-cash transactions			
Capitalized interest	<u>\$ 73,755</u>	<u>\$ 24,240</u>	<u>\$ -</u>

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

EXHIBIT 10

Enterprise Funds			Internal Service Funds
Electric	Nonmajor Enterprise Funds	Total	
\$ 12,202,705	\$ (642,748)	\$ 21,723,473	\$ (119,832)
7,866,883	727,692	13,697,944	617,802
(144,138)	(83,388)	(319,217)	(23,780)
-	225,670	225,670	-
1,358,236	265,623	2,142,892	2,548
94,088	25,857	142,096	(501)
506,720	(25,799)	890,000	13,737
264,625	-	383,824	-
(128,762)	(49,492)	24,955	9,739
(2,917,371)	106,882	(2,402,220)	12,047
221,987	-	221,987	-
-	(90,000)	(90,000)	-
<u>\$ 19,324,973</u>	<u>\$ 460,297</u>	<u>\$ 36,641,404</u>	<u>\$ 511,760</u>
<u>\$ 677,426</u>	<u>\$ -</u>	<u>\$ 775,421</u>	<u>\$ -</u>

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2015**

	Pension and Other Employee Benefit Trust Funds		Agency
	Employees’ Retirement Plan	Other Post- Employment Benefits	Veterans’ Memorial Fund
ASSETS			
Cash	\$ 31,795	\$ -	\$ 1,273
Accrued interest and dividends	29,262	-	-
Investments – at fair value:			
Common stocks and common stock funds	139,202,966	-	-
Corporate bonds and bond funds	35,356,248	-	-
Foreign stock funds	33,325,913	-	-
U.S. Government bonds	18,047,680	-	-
Real estate – timberland and timberland funds	8,732,081	-	-
Temporary cash investments	2,828,192	-	-
Private equity funds	2,807,788	-	-
Total investments	240,300,868	-	-
Total assets	240,361,925	-	1,273
LIABILITIES			
Accounts payable	160,538	-	-
Amounts held for others	-	-	1,273
Total liabilities	160,538	-	1,273
NET POSITION – RESTRICTED FOR PENSION AND OTHER POST- EMPLOYMENT BENEFITS			
Held in trust	\$ 240,201,387	\$ -	\$ -

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
Year Ended June 30, 2015**

	Employees' Retirement Plan	Other Post- Employment Benefits
ADDITIONS		
Contributions		
Employer contributions	\$ 3,998,392	\$ -
Investment earnings		
Net increase in fair value of investments	4,515,388	178,848
Interest	36,951	556
Dividends	1,390,370	25,403
Total investment income	5,942,709	204,807
Less – investment expenses	(738,507)	-
Net investment income	5,204,202	204,807
Total additions	9,202,594	204,807
DEDUCTIONS		
Benefits paid to participants	11,436,684	-
Refunds of contributions	157,590	-
Administrative expenses	143,714	6,750
Transfer to City General Fund for termination	-	2,709,551
Total deductions	11,737,988	2,716,301
Change in net position	(2,535,394)	(2,511,494)
Net position held in trust for pension and other post-employment benefits – beginning	242,736,781	2,511,494
Net position held in trust for pension and other post-employment benefits – ending	<u>\$ 240,201,387</u>	<u>\$ -</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Financial 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 accompanying financial statements present the government and its component units, which are legally separate entities for which the City is financially accountable.

Primary Government:

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.

Discretely Presented Component Units: Danville Public Schools (DPS) is organized as an independently governed school system for operating the public schools of the City. The Schools are fiscally dependent on the City and are prohibited from issuing bonded debt without approval of City council. The City is legally obligated to provide financial support to the Schools by State Law of the Commonwealth of Virginia. Annually the State superintendent provides the City with the amount of the Required Local Effort (RLE). In addition, major capital improvements are financed with long-term debt issued by the City.

The Industrial Development Authority of Danville (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. 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.

Complete financial statements for each of the component units may be obtained at the entities' offices:

Danville Public Schools
P.O. Box 9600
Danville, Virginia 24543

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

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 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. For the year ended June 30, 2015, the City provided \$291,130 in funding for DPCS.

In July 1995, City Council approved an intergovernmental agreement with Pittsylvania County, Virginia, establishing the Danville-Pittsylvania Community Policy and Management Board (the "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 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. For the year ended June 30, 2015, the City provided no funding for the 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 County and is a political subdivision of the Commonwealth of Virginia. 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. For the year ended June 30, 2015 the City provided \$1.2 million in funding to the Facility Authority. The City has a moral obligation to continue to provide funding to the Facility Authority both for debt service as well as ongoing construction projects.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

Fund Financial Statements: The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various fund categories and fund types presented in the financial statements are described below:

Governmental Fund Types:

The City reports the following major governmental funds:

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

Community Development Fund: The Community Development Fund is a special revenue fund that accounts for all financial resources used for the growth of the City through state, federal, and local grants and donations. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Fund: The Capital Projects Fund accounts for financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Governmental Fund Types: (Continued)

The City reports the following nonmajor governmental funds:

Special Revenue Funds: These funds consist of the Special Revenue (used for miscellaneous restricted resources), Virginia Department of Transportation and Economic Development Funds.

Permanent Fund: A permanent fund is used to report resources that are legally restricted to the extent that only the earnings, and not principal, may be used for purposes that support the government's program. The Cemetery Maintenance Fund is considered a permanent nonmajor fund. Earnings are used for maintenance of the City's cemetery, which is accounted for in the nonmajor cemetery enterprise fund.

Proprietary Fund Types:

Enterprise Funds: Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's major enterprise funds consist of the Wastewater, Water, Gas, and Electric funds.

The City's nonmajor enterprise funds consist of the Transportation, Sanitation, Telecommunication, and Cemetery funds.

Internal Service Funds: Internal Service Funds account for the financing of goods or services provided by one department or other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Funds are included in governmental activities for government-wide reporting purposes. The excess revenue or expenses for the funds are allocated to the appropriate functional activity. Internal service funds consist of the Motorized Equipment, Central Services and Insurance funds.

Fiduciary Fund Types:

Pension and Other Employee Benefit Trust Funds: The Pension and Other Employee Benefit Trust Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The two such funds reported by the City are the Employees' Retirement Plan and Other Post-Employment Benefits (OPEB). The OPEB fund was closed at the end of the current fiscal year.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Agency Fund: The Agency Fund accounts for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. This fund consists of the Veterans' Memorial Fund.

Interfund Activity: During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements, such that only net amounts due between governmental and business-type activities are shown as internal balances.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in and out. Certain eliminations are made in the preparation of the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both "measurable" and "available." Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for most non-grant revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met and are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales, communication, and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables, and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds, including the Pension and Other Employee Benefits Trust funds, utilize the accrual basis of accounting. Agency Funds are unlike all other fund types, reporting only assets and liabilities; therefore, Agency Funds do not have a measurement focus. The Agency Fund utilizes the accrual basis of accounting to recognize receivables and payables.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

- **Cash and cash equivalents**

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents.

- **Investments**

Investments are stated at fair value. The reported fair value of certain investments held for pension and other post-employment benefits is based on estimates provided by fund managers.

- **Receivables**

Receivables are presented net of an allowance for doubtful accounts, which is calculated using historical collection data and specific account analysis. Demolition receivables consist of costs incurred to clean up certain properties; such amounts are billed to property owners and secured by a lien on the property. The City has included a 50% reserve for such amounts in the allowance for doubtful accounts. Incentive grant funds recoverable from recipients reflect amounts advanced under incentive grants where the recipient has failed to meet the grant requirements and the City has become liable to the Tobacco Commission for the funds. The City has recorded a reserve of 100% of these accounts.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Inventories**

Primary Government:

Inventories in the General Fund consist of supplies, valued using the first-in, first-out basis, and are reported using the consumption method, in which an expenditure is reported when the supplies are removed from inventory and used. Inventories in the Enterprise Funds consist primarily of parts held for repairs or construction, and are valued using the average cost method.

Component Units:

Inventories for DPS consist of various consumable supplies and food. Food commodities received from the United States Department of Agriculture (USDA) are carried at the value assigned by USDA.

- **Loans Receivable**

The City provides several types of housing loans to low income citizens within the City through awards from the U.S. Department of Housing and Urban Development (HUD). Substantially all of the loans, except for those below \$3,000 in amount, are secured by a first or second deed of trust on the related real estate. These loans consist of the following:

Deferred loans – no monthly principal payments are due. The full amount of the loan becomes due if the house is no longer occupied as primary residence by the designated owner. No interest is charged on these loans.

Low interest loans – these loans are generally amortized over ten years if under \$5,000 or over twenty years if over \$5,000. The loans bear interest at 4.00% to 6.00% and the maximum loan amount is \$40,000.

Forgivable loans – no interest is charged and 20% of the principal balance is forgiven at each anniversary date of the loan. The maximum forgivable loan amount is \$30,000 for houses under 1,400 square feet and \$40,000 for houses over 1,400 square feet.

Revitalization loans – As part of blight removal and revitalization efforts the City may rehabilitate a property through repair, demolition, or new construction, and then deed the property to the Danville Redevelopment Housing Authority (DRHA). The property must then be sold to qualified low income buyers, often through rent-to-own arrangements, and proceeds are returned to the City for similar reinvestments.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Property Held For Sale**

Property held for sale by the City and IDA 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.

- **Capital Assets**

Capital outlays are recorded as capital assets to the extent the City's capitalization threshold is met. Infrastructure has been capitalized retroactively to 1980. The capitalization threshold for purchased or constructed capital assets is \$5,000, except that the infrastructure 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.

Property held for sale is recorded at the lower of cost or market. Property held for lease is stated at cost less accumulated depreciation.

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of enterprise funds' capital assets. In the current year the enterprise funds incurred interest costs of \$2,147,985 of which \$775,421 was capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

City	
Buildings	40 years
Furniture and other equipment	3-20 years
Infrastructure	50 years

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Capital Assets (Continued)**

DPS	
Buildings	40 years
Furniture and other equipment	5-10 years
IDA	
Buildings held for lease	40 years
Land improvements	15-40 years
Equipment held for lease	5-15 years

- **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's two Retirement Plans and the additions to/deductions from the City's two Retirement Plans' net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS) and the Employee's Retirement System of the City of Danville, Virginia (ERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

- **Deferred Outflows/Inflows of Resources**

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has a loss on a bond refunding that qualifies for reporting in this category. The City has three other items that qualify for reporting in this category: the net difference between the projected and actual investment earnings on the pension plan assets and changes in the expected and actual experience will be applied to pension expense over a closed five year period. The contributions subsequent to the measurement date for the VRS pension will be applied to the net pension liability in the next fiscal year.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has five such items. One item occurs only under the modified accrual basis of accounting; this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the deferred gain on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The third is the natural gas cost adjustment discussed in Note 6. The fourth is unearned revenue, which results from collections of property taxes levied to fund future years. This results when amounts have been collected from the customers and costs have not yet been incurred by the City. The fifth is the net difference between projected and actual earnings on the VRS pension plan investments. This difference will be recognized in pension expense over a closed five year period.

- **Compensated Absences and Other Employee Benefits**

Expenditures for self-insured group hospitalization and workers' compensation claims in governmental funds are recorded when the liability has been incurred. Compensated absences are reported in governmental funds only when they are due. 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 statements.

- a. Vacation Pay**

The City's policy regarding vacation pay allows for the unlimited accumulation of unused benefits. Unused vacation is paid upon termination or retirement of employment up to the City's limits, which vary depending on employee classification. The current portions are recorded as liabilities in the governmental fund financial statements when they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits as earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability. The DPS allows for the accumulation of vacation pay that may be used by employees upon retirement, but is not paid at termination.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Compensated Absences and Other Employee Benefits (Continued)**

- b. Sick Pay**

At the City accumulated sick leave benefits earned but unpaid at the end of the fiscal year are recorded as a liability at the balance sheet date to the extent they are not subject to payout limitations. Accumulated sick leave is paid to employees upon retirement 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 for purposes of calculation of pension benefits. Sick leave is not paid to employees upon termination.

The DPS records accrued sick leave at a rate of \$15 a day. Sick leave is only paid out upon retirement or death, therefore, the DPS only accrues sick leave for employees 50 years of age or older.

- c. Group Health Insurance**

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 health insurance with the exception of \$150,000 in stop loss coverage per individual occurrence. There is no aggregate stop loss coverage.

The DPS administer a self-insurance plan for employee medical and pharmacy insurance, subject to the annual stop loss coverage in the amount of \$100,000 and approximately 120% in aggregate.

- d. Workers' Compensation**

The City is self-insured for all workers' compensation claims. Liabilities related to reported claims are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **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 funds and on the government-wide financial statements 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.

- **Net Position/Fund Equity**

Net position in government-wide and proprietary financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position reflects constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statutes.

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

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

Committed – includes amounts that can be used only for specific purposes determined by the City's highest level of decision-making authority, which is the Danville City Council. Formal Council action includes the annual adoption of the City's Budget Ordinance/Resolution, Council Resolutions appropriating funds and/or resources, and Budget Amendments. Although budgets lapse for legal purposes, they are intended to reflect Councils commitment of resources.

Assigned – 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 through the budget process and periodic financial reviews with the joint approval of the City Manager and the Director of Finance.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Net Position/Fund Equity (Continued)**

Unassigned – consists of the residual amounts in the City’s General Fund.

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, and City funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed by committed fund balance, then assigned fund balance and lastly unassigned fund balance. The Director of Finance has the authority to deviate from this policy if it is considered in the best interest of the City.

The City has a policy to maintain a minimum unassigned fund balance within its General Fund of not less than 20% of operating revenues. If fiscal year end results show an increase to the unassigned fund balance, half of this increase will be as added to the City’s budget stabilization balance. In 2012 City Council created a budget stabilization policy which is intended to sustain future service levels if General Fund revenues decline by more than 1.00%. Use of the funds require action by City Council, and draws from the fund are to be accompanied by cost-saving measures. The fund may not exceed 5.00% of the previous year’s General Fund revenues.

- **Regulatory Assets and Deferred Inflows**

The City’s Electric and Gas Funds apply regulatory accounting principles to certain power and gas costs, which result in regulatory assets or deferred inflows. City statutes provide that the City Utilities, over time, will adjust customers’ electric and natural gas bills, for changes between expected and actual costs of purchased gas and power.

E. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenue, expenditures, and expenses. Actual results could differ from these estimates.

F. Budgetary Information

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

F. Budgetary Information (Continued)

The legal level of budgetary control is effective at the fund level. 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. 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.

Note 2. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Investment Policy:

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 State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the City’s position in the pools is the same as the value of the pool shares.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

The City's investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below. The City's investments are not subject to foreign currency risk.

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" or "P-1" (or its equivalent) from Moody's Investors Service or Standard & Poor's. Corporate notes shall be defined as rated by Standards & Poor's no lower than "AA" or by Moody's as no lower than "Aa." Certificates of deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's or "P-1" by Moody's Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances, or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. The Policy establishes limitations on the holdings on non-U.S. Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted for commercial paper and corporate notes are 35% of the portfolio.

Interest Rate Risk:

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than 5 years from the date of purchase.

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, all of the City's investments are held in a custodian's trust department in the City's name.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

Investments (Continued)

The City's investments consist of the following:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Municipal taxable bonds	\$ 16,131,371	2.29
Municipal non-taxable bonds	496,130	3.51
Corporate bonds	15,542,190	1.83
Corporate foreign bonds	2,536,820	2.02
U.S. Government bonds	25,345,680	5.58
Certificates of deposit	32,107,229	2.30
LGIP	5,066,055	N/A
SNAP	4,593,005	N/A
	<u>\$ 101,818,480</u>	

City investments by credit rating consist of the following:

<u>Fair Value</u>	<u>Rating (Moody's or S&P)</u>
\$ 993,750	A
5,871,495	AA
9,525,873	AA-
41,616,713	AA+
2,044,360	AAA
9,659,060	AAAm
32,107,229	Unrated
<u>\$ 101,818,480</u>	

DPS and the IDA investments are held solely with LGIP or SNAP which have been rated as AAAm by Standard & Poor's.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Cash and investments are reflected in the financial statements as follows:

		Component Units	
	Primary Government	Danville Public Schools	Industrial Development Authority
Deposits and investments:			
Demand deposits	\$ 51,120,050	\$ 777,679	\$ 4,805,636
Cash on hand	10,942	1,174	-
Bonds	60,052,188	-	-
Certificates of deposit	32,107,229	-	-
LGIP	5,066,055	827,628	-
SNAP	4,593,055	-	517,938
	<u>\$ 152,949,519</u>	<u>\$ 1,606,481</u>	<u>\$ 5,323,574</u>
Statement of net position:			
Cash and investments – unrestricted	\$ 148,356,514	\$ 1,606,481	\$ 3,647,017
Cash and investments – restricted	4,539,005	-	1,676,557
	<u>\$ 152,949,519</u>	<u>\$ 1,606,481</u>	<u>\$ 5,323,574</u>

Restricted cash consists of unspent bond proceeds, except for \$1,158,619 in the IDA restricted for debt service.

Employees' Retirement System Funds

All investments of the Employees' Retirement System (the "System") are to adhere to the Board of Trustees Statement of Policy and Guidelines adopted on August 13, 1997. The Investment Consultant and the Executive Secretary of the Board will review compliance with these policies and guidelines on a regular basis. They shall report to the Trustees on a timely basis any violations, exceptions, required reports, and/or requests made by the investment managers with respect to the stated policies.

In accordance with these guidelines, investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Each advisor has been apportioned funds assuming that they will be fully invested in his assigned sector with no more than 5-10% in cash equivalents. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the statement of plan net position. Certain of the System's investments are held with partnerships or other common funds where value is reported on a net asset value (NAV) per share, and is estimated by the fund manager.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Funds (Continued)

Based on an asset/liability simulation study completed in 1995 and subsequent decisions to increase the international component, the Trustees believe the following asset deployment (based upon market value) will be able to best achieve the long-term goals of the System in terms of compound total rate of return and assumed risk:

Domestic Equities	30%
Bonds	30%
International Equities	10%
Emerging Markets	10%
Real Estate	10%
Real Estate – Timber	5%
Private Equity	5%

This target mix has been chosen for the aggregate total portfolio. From time to time, the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations be kept to a minimum. From time to time, the Trustees may redeploy assets among the managers to balance the portfolio in accordance with the above target.

Interest Rate Risk:

The System had the following investments and maturities subject to interest rate risk as of June 30, 2015:

Investment Type	Fair Value	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>More than 10</u>
Non-government backed CMOs	\$ 672,971	\$ -	\$ 672,971
Temporary cash investments	2,828,192	-	-
		<u>\$ -</u>	<u>\$ 672,971</u>
Bond funds – maturity not determined	52,730,957		
Total – subject to interest rate risk	<u>\$ 56,232,120</u>		

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Funds (Continued)

Interest Rate Risk: (Continued)

These investments are included on the statement of fiduciary net position as:

Temporary cash investments	\$ 2,828,192
Bonds and bond funds	35,356,248
U.S. Government bonds	18,047,680
	\$ 56,232,120

The System's investment policy does not limit investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Credit Risk:

The System's formal investment policy requires a minimum rating of A by Standard & Poor's for any corporate bond at the time the bond is acquired.

The System's exposure to credit risk as of June 30, 2015 is as follows:

<u>Rating</u>	<u>Fair Value</u>
CCC	\$ 133,056
D	329,123
U.S. Government guaranteed	18,047,680
Not rated – bond funds	37,722,261
	\$ 56,232,120

Concentration of Credit Risk:

The System's formal policy limits investments in any corporate entity to 5.00% of the outstanding shares in a company or 15 times the average daily trading volume for that stock. The policy prohibits any one corporate bond holding from exceeding 10% of the portfolio, at market value. The policy also limits total bond holdings in any corporation to 10% of the long-term indebtedness of that corporation.

The System did not have any single investment over 5.00% of the total investments of the system.

Foreign Currency Risk:

All foreign investments are valued in United States dollars. The asset allocation policy of the System allows the managers to invest in equity securities of any developed country provided that no more than 20% of the total assets are in any one developed country except Japan where the maximum is 25%.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Funds (Continued)

Unfunded Commitments:

The System had non-marketable alternative investments that have associated unfunded commitments at June 30, 2015. These investments were in private equity, which had a fair value of \$2,807,788 and unfunded commitments of \$2,878,187 at June 30, 2015.

Unfunded commitments are drawn down throughout the life of the investment based on the cash needs of each individual limited partnership. Limited partnerships with unfunded commitments generally have remaining lives of 4 to 10 years.

Note 3. 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. The Commonwealth of Virginia 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% of fair market value and reassessed each year as of July 1 at which time property taxes attach as an enforceable lien. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property where construction is 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. The tax rate effective for fiscal year 2015 was \$0.73 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles are based on 100% 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 is 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, 2015 includes amounts not yet received from the January 1, 2015 levy due June 5, 2015. Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. The tax rate for fiscal year 2015 was \$3.00 for motor vehicles and tangible property and \$1.50 for machinery and tools per \$100 of assessed value. Under the provisions of the Personal Property Tax Relief Act of 1998, the state's share of the local personal property tax payment is an annual amount of \$3,593,576.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 4. Receivables

Receivables consist of the following:

			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Danville Public Schools</u>	<u>Industrial Development Authority</u>
Receivables				
Taxes and licenses	\$ 13,846,285	\$ -	\$ -	\$ -
Accounts	234,383	18,613,302	-	155,722
Demolition	3,406,408	-	-	-
Public works	814,137	-	-	-
Juvenile detention	261,068	-	-	-
Accrued interest	1,845,783	-	-	-
Incentive grant funds recoverable	3,845,000	-	-	-
Miscellaneous	294,098	-	643,709	-
	24,547,163	18,613,302	643,709	155,722
Less: allowance for doubtful accounts	(6,949,519)	(1,273,108)	-	-
Net receivables	<u>\$ 17,597,644</u>	<u>\$ 17,340,194</u>	<u>\$ 643,709</u>	<u>\$ 155,722</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 5. Due From (To) Other Governments

Amounts due from other governments consist of the following:

	Governmental Activities	Business-Type Activities	Component Unit Danville Public Schools
Federal and state funding:			
Airport runway rehabilitation	\$ 832,378	\$ -	\$ -
Sandy River Trail	34,626	-	-
Transit grants	744,613	-	-
Curb and gutter work	275,975	-	-
Riverside turn lanes	119,530	-	-
Sidewalk widening	96,788	-	-
Bus purchases	-	668,230	-
Education grants	-	-	2,632,466
State compensation board funding	386,979	-	-
Social services funding	479,784	-	-
Other miscellaneous state and federal grants	506,341	120,383	-
Sales and communication taxes	1,933,727	-	1,127,467
	<u>\$ 5,410,741</u>	<u>\$ 788,613</u>	<u>\$ 3,759,933</u>

Amounts due to other governments consist of the following:

	Governmental Activities
Detention Center	\$ 263,165
Facility Authority	248,271
	<u>\$ 511,436</u>

Note 6. Regulatory Assets and Deferred Inflows

The City's Electric and Gas Funds apply regulatory accounting principles to certain power and gas costs, which result in regulatory assets or deferred inflows. City statutes provide that the City Utilities, over time, will adjust customers' electric and natural gas bills for changes between expected and actual costs of purchased gas and power.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 6. Regulatory Assets and Deferred Inflows (Continued)

Regulatory assets at June 30 consist of wholesale electric costs in the Electric Fund that have not yet been passed on to consumers, but are expected to be recovered through future rate differentials. The regulatory asset increased significantly in fiscal year 2014 – from approximately \$2.9 million at June 30, 2013 to \$18,807,944 at June 30, 2014. This increase was driven by several factors: first, the City recognized a liability for stranded costs of approximately \$5.6 million as discussed in Note 12; second, unexpected congestion charges of approximately \$4.8 million were incurred in the winter of 2014; lastly, the remaining increase arose from ordinary differences between base power costs and charges to customers. In recognition of the significance of this balance, City Council approved an ordinance in September 2014 raising the City’s statutory limit with respect to this asset to \$20 million, and acknowledging the expectation that the asset is expected to be recovered through future differentials. As of June 30, 2015 recoveries had reduced the asset to \$17,095,997. In the first four months of fiscal year 2016, approximately \$4 million of additional recoveries were recorded. The Danville Utility Commission agreed to write off \$2 million of the asset in August 2015, which will be recognized in fiscal year 2016. Actions by future City Councils or other events that serve to limit rate increases could result in this regulatory asset becoming unrecoverable.

Regulatory deferred inflows consist primarily of situations where current natural gas rates have recovered more from consumers than has been incurred in costs, and this differential is expected to be reflected in future rate reductions.

Note 7. Loans Receivable

Loans receivable consist of the following:

Revitalization loans	\$ 745,471
Deferred loans	1,232,615
Low interest loans	1,124,837
Forgivable loans	<u>1,332,506</u>
	4,435,429
Less: allowance for doubtful accounts	<u>(1,217,686)</u>
	<u><u>\$ 3,217,743</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 8. Interfund Balances and Activity

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

	Due From (Fund)				
	Community Development Fund	Central Services Fund	Transportation Fund	Wastewater Fund	Total
General Fund	\$ 257,270	\$ 87,889	\$ 19,204	\$ -	\$ 364,363
Gas Fund	-	-	-	610,163	610,163
Electric Fund	-	-	-	800,200	800,200
	<u>\$ 257,270</u>	<u>\$ 87,889</u>	<u>\$ 19,204</u>	<u>\$ 1,410,363</u>	<u>\$ 1,774,726</u>

The primary reasons for interfund receivables and payables are as follows:

The interfund receivable to the General Fund from the Community Development Fund represents amounts expended, but not yet reimbursed by HUD. 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 reasons for the interfund receivables in the Electric Fund and the Gas Fund are to provide loans to cover operating expenses of the Wastewater Fund. In April 2008, the Electric Fund loaned the Wastewater Fund \$1,700,000 at an interest rate of 4.00% to be repaid over a ten year period of \$200,000 each year. In April 2008, the Gas Fund loaned \$1,300,000 to the Wastewater Fund at an interest rate of 4.00% to be repaid over a ten year period at \$168,500 annually.

Maturities of the amounts payable by the Wastewater Fund to the Electric and Gas Funds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 332,086	\$ 56,414	\$ 388,500
2017	345,369	43,131	388,500
2018	359,184	29,316	388,500
2019	<u>373,724</u>	<u>14,949</u>	<u>388,673</u>
	<u>\$ 1,410,363</u>	<u>\$ 143,810</u>	<u>\$ 1,554,173</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 8. Interfund Balances and Activity (Continued)

Transfers between funds for the current year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds:			
General Fund	\$ 14,830,000	\$ (10,633,923)	\$ 4,196,077
Capital Projects Fund	6,581,305	-	6,581,305
Economic Development Fund	3,058,000	(450,000)	2,608,000
Special Revenue Fund	1,245,155	-	1,245,155
Internal Service Fund:			
Insurance Fund	-	(96,600)	(96,600)
	<u>\$ 25,714,460</u>	<u>\$ (11,180,523)</u>	<u>\$ 14,533,937</u>
Enterprise Funds:			
Wastewater Fund	\$ -	\$ (685,760)	\$ (685,760)
Water Fund	-	(937,300)	(937,300)
Gas Fund	-	(3,008,330)	(3,008,330)
Electric Fund	-	(9,896,610)	(9,896,610)
Nonmajor Funds	296,063	(302,000)	(5,937)
	<u>\$ 296,063</u>	<u>\$ (14,830,000)</u>	<u>\$ (14,533,937)</u>

Funds are transferred from the General Fund to the Transportation Fund, Cemetery Operations Fund, and Insurance Fund because the latter operates for the benefit of the City.

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

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

Transfers from the General Fund to the Economic Development Fund represent the City's support of ongoing economic development activity.

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 9. Balances Between City and Component Units

Due from/to balances between the City and its component units are as follows:

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
Governmental Activities	\$ 13,804,625	\$ 1,141,750
	<u>\$ 13,804,625</u>	<u>\$ 1,141,750</u>
Component Units:		
Danville Public Schools	\$ -	\$ 7,121,955
Danville Industrial Development Authority	1,141,750	6,682,670
	<u>1,141,750</u>	<u>13,804,625</u>
Less: long-term portion	<u>(1,085,043)</u>	<u>(6,205,334)</u>
Current portion due from/to	<u>\$ 56,707</u>	<u>\$ 7,599,291</u>

In 2004 the City advanced \$1,600,000 to the IDA to finance construction of a facility for lease. Under the note agreement the IDA must repay the advance over twenty-five years, including interest at 4.00%. The receivable has been deferred in the governmental funds as the amounts are not considered available; however, revenue is recognized in the fund statements as recovered costs when principal payments are received.

On September 1, 2013 the IDA issued a taxable revenue bond in the amount of \$7,160,000. As part of the debt issuance documents, the City has agreed to appropriate annual payments to the IDA for debt service.

These amounts are due in the following installments:

<u>Year Ending June 30,</u>	<u>Due From IDA To City</u>		<u>Due From City To IDA</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 56,707	\$ 44,638	\$ 477,333	\$ 172,055
2017	59,017	42,328	6,205,334	82,841
2018	61,422	39,923	-	-
2019	63,924	37,420	-	-
2020	66,528	34,816	-	-
2021-2025	375,576	131,148	-	-
2026-2030	458,576	48,146	-	-
	<u>\$ 1,141,750</u>	<u>\$ 378,419</u>	<u>\$ 6,682,667</u>	<u>\$ 254,896</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 10. Component Unit IDA Leases

The IDA has operating leases to local companies with various terms and renewal options. These businesses have received incentives through the IDA to locate, expand, or remain in the Danville area. Lease payments are based on the principal loan balance the IDA owes on the individual properties.

Future estimated minimum payments receivable under the operating leases are as follows:

Year Ending June 30,	
2016	\$ 1,162,046
2017	1,055,726
2018	1,054,226
2019	1,052,626
2020	845,418
2021-2025	1,326,500
2026-2030	1,197,000
2031-2035	1,073,100
2036-2039	816,000
	<u>\$ 9,582,643</u>

The IDA has also entered into certain sales-type leases, under which the lease payments are accounted for as a long-term receivable and the gain or loss on the sale of the underlying property has been recognized at the time of the lease agreement. Minimum future lease payments due under the sales-type leases are as follows:

Year Ending June 30,	
2016	\$ 35,400
2017	35,400
2018	35,400
2019	35,400
2020	35,400
Thereafter	410,050
	<u>587,050</u>
Less unearned income	<u>(188,563)</u>
Net investment in sales-type leases	<u>\$ 398,487</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Capital Assets

Changes in capital assets were as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 19,598,641	\$ 16,701	\$ -	\$ 19,615,342
Construction in progress	13,637,293	3,134,337	(12,110,487)	4,661,143
Total capital assets, not depreciated	33,235,934	3,151,038	(12,110,487)	24,276,485
Capital assets, depreciated				
Buildings	42,410,115	9,191,136	-	51,601,251
Infrastructure	47,834,158	6,187,147	-	54,021,305
Furniture and other equipment	37,071,015	2,520,361	(541,483)	39,049,853
Total capital assets, depreciated	127,315,288	17,898,644	(541,483)	144,672,449
Less accumulated depreciation:				
Buildings	(16,938,455)	(1,311,415)	-	(18,249,870)
Infrastructure	(25,980,412)	(2,548,639)	-	(28,529,051)
Furniture and other equipment	(29,686,499)	(1,990,558)	398,334	(31,278,723)
Total accumulated depreciation	(72,605,366)	(5,850,612)	398,334	(78,057,644)
Total City capital assets, depreciated, net	54,709,922	12,048,032	(143,149)	66,614,805
Assets transferred from DPS*	77,837,094	-	-	77,837,094
Less accumulated depreciation	(72,092,377)	(1,921,904)	-	(74,014,281)
Total assets transferred from DPS, net	5,744,717	(1,921,904)	-	3,822,813
Total capital assets, depreciated, net	60,454,639	10,126,128	(143,149)	70,437,618
Governmental activities capital assets, net	\$ 93,690,573	\$ 13,277,166	\$ (12,253,636)	\$ 94,714,104

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Capital Assets (Continued)

Governmental Activities: (Continued)

Depreciation, not including \$617,802 reported in the internal service funds, was charged to government functions as follows:

General government administration	\$ 1,694,646
Judicial administration	183,113
Public safety	1,209,597
Public works	1,720,002
Health and welfare	31,041
Parks, recreation, and cultural	298,598
Community development	95,813
Education	1,921,904
	<u>\$ 7,154,714</u>

*The Virginia Assembly permits the local option of creating 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. As a result, certain school buildings purchased with the City's general obligation bonds are reported as part of the City's capital assets.

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 1,454,625	\$ 587	\$ -	\$ 1,455,212
Construction in progress	18,505,465	4,516,200	(1,257,696)	21,763,969
Total capital assets, not depreciated	19,960,090	4,516,787	(1,257,696)	23,219,181
Capital assets, depreciated				
Buildings and infrastructure	390,964,767	9,105,776	(466,294)	399,604,249
Furniture and other equipment	73,907,356	1,407,182	(328,025)	74,986,513
Total capital assets, depreciated	464,872,123	10,512,958	(794,319)	474,590,762
Less accumulated depreciation:				
Buildings and infrastructure	(143,393,697)	(8,325,947)	-	(151,719,644)
Furniture and other equipment	(46,891,460)	(5,371,997)	757,893	(51,505,564)
Total accumulated depreciation	(190,285,157)	(13,697,944)	757,893	(203,225,208)
Total capital assets, depreciated, net	274,586,966	(3,184,986)	(36,426)	271,365,554
Business-type activities capital assets, net	<u>\$ 294,547,056</u>	<u>\$ 1,331,801</u>	<u>\$ (1,294,122)</u>	<u>\$ 294,584,735</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Capital Assets (Continued)

Component Unit – Danville Public Schools:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,313,013	\$ -	\$ (136,323)	\$ 2,176,690
Capital assets, depreciated				
Buildings	48,077,596	126,548	(3,243,117)	44,961,027
Furniture and other equipment	7,523,854	330,373	(11,769)	7,842,458
Total capital assets, depreciated	55,601,450	456,921	(3,254,886)	52,803,485
Less accumulated depreciation:				
Buildings	(42,470,167)	(1,433,943)	2,868,321	(41,035,789)
Furniture and other equipment	(5,060,118)	(577,698)	11,769	(5,626,047)
Total accumulated depreciation	(47,530,285)	(2,011,641)	2,880,090	(46,661,836)
Capital assets depreciated, net	8,071,165	(1,554,720)	(374,796)	6,141,649
Total capital assets, net	<u>\$ 10,384,178</u>	<u>\$ (1,554,720)</u>	<u>\$ (511,119)</u>	<u>\$ 8,318,339</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 11. Capital Assets (Continued)

Component Unit – Industrial Development Authority:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 8,522,443	\$ 190,341	\$ (61,600)	\$ 8,651,184
Construction in progress	299,738	1,024,180	-	1,323,918
	<u>8,822,181</u>	<u>1,214,521</u>	<u>(61,600)</u>	<u>9,975,102</u>
Total capital assets, not depreciated				
Capital assets, depreciated:				
Building	24,234,907	1,048,363	(911,555)	24,371,715
Equipment	75,000	-	-	75,000
	<u>24,309,907</u>	<u>1,048,363</u>	<u>(911,555)</u>	<u>24,446,715</u>
Total capital assets, depreciated				
Less accumulated depreciation for:				
Building	2,677,824	648,768	(21,988)	3,304,604
	<u>2,677,824</u>	<u>648,768</u>	<u>(21,988)</u>	<u>3,304,604</u>
Total accumulated depreciation				
Total capital assets, depreciated, net	<u>21,632,083</u>	<u>399,595</u>	<u>(889,567)</u>	<u>21,142,111</u>
Total capital assets, net	<u>\$ 30,454,264</u>	<u>\$ 1,614,116</u>	<u>\$ (951,167)</u>	<u>\$ 31,117,213</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 12. Long-Term Liabilities

Following is a summary of the changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General obligation bonds	\$ 34,381,908	\$ 2,953,000	\$ 1,424,172	\$ 35,910,736	\$ 1,584,550
Bond premiums	218,506	-	67,144	151,362	-
Tobacco commission Obligation (Note 23)	3,200,000	1,545,000	900,000	3,845,000	1,286,250
Incentive grant provision (Note 25)	1,000,000	-	1,000,000	-	-
Reimbursement agreements	261,012	-	87,004	174,008	65,253
Compensated absences	1,643,424	1,614,925	1,479,419	1,778,930	1,600,440
Workers' compensation	3,730,750	1,003,243	899,904	3,834,089	953,772
	<u>\$ 44,435,600</u>	<u>\$ 7,116,168</u>	<u>\$ 5,857,643</u>	<u>\$ 45,694,125</u>	<u>\$ 5,490,265</u>
<u>Business-Type Activities</u>					
General obligation bonds	\$ 54,028,720	\$ 5,679,000	\$ 9,199,204	\$ 50,508,516	\$ 4,109,329
Bond premiums	736,022	-	66,851	669,171	-
Revenue bonds	1,683,940	-	365,000	1,318,940	365,000
Obligation payable – AMP	5,580,664	-	1,154,620	4,426,044	1,154,620
Landfill postclosure costs (Note 13)	1,530,000	-	90,000	1,440,000	90,000
Reimbursement agreements	193,582	-	14,356	179,226	89,613
Compensated absences	502,424	448,205	452,180	498,449	448,601
Workers' compensation	364,332	229,893	83,820	510,405	125,138
	<u>\$ 64,619,684</u>	<u>\$ 6,357,098</u>	<u>\$ 11,426,031</u>	<u>\$ 59,550,751</u>	<u>\$ 6,382,301</u>

Compensated absences and workers' compensation, for governmental activities, are typically paid from the General Fund.

Tobacco Commission Obligation:

The City, in conjunction with the IDA, has noted that certain grant recipients are not performing under their agreements with the City and Tobacco Commission. In accordance with the grant agreements, the City is liable to the Tobacco Commission up to the full amount of the Tobacco Commission funds provided in the original award. The City has reached an agreement to repay these funds to the Tobacco Commission over four years, and will attempt to recover the funds from the grant recipients.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 12. Long-Term Liabilities (Continued)

Reimbursement Agreements:

At June 30, the City had outstanding agreements requiring reimbursements to certain developers for streets, sewers, and utility facilities'. These agreements require no interest payments.

Obligation Payable – AMP:

During 2008, the City entered into a power sales contract with American Municipal Power (AMP) whereby it agreed to participate in the guaranteed purchase of electric generation capacity from a coal-fired generating facility in southwestern Illinois. The participants authorized AMP to acquire ownership interest in the project, and the City agreed to purchase 9.72% of the power generated under that ownership interest. This project has now been cancelled, which resulted in stranded costs that are owed by each participant. The City's estimated share at March 31, 2014 of impaired costs was \$13,000,804. The City received \$3,391,864 credit for AMPGS costs deemed to have future benefit. The City also elected to participate in a new project, the AMP Fremont Energy Center (AFEC) natural gas combined cycle project for which it received an additional credit of \$4,008,336, which reduced the stranded costs to \$5,600,604. In May 2014 the City elected to begin repaying the estimated total stranded costs over a 5 year period. The obligation bears interest based upon AMP's own borrowing costs, which are approximately 1.20%.

September 11, 2014 General Obligation Public Improvement and Refunding Bonds, Series 2014 – Series 2014A, New Proceeds; Series 2014B, Advanced Refunding of General Obligation Bond Issue, Series 2005:

On September 11, 2014 the City issued \$8,632,000 of General Obligation Public Improvement and Refunding Bonds, Series 2014 as a private issue placed with Carter Bank & Trust. Series A bonds in the amount of \$2,953,000 (less \$37,850 in underwriting fees and other issuance costs) were allocated for capital projects including capital repairs, replacements, and improvements to various public buildings and infrastructure. Series B bonds in the amount of \$5,679,000 (including \$72,534 in underwriting fees and other issuance costs) were issued to provide for an advance refunding of General Obligation Bond Series 2005. The refunding resulted in an economic loss (the difference between the present value of the debt service payments on the old and new debt) of \$301,466, but a cash flow savings of \$289,382.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 12. Long-Term Liabilities (Continued)

The following schedule represents all long-term debt of the City:

<u>Description</u>	<u>Original Issue</u>	<u>Annual Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding June 30, 2015</u>
General Obligation Bonds					
School Series 2001B – G.W.	\$ 6,512,513	\$ 296,369 – 371,160	3.10 – 5.10 %	7/15/2021	\$ 2,488,473
School Series 2001B – Langston	5,210,006	237,088 – 296,928	3.10 – 5.10	7/15/2021	1,990,779
School Series 2001A – Loan	2,500,000	125,000	3.10 – 5.10	7/15/2021	875,000
General Improvements 2005	8,800,000	290,000 – 640,000	3.70 – 4.25	12/1/2025	420,000
General Improvements 2007	5,000,000	165,000 – 360,000	3.80 – 4.12	3/1/2027	3,475,000
General Improvement Refunding 2009A	11,215,000	720,000 – 1,300,000	2.00 – 5.00	3/1/2022	7,405,000
General Improvement Refunding 2009B	13,895,000	775,000 – 2,515,000	3.80 – 6.09	3/1/2022	10,115,000
General Improvement 2009C	12,005,000	425,000 – 890,000	1.50 – 5.00	8/1/2029	9,795,000
General Improvement Refunding 2010A	12,925,000	355,000 – 895,000	2.00 – 5.00	9/1/2028	10,300,000
General Improvement 2010B	10,410,000	330,000 – 655,000	2.19 – 6.02	9/1/2036	10,080,000
General Improvement Refunding 2011	2,121,000	442,000 – 484,000	1.51	12/1/2019	1,648,000
General Improvement Refunding 2012A	6,395,000	860,000 – 1,215,000	2.70 – 3.50	3/1/2026	6,395,000
General Improvements and Refunding 2012B	7,170,000	210,000 – 670,000	2.00 – 4.00	3/1/2032	6,500,000
General Improvement 2013A	6,360,000	60,000 – 535,000	2.00 – 5.00	7/1/2038	6,300,000
General Improvement 2014A	2,953,000	108,000 – 196,000	3.15	12/1/2034	2,953,000
General Improvements and Refunding 2014B	<u>5,679,000</u>	64,000 – 630,000	2.25	12/1/2025	<u>5,679,000</u>
	<u>\$ 113,471,519</u>				<u>\$ 86,419,252</u>
Revenue Bonds					
Utility Revenue 96 – 97	<u>\$ 7,300,000</u>	\$ 223,940 – 365,000	4.50 %	2/1/2019	<u>\$ 1,318,940</u>
Reimbursement Agreements					
	<u>\$ 598,680</u>	\$ 64,527 – 98,271	0.00 %	6/30/2018	<u>\$ 353,234</u>
Tobacco Commission Obligation					
	<u>\$ 4,745,000</u>	\$ 500,000 – 900,000	0.00 %	6/30/2018	<u>\$ 3,845,000</u>
Obligation Payable – AMP					
Generating Station Contract	<u>\$ 5,600,604</u>	\$ 1,154,620	1.20 %	5/1/2019	<u>\$ 4,426,044</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 12. Long-Term Liabilities (Continued)

Debt service for future years is as follows:

Year Ending June 30,	General Obligation Bonds					
	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,584,550	\$ 1,447,168	\$ 4,109,329	\$ 2,015,101	\$ 5,693,879	\$ 3,462,269
2017	2,453,396	1,384,536	4,267,465	1,871,705	6,720,861	3,256,241
2018	2,543,177	1,294,146	4,429,240	1,720,556	6,972,417	3,014,702
2019	2,639,502	1,198,732	4,326,074	1,561,187	6,965,576	2,759,919
2020	2,747,298	1,059,226	4,203,076	1,391,185	6,950,374	2,450,411
2021-2025	12,822,814	3,873,327	14,756,330	4,773,663	27,579,144	8,646,990
2026-2030	6,262,414	1,783,803	10,868,586	2,076,400	17,131,000	3,860,203
2031-2035	4,116,951	685,245	2,464,050	584,356	6,581,001	1,269,601
2036-2040	740,634	45,035	1,084,366	88,851	1,825,000	133,886
	<u>\$ 35,910,736</u>	<u>\$ 12,771,218</u>	<u>\$ 50,508,516</u>	<u>\$ 16,083,004</u>	<u>\$ 86,419,252</u>	<u>\$ 28,854,222</u>

Year Ending June 30,	Revenue Bonds	
	Business-Type Activities	
	Principal	Interest
2016	\$ 365,000	\$ 52,098
2017	365,000	37,681
2018	365,000	23,263
2019	223,940	8,846
	<u>\$ 1,318,940</u>	<u>\$ 121,888</u>

Future principal payments for the following obligations are presented below:

Year Ending June 30,	Reimbursement Agreements			Tobacco Commission Obligation	Obligation Payable – AMP
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
2016	\$ 65,253	\$ 89,613	\$ 154,866	\$ 1,286,250	\$ 1,154,620
2017	65,253	89,613	154,866	1,286,250	1,154,620
2018	43,502	-	43,502	886,250	1,154,620
2019	-	-	-	386,250	962,184
	<u>\$ 174,008</u>	<u>\$ 179,226</u>	<u>\$ 353,234</u>	<u>\$ 3,845,000</u>	<u>\$ 4,426,044</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 12. Long-Term Liabilities (Continued)

Component Unit Obligations:

A summary of the changes in long-term liabilities reported by DPS is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 1,251,293	\$ 463,730	\$ 581,000	\$ 1,134,023	\$ 527,000
Entering retirement in phases plan (Note 21)	9,633,581	-	4,240,594	5,392,987	1,455,442
	<u>\$ 10,884,874</u>	<u>\$ 463,730</u>	<u>\$ 4,821,594</u>	<u>\$ 6,527,010</u>	<u>\$ 1,982,442</u>

A summary of the changes in long-term liabilities reported by the IDA is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ 26,216,794	\$ 9,190,000	\$ 5,934,942	\$ 29,471,852	\$ 1,081,144

Note 13. Landfill Postclosure Costs

The City closed its former landfill site in 1993. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure. The presence of certain contaminants has been detected in the groundwater on adjacent property, and the City is subject to a corrective action plan that requires continued monitoring of the site until 2031. Management estimates that postclosure monitoring costs will be approximately \$1,440,000 as of June 30, 2015, which has been recorded as a liability in the Sanitation Fund. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

Note 14. Unavailable/Unearned Revenue

The components of unavailable/unearned revenues in the City's governmental activities and governmental funds are as follows:

Taxes receivable – unavailable	\$ 9,002,525
Taxes receivable – unearned	522,284
Business licenses receivable – unearned	482,456
Due from IDA – unavailable	1,141,750
Community development receivable – unavailable	40,579
Other receivables – unavailable	<u>2,912,078</u>
Total unavailable/unearned revenue – governmental funds	14,101,672
Less deferrals for unavailability	<u>(13,096,934)</u>
Total unearned revenue – statement of net position	<u>\$ 1,004,738</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 15. Fund Balances

Fund Balances are classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

	General Fund	Community Development Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepays	\$ 230,152	\$ -	\$ -	\$ -	\$ 230,152
Inventories	233,032	-	-	-	233,032
Cemetery perpetual care	-	-	-	2,766,767	2,766,767
Loan receivable	-	3,217,743	-	-	3,217,743
Total nonspendable	<u>463,184</u>	<u>3,217,743</u>	<u>-</u>	<u>2,766,767</u>	<u>6,447,694</u>
Restricted for:					
Unspent bond proceeds	-	-	3,489,879	-	3,489,879
Police	43,591	-	-	-	43,591
Commonwealth Attorney	93,910	-	-	-	93,910
Fire department equipment and supplies	61,084	-	-	-	61,084
Other grants	-	-	-	6,330,172	6,330,172
Total restricted	<u>198,585</u>	<u>-</u>	<u>3,489,879</u>	<u>6,330,172</u>	<u>10,018,636</u>
Committed to:					
Capital projects	-	-	3,802,922	-	3,802,922
Community development	-	1,221	-	-	1,221
Stabilization	3,000,000	-	-	-	3,000,000
Sheriff – Project Lifesaver	10,433	-	-	-	10,433
GWHS Stadium	1,500,000	-	-	-	1,500,000
General administration	727,042	-	-	-	727,042
Total committed	<u>5,237,475</u>	<u>1,221</u>	<u>3,802,922</u>	<u>-</u>	<u>9,041,618</u>
Assigned to:					
General administration	293,714	-	-	-	293,714
Judicial administration	23,196	-	-	-	23,196
Public safety	46,561	-	-	-	46,561
Public works	100,802	-	3,975,138	-	4,075,940
Parks, recreation, and cultural	62,469	-	-	-	62,469
Education	1,450,517	-	-	-	1,450,517
Community development	3,140,300	-	-	-	3,140,300
Total assigned	<u>5,117,559</u>	<u>-</u>	<u>3,975,138</u>	<u>-</u>	<u>9,092,697</u>
Unassigned	<u>37,048,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,048,908</u>
Total fund balance	<u>\$ 48,065,711</u>	<u>\$ 3,218,964</u>	<u>\$ 11,267,939</u>	<u>\$ 9,096,939</u>	<u>\$ 71,649,553</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 16. Adoption of New Standard and Prior Period Restatement

In the current year the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

Most employees of the City participate in the Danville Employees' Retirement System (ERS) pension plan. The Danville City's Constitutional officers and their employees, along with nonprofessional employees of Danville Public Schools, participate in the Virginia Retirement System (VRS) pension plan. Teachers at Danville Public Schools participate in a teacher cost sharing plan provided by the VRS. Each of these plans is described in further detail in Notes 17-20. The restatement on the following page reflects the effects of adopting GASB No. 68 for both the VRS and ERS plans.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 16. Adoption of New Standard and Prior Period Restatement (Continued)

The following is a summary of the restatements to net position at the City resulting from the adoption of GASB Statement No. 68:

	Net Position, July 1, 2014, as Previously Reported	Recognition of Pension Related Asset – ERS	Recognition of Pension Liability and Deferred Outflows – VRS	Net Position, July 1, 2014, as Restated
Governmental Activities	\$ 128,958,235	\$ 44,940,848	\$ (3,075,928)	\$ 170,823,155
Business-Type Activities				
Wastewater	49,103,793	554,512	-	49,658,305
Water	35,122,017	1,521,471	-	36,643,488
Gas	50,057,355	1,131,211	-	51,188,566
Electric	180,051,634	4,978,640	-	185,030,274
Transportation	4,077,477	947,206	-	5,024,683
Sanitation	129,481	1,261,553	-	1,391,034
Cemetery operations	263,533	583,452	-	846,985
Telecommunication	6,932,491	87,372	-	7,019,863
Total business-type activities	<u>325,737,781</u>	<u>11,065,417</u>	<u>-</u>	<u>336,803,198</u>
Total net position	<u>\$ 454,696,016</u>	<u>\$ 56,006,265</u>	<u>\$ (3,075,928)</u>	<u>\$ 507,626,353</u>
Internal Service Funds (included in Governmental Activities above)				
Motorized equipment	\$ 2,443,212	\$ 709,761	\$ -	\$ 3,152,973
Central services	<u>70,398</u>	<u>110,903</u>	<u>-</u>	<u>181,301</u>
Total internal service funds	<u>\$ 2,513,610</u>	<u>\$ 820,664</u>	<u>\$ -</u>	<u>\$ 3,334,274</u>

The following is a summary of the restatements to net position at the Schools resulting from the adoption of GASB Statement No. 68:

Net position, July 1, 2014, as previously reported	\$ 13,001,251
To implement GASB No. 68 – VRS	(63,153,218)
To reflect full pension add-on liability – ERIP	<u>(4,130,783)</u>
Net position July 1, 2014, as restated	<u>\$ (54,282,750)</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 16. Adoption of New Standard and Prior Period Restatement (Continued)

A summary of key pension-related financial statement elements is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Danville Public Schools</u>
Net pension asset				
Danville ERS	\$ 38,202,628	\$ 9,416,665	\$ 47,619,293	\$ -
Deferred outflows of resources:				
Differences between expected and actual experience – Danville ERS	\$ 1,626,323	\$ 400,876	\$ 2,027,199	\$ -
Net difference between projected and actual earnings on pension plan investments – Danville ERS	7,384,710	1,820,277	9,204,987	-
Pension contributions subsequent to measurement date:				
VRS Teacher cost sharing plan	-	-	-	4,596,302
VRS	592,339	-	592,339	157,999
Total deferred outflows of resources related to pension plans	<u>\$ 9,603,372</u>	<u>\$ 2,221,153</u>	<u>\$ 11,824,525</u>	<u>\$ 4,754,301</u>
Net pension liability – VRS	<u>\$ 2,029,192</u>	<u>\$ -</u>	<u>\$ 2,029,192</u>	<u>\$ 54,667,526</u>
Deferred inflows of resources:				
Net difference between projected and actual earnings on pension plan investments:				
VRS	\$ 1,305,973	\$ -	\$ 1,305,973	\$ 440,294
VRS Teacher cost sharing plan	-	-	-	8,049,000
Changes in proportion and related differences – VRS Teacher cost sharing plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,575,000</u>
Total deferred inflows of resources related to pension plans	<u>\$ 1,305,973</u>	<u>\$ -</u>	<u>\$ 1,305,973</u>	<u>\$ 12,064,294</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System

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. 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 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 2.00% 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.

Employees Covered by Benefit Terms

As of the July 1, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members:	
Terminated vested members	244
Retired members	<u>565</u>
Total inactive members	809
Active members	<u>934</u>
Total covered employees	<u><u>1,743</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Contributions

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 8.687% of compensation for general employees and 9.7306% of compensation for public safety employees. Contributions to the pension plan from the City were \$3,583,779 and \$5,849,278 for the years ended June 30, 2015 and June 30, 2014, respectively.

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.

Prior to 2013, the City generally awarded cost-of-living adjustments (COLAs) to retirees, and an expectation for COLAs was included in assumptions used to calculate the actuarial accrued liability. In 2012, the City Council approved an ordinance to state that retirees will no longer receive COLAs, effective July 1, 2013. On the same date, the City Council adopted a resolution to approve a new retiree bonus policy. The retiree bonus policy calls for a one-time bonus for retirees each year that certain criteria are met. In no case would the retiree bonus exceed 50% of a retiree's monthly benefit. The bonuses will be funded directly from the City's budget, and must be approved by City Council when bonus criteria are met. Council may choose to follow, modify, or ignore the bonus policy. The first such bonus, totaling \$415,000, was awarded in the fall of 2014, and was recognized as a contribution into the plan for the year ending June 30, 2015. Because a pattern has not yet been established under the new policy and management has concluded that the actions of future City Councils are uncertain, no assumptions relative to these future bonuses have been included in the actuary's estimate of the plan's actuarial accrued liability.

Measurement Date

The City's net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of July 1, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of July 1, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	3.00%
Salary increases, including inflation	4.00%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of actuarial experience analysis during the 2000 to 2010 time period. The next assumption review is scheduled for 2015-2016.

Actuarial Cost Method

The method of valuation used for pension benefits is called the Entry Age Normal Method. Under this method, actuarial gains and losses are reflected immediately through a change in the total pension liability.

Employees Included in the Calculations

All regular, full-time employees on the valuation date are included in the calculations. Former employees or their survivors who are entitled to an immediate or deferred benefit under the provisions of the plan as indicated by the employee data are also included.

Actuarial Assumptions

Mortality: Healthy and Disabled Lives

RP-2000 Mortality Table. The probabilities are illustrated in the tables below.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Actuarial Assumptions (Continued)

Disability:

General Employees

200% of United Auto Workers Disability rates. The probabilities are illustrated in the tables below.

Policemen and Firemen

400% of United Auto Workers Disability rates. The probabilities are illustrated in the tables below.

Termination:

The probabilities are illustrated in the tables below.

Salary Progression:

Salaries are assumed to increase at a rate of 4.00% per year for all employees of which 3.00% is due to expected inflation. No portion of membership payroll is expected to increase due to growth in the active group size.

Investment Return:

7.00% compounded annually.

Plan Expenses:

Certain administrative expenses are now being paid from the trust fund. These expenses are not considered to be material and are not explicitly reflected in the valuation.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Actuarial Assumptions (Continued)

Retirement Age:

General Employees	
Age	Probability of Retirement
55-59	.03
60-61	.06
62	.50
63-64	.20
65	1.00
Policemen and Firemen	
Age	Probability of Retirement
55-57	.10
58-59	.15
60	1.00

Future Post-Retirement Cost-of-Living Increases: None

The following are examples of the probability that a participant will die, become disabled, or terminate within the year. The ratios of final projected salary to current salary are also shown; however, projected salaries will not exceed the IRC Section 401(a)(17) limit.

General Employees					
Age	Mortality		Disability	Termination	Salary Ratio
	Male	Female			
25	.00038	.00021	.00060	.07938	4.801
30	.00044	.00026	.00080	.07601	3.946
35	.00077	.00048	.00100	.07047	3.243
40	.00108	.00071	.00140	.06282	2.666
45	.00151	.00112	.00200	.05306	2.191
50	.00214	.00168	.00360	.03716	1.801
55	.00362	.00272	.00720	.01408	1.480
60	.00675	.00506	.01800	.00135	1.217
65	.01274	.00971	.00000	.00000	1.000

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Actuarial Assumptions (Continued)

Policemen and Firemen					
Mortality		Disability	Termination	Salary Ratio	
Age	Male				
25	.00038	.00021	.00120	.07601	3.946
30	.00044	.00026	.00160	.07048	3.243
35	.00077	.00048	.00200	.05255	2.666
40	.00108	.00071	.00280	.02653	2.191
45	.00151	.00112	.00400	.00607	1.801
50	.00214	.00168	.00720	.00000	1.480
55	.00362	.00272	.01440	.00000	1.217

Other Considerations

For the purpose of valuing death benefits, all male employees are assumed to be married to a spouse three years younger and all female employees are assumed to be married to a spouse three years older.

For purposes of determining projected benefits payable from member contributions, those contributions are assumed to earn 5% interest compounded annually.

Projected benefits are limited to the federal (415) limitation for defined benefit plans.

Total contributions made by the City have been included in the calculations as of July 1, 2014.

The Entry Age Normal method used in this report was adopted effective July 1, 1994.

The rates assumed for salary progression, investment return, and future post-retirement cost-of-living increases have been adopted effective July 1, 2010 and revised July 1, 2013. All other actuarial assumptions used for the July 1, 2014 valuation were adopted effective July 1, 2002.

Pension Plan Fiduciary Net Position

Detailed information about the Employees' Retirement System of the City of Danville, Virginia's Fiduciary Net Position is available in the separately issued 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 ERS CAFR may be downloaded from the City's website at <http://www.danville-va.gov/360/Employees-Retirement-System-Board> or by writing to the Finance Director, 427 Patton Street, Danville, VA 24541.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. The risk adjustment may also reflect the City's selection of a more conservative assumption. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, and the final investment return assumption, are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Domestic Large Cap	5.51 %	30.00 %
Domestic Bonds	2.11 %	30.00 %
International Developed	5.77 %	10.00 %
International Emerging	6.70 %	10.00 %
Timber	2.44 %	5.00 %
Real Estate	4.11 %	10.00 %
Private Equity	7.79 %	5.00 %
Total		<u>100.00 %</u>
	Inflation	<u>3.00 %</u>
Total Return without Adjustment		7.46 %
Risk Adjustment		(0.46)%
Total Expected Return		<u>7.00 %</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2014	\$ 185,499,549	\$ 242,736,781	\$ (57,237,232)
Changes for the year:			
Service cost	3,259,684	-	3,259,684
Interest	12,984,495	-	12,984,495
Differences between expected and actual experience	2,432,640	-	2,432,640
Contributions – employer	-	3,998,392	(3,998,392)
Contributions – employee	-	-	-
Net investment income	-	5,204,202	(5,204,202)
Benefit payments, including refunds of employee contributions	(11,594,274)	(11,594,274)	-
Administrative expenses	-	(143,714)	143,714
Other changes	-	-	-
Net changes	7,082,545	(2,535,394)	9,617,939
Balances at June 30, 2015	\$ 192,585,094	\$ 240,201,387	\$ (47,619,293)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
City's net pension asset	\$ (26,810,490)	\$ (47,619,293)	\$ (65,845,659)

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

For the year ended June 30, 2015, the City recognized pension expense for the ERS of \$2,384,143. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to the ERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,027,200	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	<u>9,204,987</u>	<u>-</u>
	<u>\$ 11,232,187</u>	<u>\$ -</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 17. Danville Employees' Retirement System (Continued)

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase to Pension Expense
2016	\$ 2,706,687
2017	2,706,687
2018	2,706,687
2019	2,706,686
Thereafter	405,439

Note 18. Virginia Retirement System

Plan Description

Constitutional officers and their employees of the City of Danville, Virginia, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
--	---	--

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Retirement Contributions	Retirement Contributions	Retirement Contributions
Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.	A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
--	---	---

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.
---	--	---

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

		Vesting (Continued) <u>Defined Contributions Component: (Continued)</u> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Average Final Compensation	Average Final Compensation	Average Final Compensation
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.	Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.	Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%. <u>Eligibility:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<u>Eligibility:</u> (Continued) For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.		
<u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued) <u>Exceptions to COLA Effective Dates:</u> (Continued) • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Purchase of Prior Service	Purchase of Prior Service	Purchase of Prior Service
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	<u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>76</u>
Inactive members:	
Vested inactive members	11
Non-vested inactive members	23
Inactive members active elsewhere in VRS	<u>36</u>
Total inactive members	70
Active members	<u>123</u>
Total covered employees	<u><u>269</u></u>

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2015 was 12.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$592,339 and \$620,933 for the years ended June 30, 2015 and June 30, 2014, respectively.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Net Pension Liability

The City's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS: (Continued)

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related.

Largest 10 – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		5.83 %
	Inflation		2.50 %
	* Expected arithmetic nominal return		8.33 %

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2013	\$ 22,391,315	\$ 18,694,454	\$ 3,696,861
Changes for the year:			
Service cost	582,704	-	582,704
Interest	1,523,713	-	1,523,713
Differences between expected and actual experience	-	-	-
Contributions – employer	-	620,933	(620,933)
Contributions – employee	-	241,904	(241,904)
Net investment income	-	2,927,045	(2,927,045)
Benefit payments, including refunds of employee contributions	(1,247,980)	(1,247,980)	-
Administrative expenses	-	(15,950)	15,950
Other changes	-	154	(154)
Net changes	858,437	2,526,106	(1,667,669)
Balances at June 30, 2014	\$ 23,249,752	\$ 21,220,560	\$ 2,029,192

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
City's net pension liability	\$ 4,748,137	\$ 2,029,192	\$ (253,121)

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

For the year ended June 30, 2015, the City recognized pension expense of \$259,237. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,305,973
Employer contributions subsequent to the measurement date	592,339	-
Total	\$ 592,339	\$ 1,305,973

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 18. Virginia Retirement System (Continued)

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

The deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>
2016	\$ (326,493)
2017	(326,493)
2018	(326,493)
2019	(326,494)
Thereafter	-

Note 19. Virginia Retirement System – School Nonprofessional Employees

Nonprofessional employees at Danville Public Schools also participate in the Virginia Retirement System. The plan descriptions and actuarial assumptions are substantively the same as those described in Note 18.

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>34</u>
Inactive members:	
Vested inactive members	3
Non-vested inactive members	28
Inactive members active elsewhere in VRS	<u>7</u>
Total inactive members	38
Active members	<u>63</u>
Total covered employees	<u><u>135</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

Contributions

The Schools' contractually required contribution rate for the year ended June 30, 2015 was 8.78% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Schools were \$157,999 and \$169,720 for the years ended June 30, 2015 and June 30, 2014, respectively.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2013	\$ 7,214,282	\$ 6,249,344	\$ 964,938
Changes for the year:			
Service cost	212,808	-	212,808
Interest	494,905	-	494,905
Differences between expected and actual experience	-	-	-
Contributions – employer	-	169,720	(169,720)
Contributions – employee	-	89,035	(89,035)
Net investment income	-	986,601	(986,601)
Benefit payments, including refunds of employee contributions	(288,413)	(288,413)	-
Administrative expenses	-	(5,283)	5,283
Other changes	-	52	(52)
Net changes	419,300	951,712	(532,412)
Balances at June 30, 2014	\$ 7,633,582	\$ 7,201,056	\$ 432,526

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School's net pension liability (nonprofessional employees)	\$ 1,366,974	\$ 432,526	\$ (355,611)

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

For the year ended June 30, 2015, the Schools recognized pension expense of \$77,602. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	440,294
Employer contributions subsequent to the measurement date	<u>157,999</u>	<u>-</u>
Total	<u>\$ 157,999</u>	<u>\$ 440,294</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

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

The deferred outflows of resources related to pensions resulting from the Schools contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>
2016	\$ 110,074
2017	110,074
2018	110,074
2019	110,074
Thereafter	-

Payables to the Pension Plan

At June 30, 2015, approximately \$12,500 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Pool

General Information about the Teacher Cost Sharing Pool

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service. The plan description and actuarial assumptions are substantively the same as those described in Note 18.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.20%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2015. Contributions to the pension plan from the school division were \$4,596,302 and \$3,831,000 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the school division reported a liability of \$54,235,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.44879% as compared to 0.48047% at June 30, 2013.

For the year ended June 30, 2015, the school division recognized pension expense of \$3,501,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

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

At June 30, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	8,049,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3,575,000
Employer contributions subsequent to the measurement date	<u>4,596,302</u>	<u>-</u>
Total	<u>\$ 4,596,302</u>	<u>\$ 11,624,000</u>

The deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Reduction in Pension Expense</u>
2016	\$ 2,801,000
2017	2,801,000
2018	2,801,000
2019	2,801,000

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS teacher employee retirement plan net pension liability	<u>\$ 79,639,000</u>	<u>\$ 54,235,000</u>	<u>\$ 33,319,000</u>

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2015, approximately \$143,000 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 21. Entering Retirement In Phases Plan – Danville Public Schools

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

ERIP Qualifications and Benefits by Group

Group	Qualifications For ERIP	Benefits Under ERIP	Requirements To Earn Benefits Under ERIP	Years After Initial Qualification Each Individual May Delay Taking ERIP
A	Age 50+, 10+ years DPS (last 5 consecutive) and 25+ years VRS	7 years, 20% of final compensation	Work 10% or buy with sick leave 1 for 1	15 years, or July 1, 2008, whichever occurs later for an individual
B	Age 53+ and 15+ years DPS (last 5 consecutive)	6 years, 20% of final compensation	Work 15% or buy with sick leave 2 for 1	12 years
C	Age 55+ and 15+ years DPS (last 5 consecutive)	5 years, 20% of final compensation	Work 15%, no buy-out allowed	10 years
D	Age 55+ and 20+ years DPS (last 5 consecutive)	4 years, 10% of final compensation	Work 10%, no buy-out allowed	10 years

Participants are required to work a number of required workdays (expressed above as a percent of the contractual workdays in the participant's final year of employment). However, as outlined above, certain participants may use accumulated sick leave to cover their work requirements for any year or for any part of a year of participation in the Plan.

Because Group A employees have been frequently able to satisfy all work requirements through the use of accumulated sick leave, these employees are considered to receive a meaningful benefit after retirement, and an accrued liability was recorded for this employee group. The other groups typically must work in exchange for some or all of their future benefits, and thus no pension liability has been accrued for these groups.

The full liability of \$9,633,581 was recorded at the beginning of the 2015 fiscal year. Effective June 30, the School Board elected to change the plan; new retirees are no longer allowed to use sick leave to satisfy the work requirement. Among other changes, Group A retirees now must work 15% to receive 15% of final compensation. This change by the board reduced the estimated net pension liability to \$5,392,987, which is the fixed stream of payments to Group A retirees who had already retired before the new policy change became effective, discounted to present value with a discount rate of 3.50%. The net gain of \$4,240,594 offset instruction expenses in the statement of activities.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 22. Other Post-Employment Benefits

City other post-employment benefits:

In prior years the City offered a post-employment healthcare benefit (OPEB) for retired employees and spouses. The benefit levels, employee contributions and employer contributions, were governed and could be amended by the City through its personnel manual. Participants who were full-time active employees who qualified for retirement after attaining age 55 with at least five years of service were offered postretirement health benefits. The retirees and their spouses were required to pay the full cost of the premium with no portion being paid by the City.

The City elected to terminate the OPEB Plan effective January 2014. All retirees, current and future, were required to leave the plan at the termination date. Therefore no amounts were recorded at June 30, 2015 as an obligation.

The OPEB Trust agreement states that the assets of the trust fund may revert back to the City only upon “the satisfaction of the benefit liabilities to all beneficiaries under the plans.” Since all the plan liabilities are satisfied, the plan assets with a fair value of \$2,709,551 at June 30, 2015, were returned to the City. Termination of the trust occurred on April 21, 2015.

Note 23. Service Contracts

Power Purchase Contracts – American Municipal Power

The city purchases substantially all of its power through American Municipal Power, Inc. (AMP) through contracts described below. AMP has issued debt to fund the various projects, and although this is not directly an obligation of the City, the related agreements are “take-or-pay” contracts, under which the City is obligated to purchase a minimum amount of power.

AMP Fremont Energy Center (AFEC)

On February 3, 2011 AMP entered into a non-binding memorandum of understanding (MOU) with FirstEnergy Corp. regarding the Fremont Energy Center (AFEC). AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio. The closing date to purchase was July 28, 2011. AMP’s acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

To provide permanent financing for the AFEC Project on June 29, 2012 AMP issued in two series \$546,085,000 of its AFEC Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AFEC and development costs and completion of construction and commissioning of AFEC; (ii) to make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures allocable to AMP’s 90.69% undivided ownership interest in AFEC; (iii) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

AMP Fremont Energy Center (AFEC) (Continued)

On January 21, 2012 the AFEC began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency (MPPA) and entered into a power sales contract with Central Virginia Electric Cooperative (CVEC) for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 of its members, pursuant to a take-or-pay power sales contract.

The City of Danville has executed a take-or-pay power sales contract with AMP for 37,300 kW or 8.03% of capacity and associated energy from the AFEC facility. As of June 30, 2015, the City's share of the permanent financing was approximately \$42,510,778.

Combined Hydroelectric Projects (79 Members)

AMP is currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "Combined Hydroelectric Projects"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

All major contracts for the projects which include the turbines, the powerhouse construction, the powerhouse gates, the powerhouse cranes, and the transformers have been awarded for the Cannelton, Smithland, and Willow Island facilities. Property right-of-way acquisitions for the transmission lines have been completed for all three projects.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Combined Hydroelectric Projects (79 Members) (Continued)

On February 12, 2015, AMP reached agreement with Barnard Construction Company, Inc. (Barnard) to serve as the replacement powerhouse contractor on AMP's Smithland Hydroelectric Project (Smithland Project), which is one of the three projects constituting the Combined Hydroelectric Projects replacing C.J. Mahan whose contract was terminated by mutual agreement between AMP and C.J. Mahan.

The Smithland Project's First and Second Units are expected to enter into commercial operation in the Third Quarter of 2016 and the Third Unit is expected to enter into commercial operation in the Fourth Quarter of 2016; this could be affected by this transition, but at this point, AMP management believes that there will be no negative effect.

AMP is projecting that the two remaining Combined Hydroelectric Projects are expected to enter into commercial operation as follows: Cannelton Project in the fourth quarter of 2015; Willow Island Project fourth quarter of 2015.

The City of Danville has executed a take-or-pay power sales contract with AMP for 22,085 kW or 10.62% of capacity and associated energy from the hydro facilities.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the "Combined Hydroelectric Bonds"), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which the City of Danville's share on June 30, 2015 was approximately \$214,389,981. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Meldahl Hydroelectric Project (48 Members) and Greenup (47 Members)

AMP is currently constructing a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). When the Meldahl Project enters commercial operation, it is projected to have a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license necessary to construct and operate the Meldahl Project. Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project will be owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (Meldahl, LLC), and will be operated by Hamilton. AMP, acting as agent of Meldahl LLC, is financing the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members.

The City of Danville has executed a take-or-pay power sales contract with AMP for 5,039 kW or 4.80% of capacity and associated energy from the Meldahl hydro facility. As of June 30, 2015, the City’s share of the debt was approximately \$33,247,164.

All major contracts for the project which include the turbine, the powerhouse construction, the powerhouse gate, the powerhouse crane, and the transformer have been awarded for the Meldahl facility. Property right-of-way acquisitions for the transmission line have been completed for this project.

AMP now projects that all the project’s three units will be in service in the fourth quarter of 2015; which means the commercial operation date of the Meldahl Project is expected to remain the fourth quarter of 2015.

The referenced agreements with Hamilton respecting the Meldahl Project also provided that Hamilton would sell to AMP a 48.6% undivided ownership interest in the Greenup Hydroelectric Facility (Greenup), a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River, in commercial operation since 1988. The sale is contingent upon the placement of the Meldahl Project into commercial operation. Based on the estimated commercial operation date for the Meldahl Project, AMP currently estimates that it will issue bonds to finance its undivided ownership interest in Greenup in the second or third quarter of 2014. AMP’s Greenup bonds will be secured by a separate power sales contract that has been executed by the same Members (all except Hamilton which will retain title to the remaining 51.4% ownership interest in Greenup) that executed the Meldahl power sales contract. Hamilton will continue to operate Greenup.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 23. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Meldahl Hydroelectric Project (48 Members) and Greenup (47 Members) (Continued)

The City of Danville has executed a take-or-pay power sales contract with AMP for 3,299 kW or 9.67% of capacity and associated energy from the Greenup hydro facility.

Prairie State Energy Campus (68 Members)

On December 20, 2007, AMP acquired 368,000kW or an effective 23.26% undivided ownership interest (the “PSEC Ownership Interest”) in the Prairie State Energy Campus (PSEC), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company (AMP 368 LLC). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

The City of Danville has executed a take-or-pay power sales contract with AMP for 49,760kW or 13.52% kW of capacity and associated energy from the Prairie State facility.

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

AMP’s share of the total Project costs, including AMP’s share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt of which on June 30, 2015 the City of Danville’s share was approximately \$215,076,260. These estimated costs include (i) AMP’s costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project.

AMP will sell the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the “Prairie State Power Sales Contract”) with 68 Members (the “Prairie State Participants”). The Prairie State Power Sales Contract is, in all material respects, comparable to the Power Sales Contract for the Project. The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

Natural Gas Purchase Contracts – MuniGas

In 2007 the City entered into an agreement to purchase all natural gas for distribution to City customers through Municipal Gas Acquisition and Supply Corporation (MuniGas). Although the contract requires the City to source all gas purchases through this contract, it is not a take-or-pay contract and does not include minimum purchase requirements. The contract expires in 2027 but may be extended by mutual agreement.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 24. Commitments and Contingencies

Litigation:

The City, DPS, and the IDA are contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of 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 or its component units.

Grant programs:

The City, DPS, and the IDA participate in a number of grant programs. Although the City and 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, management believes such disallowances, if any, will not be significant, except as discussed below.

Construction contracts:

The City has several construction and similar contracts in progress at June 30, 2014. The uncompleted portion of these contracts represents financial commitments that were not yet liabilities at June 30, 2015, and consist of the following:

Contracts in progress	\$ 22,979,167
Less: paid or recorded as liabilities	<u>13,220,912</u>
Remaining commitment	<u><u>\$ 9,758,255</u></u>

Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. As of June 30, 2015, the arbitrage estimate was zero.

Encumbrance commitments:

The City had the following outstanding encumbrances, which include the construction contracts in progress above, as of June 30.

<u>Major Funds</u>	
General Fund	\$ 2,225,201
City Capital Projects Fund	<u>3,975,138</u>
Total encumbrances	<u><u>\$ 6,200,339</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 24. Commitments and Contingencies (Continued)

AMPGS Project:

As discussed in Note 12, the City has recognized approximately \$5.6 million of impaired costs related to the AMPGS project. If the approximately \$3.4 million of AMPGS costs that are deemed to have future benefit later ultimately prove to have a value different than that which has been estimated by AMP's management, the City's liability could increase or decrease. Also, the members of the AMPGS project have agreed to pursue litigation against a contractor involved in the planning stages of that project – the City will be responsible for a proportionate share of litigation costs; a favorable outcome of that litigation could result in a significant reduction of the City's liability.

Take-or-pay contracts:

The City has entered into several take-or-pay contracts as described in Note 23, which require the City to purchase certain minimum amounts of power. The City could incur losses if the City were unable to use or resell any portion of the purchases to which it has committed.

Moral obligations:

The IDA has several moral obligations for debt service in place for various organizations within the Danville, Virginia area. The total debt outstanding of these moral obligations at the IDA are approximately \$12,867,000.

As discussed in Note 1, the City has a moral obligation for debt service at the Danville-Pittsylvania Regional Facility Authority. Total debt outstanding at the Facility Authority is approximately \$9,195,000 with a final maturity of 2020; the City and Pittsylvania County will each provide equal funding for the debt service.

Vendor claim:

At June 30, 2015, a vendor claim had been submitted to the City for payment for services of approximately \$700,000 beyond amounts already accrued by the City. The City is disputing the claim as of the date the financial statements were available to be issued, citing the unsatisfactory quality of the work performed. Management has concluded that the amount that may be paid under the claim, if any, is not determinable. Therefore, no provision for this claim has been recorded in the accompanying financial statements.

Note 25. Incentive Grants

The City, often in conjunction with the IDA, has awarded performance grants to companies within the City to foster economic development. Disbursements under these grants vary based on the performance requirements and period in which the company has to perform. During the current fiscal year the City awarded and paid approximately \$825,000 in such grant funds from the Economic Development Fund. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$1.3 million, and will be funded by the City through the IDA.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 25. Incentive Grants (Continued)

The IDA also has multiple performance grants outstanding under which funds have been paid to the companies involved, but the performance period is not yet complete. Should a company fail to perform under the terms of the agreement, all or part of the funds awarded could become due and payable to the IDA. The IDA would then owe funds to the City, which would also owe certain funds back to the various granting authorities. Ultimate repayment responsibility rests with the City for these funds. Total outstanding grants with respect to which the City is contingently liable total approximately \$6 million for funds from the Tobacco Commission.

At June 30, 2015, the City has recorded a liability for grant funds that were originally awarded to the City from the Tobacco Commission as described in Note 12.

Note 26. Risk Management

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; 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 health and workers' compensation claims settlement in the General Fund. The City also maintains an insurance fund to account for insurance transactions other than health insurance and workers' compensation. 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. 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: 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.

One City employee is covered by a surety bond.

The fleet insurance and commercial general liability insurance is provided under a pooled agreement with the Virginia Municipal Liability Pool (the "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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 26. Risk Management (Continued)

Primary government: (Continued)

Workers' compensation claims 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 for an estimate of incurred but not reported claims.

Self-Insurance

Changes in the estimated claims payable for workers' compensation and health insurance are as follows for the past two years:

			Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Workers' compensation	2015	\$	4,095,082	\$ 1,328,322	\$ 1,078,910	\$ 4,344,494
	2014	\$	3,800,577	\$ 1,210,342	\$ 915,837	\$ 4,095,082
Health insurance	2015	\$	766,435	\$ 6,729,835	\$ 6,669,336	\$ 826,934
	2014	\$	817,262	\$ 7,366,510	\$ 7,417,337	\$ 766,435

Component Unit – Danville Public Schools

DPS is a member of the School Systems of Virginia Group Self-Insurance Association (the "Association"), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since 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, 2015, the cumulative amount held in escrow by the Association for DPS amounted to \$617,409, and is included on the Statement of Net Position as an account receivable.

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

			Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Health insurance	2015	\$	446,097	\$ 3,293,027	\$ 3,394,329	\$ 344,795
	2014	\$	446,097	\$ 5,765,837	\$ 5,765,837	\$ 446,097

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 27. Fund Balance Restatement

Fund balance in the community development fund has been restated as of June 30, 2014, to reflect a change in the presentation of the community development loans – previously such loans were reflected as deferred inflows. In the current year these loans are presented as nonspendable fund balance.

	<u>Community Development</u>
Fund balance June 30, 2014	\$ 7,625
To remove deferred inflow of unearned revenue	<u>3,260,057</u>
Fund balance June 30, 2014, as restated	<u><u>\$ 3,267,682</u></u>

Note 28. New Accounting Standards

The GASB has issued the following Statements which are not yet effective. Management has not evaluated their impact.

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 28. New Accounting Standards (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS –
DANVILLE EMPLOYEES' RETIREMENT SYSTEM
June 30, 2015**

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 3,259,684	\$ 3,141,494
Interest on total pension liability	12,984,495	12,480,764
Changes in benefit terms	-	-
Difference between expected and actual experience	2,432,640	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(11,594,274)</u>	<u>(10,380,124)</u>
Net change in total pension liability	7,082,545	5,242,134
Total pension liability – beginning	<u>185,499,549</u>	<u>180,257,415</u>
Total pension liability – ending	<u>192,582,094</u>	<u>185,499,549</u>
Plan Fiduciary Net Position		
Contributions – employer	3,998,392	5,849,278
Contributions – employee	-	-
Net investment income	5,204,202	38,756,248
Benefit payments, including refunds of employee contributions	(11,594,274)	(10,380,124)
Administrative expenses	(143,714)	(109,411)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	(2,535,394)	34,115,991
Plan fiduciary net position – beginning	<u>242,736,781</u>	<u>208,620,790</u>
Plan fiduciary net position – ending	<u>240,201,387</u>	<u>242,736,781</u>
Net pension asset – ending	<u><u>\$ (47,619,293)</u></u>	<u><u>\$ (57,237,232)</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u>125%</u>	<u>131%</u>
Covered employee payroll	<u>\$ 39,745,625</u>	<u>\$ 38,027,568</u>
Net pension liability as a percentage of covered employee payroll	<u><u>-120%</u></u>	<u><u>-150.5%</u></u>

Schedule is intended to show information for 10 years. Years prior to 2014 are not available. However, additional years will be included as they become available.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS –
DANVILLE EMPLOYEES' RETIREMENT SYSTEM
June 30, 2015**

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 3,583,779	\$ 3,998,392	\$ (414,613)	\$ 39,745,625	10.06%
2014	6,228,799	5,849,278	379,521	38,027,568	15.38%
2013	5,295,468	5,280,687	14,781	36,804,751	14.35%
2012	5,073,189	4,929,208	143,981	36,767,568	13.41%
2011	4,949,970	4,950,582	(612)	38,309,497	12.92%
2010	4,622,151	4,611,296	10,855	38,724,457	11.91%
2009	4,468,091	4,465,421	2,670	38,567,189	11.58%
2008	4,258,098	3,902,716	355,382	36,434,479	10.71%
2007	3,692,358	3,308,019	384,339	33,680,175	9.82%
2006	3,240,289	2,870,572	369,717	33,097,942	8.67%

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
VIRGINIA RETIREMENT SYSTEM
June 30, 2015**

	Primary Government Constitutional Officers	Schools – Nonprofessional Employees
Total Pension Liability		
Service cost	\$ 582,704	\$ 212,808
Interest on total pension liability	1,523,713	494,905
Benefit payments, including refunds of employee contributions	(1,247,980)	(288,413)
Net change in total pension liability	858,437	419,300
Total pension liability – beginning	22,391,315	7,214,282
Total pension liability – ending	23,249,752	7,633,582
Plan Fiduciary Net Position		
Contributions – employer	620,933	169,720
Contributions – employee	241,904	89,035
Net investment income	2,927,045	986,601
Benefit payments, including refunds of employee contributions	(1,247,980)	(288,413)
Administrative expenses	(15,950)	(5,283)
Other	154	52
Net change in plan fiduciary net position	2,526,106	951,712
Plan fiduciary net position – beginning	18,694,454	6,249,344
Plan fiduciary net position – ending	21,220,560	7,201,056
Net pension liability – ending	\$ 2,029,192	\$ 432,526
Plan fiduciary net position as a percentage of total pension liability	91%	94%
Covered employee payroll	\$ 4,846,949	\$ 2,145,082
Net pension liability as a percentage of covered employee payroll	42%	20%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

The amounts presented have a measurement date as of the previous year end.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS –
VIRGINIA RETIREMENT SYSTEM
June 30, 2015**

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Primary Government – Constitutional Offices					
2015	\$ 592,339	\$ 592,339	\$ -	\$ 4,906,673	12.07%
Schools – Nonprofessional Employees					
2015	\$ 157,999	\$ 157,999	\$ -	\$ 2,145,082	7.37%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

The amounts presented have a measurement date as of the previous year end.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY –
VRS TEACHER RETIREMENT PLAN
June 30, 2015**

Year Ended June 30,	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.45%	\$ 54,235,000	\$ 32,356,641	167.62%	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

The amounts presented have a measurement date of the previous fiscal year end.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS –
VRS TEACHER RETIREMENT PLAN
June 30, 2015**

Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 4,596,302	\$ 4,596,302	\$ -	\$ 32,356,641	14.21%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

The amounts presented have a measurement date as of the previous year end.

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

Note 1. Changes of Benefit Terms – Virginia Retirement System

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 2. Changes of Assumptions – Virginia Retirement System

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Teacher cost-sharing pool

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

Note 3. Methods and Assumptions – Employee Retirement System

Valuation date:

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	Five-year moving average
Inflation	3.00%
Salary increases	4.00%, including inflation
Investment rate of return	7.00%
Retirement age – general employees	3.00% at age 55 increasing to 100% at age 65
Retirement age – police and fire employees	10% at age 55 increasing to 100% at age 60
Mortality	RP-2000 Mortality Table



**OTHER
SUPPLEMENTARY INFORMATION**



COMBINING STATEMENTS NONMAJOR GOVERNMENTAL FUNDS

- **Special Revenue Fund** – used to account for specific revenues that are legally restricted to expenditures for specified purposes.
- **Virginia Department of Transportation Fund (VDOT)** – is a special revenue fund that accounts for revenue derived from the Virginia Department of Transportation. These revenues are legally restricted for qualifying expenditures related to street and bridge design, construction, safety, and maintenance.
- **Economic Development Fund** – is a special revenue fund that accounts for the financial resources used for the growth and development of a diversified economic base in the City through state, federal, and local grants.
- **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.

CITY OF DANVILLE, VIRGINIA

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	Special Revenue Funds			Permanent Fund	
	Special Revenue	VDOT	Economic Development	Cemetery Maintenance	Total
ASSETS					
Cash and investments	\$ 1,519,496	\$ 2,401,820	\$ 2,732,253	\$ 2,766,767	\$ 9,420,336
Receivables, net	15,977	-	-	-	15,977
Due from other governments	714,741	-	-	-	714,741
Total assets	<u>\$ 2,250,214</u>	<u>\$ 2,401,820</u>	<u>\$ 2,732,253</u>	<u>\$ 2,766,767</u>	<u>\$ 10,151,054</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 613,196	\$ 345,198	\$ 81,521	\$ -	\$ 1,039,915
Total liabilities	<u>613,196</u>	<u>345,198</u>	<u>81,521</u>	<u>-</u>	<u>1,039,915</u>
Deferred inflows of resources:					
Unavailable revenue	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,200</u>
Total deferred inflows of resources	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,200</u>
Fund balances:					
Nonspendable					
Cemetery maintenance	-	-	-	2,766,767	2,766,767
Restricted					
Special revenue	<u>1,622,818</u>	<u>2,056,622</u>	<u>2,650,732</u>	<u>-</u>	<u>6,330,172</u>
Total fund balances	<u>1,622,818</u>	<u>2,056,622</u>	<u>2,650,732</u>	<u>2,766,767</u>	<u>9,096,939</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,250,214</u>	<u>\$ 2,401,820</u>	<u>\$ 2,732,253</u>	<u>\$ 2,766,767</u>	<u>\$ 10,151,054</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

	Special Revenue Funds			Permanent Fund	
	Special Revenue	VDOT	Economic Development	Cemetery Maintenance	Total
REVENUES					
Miscellaneous	\$ 3,361	\$ -	\$ 101,344	\$ 32,675	\$ 137,380
Contributions	540,427	-	100,000	-	640,427
Revenue from use of money and property	-	5,537	-	-	5,537
Intergovernmental	4,316,303	10,021,509	114,197	-	14,452,009
Total revenues	4,860,091	10,027,046	315,541	32,675	15,235,353
EXPENDITURES					
General government	53,859	-	159,817	-	213,676
Judicial administration	124,561	-	-	-	124,561
Public safety	589,296	-	-	-	589,296
Public works	46,366	8,917,874	-	-	8,964,240
Health and welfare	4,346,828	-	-	-	4,346,828
Parks, recreation, and cultural	683,319	-	-	-	683,319
Community development	-	-	1,351,636	-	1,351,636
Total expenditures	5,844,229	8,917,874	1,511,453	-	16,273,556
Excess (deficiency) of revenues over expenditures	(984,138)	1,109,172	(1,195,912)	32,675	(1,038,203)
OTHER FINANCING SOURCES (USES)					
Transfers in	1,245,155	-	3,058,000	-	4,303,155
Transfers out	-	-	(450,000)	-	(450,000)
Total other financing sources (uses)	1,245,155	-	2,608,000	-	3,853,155
Net change in fund balances	261,017	1,109,172	1,412,088	32,675	2,814,952
FUND BALANCES – Beginning	1,361,801	947,450	1,238,644	2,734,092	6,281,987
FUND BALANCES – Ending	<u>\$ 1,622,818</u>	<u>\$ 2,056,622</u>	<u>\$ 2,650,732</u>	<u>\$ 2,766,767</u>	<u>\$ 9,096,939</u>



COMBINING STATEMENTS NONMAJOR ENTERPRISE FUNDS

- **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 maintenance.
- **Telecommunications** – provides broadband communication service for the City, Danville Public Schools, as well as certain businesses and homes.

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF NET POSITION – NONMAJOR ENTERPRISE FUNDS
June 30, 2015

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
ASSETS					
Current assets					
Cash and investments	\$ -	\$ 1,490,295	\$ 323,594	\$ 1,208,530	\$ 3,022,419
Receivables, net	525	123,083	-	56,948	180,556
Due from other governments	788,613	-	-	-	788,613
Inventories	-	-	-	291,074	291,074
Total current assets	<u>789,138</u>	<u>1,613,378</u>	<u>323,594</u>	<u>1,556,552</u>	<u>4,282,662</u>
Noncurrent assets					
Net pension asset	787,478	1,138,632	466,495	67,248	2,459,853
Capital assets:					
Non-depreciable	-	509,232	-	53,360	562,592
Depreciable	<u>3,545,562</u>	<u>139,548</u>	<u>-</u>	<u>5,966,300</u>	<u>9,651,410</u>
Total noncurrent assets, net	<u>4,333,040</u>	<u>1,787,412</u>	<u>466,495</u>	<u>6,086,908</u>	<u>12,673,855</u>
Total assets	<u>5,122,178</u>	<u>3,400,790</u>	<u>790,089</u>	<u>7,643,460</u>	<u>16,956,517</u>
DEFERRED OUTFLOWS OF RESOURCES					
Net difference between projected and actual investment earnings on pension plan investments (Note 16)	152,223	220,102	90,175	12,999	475,499
Changes in expected and actual experience (Note 16)	<u>33,524</u>	<u>48,473</u>	<u>19,859</u>	<u>2,863</u>	<u>104,719</u>
Total deferred outflows of resources	<u>185,747</u>	<u>268,575</u>	<u>110,034</u>	<u>15,862</u>	<u>580,218</u>
LIABILITIES					
Current liabilities					
Accounts payable	121,180	136,069	1,826	26,905	285,980
Accrued interest	9	172	-	-	181
Due to other funds	19,204	-	-	-	19,204
Escrow deposit	-	-	-	20,000	20,000
Long-term liabilities – due within one year	<u>31,210</u>	<u>156,799</u>	<u>12,715</u>	<u>3,794</u>	<u>204,518</u>
Total current liabilities	<u>171,603</u>	<u>293,040</u>	<u>14,541</u>	<u>50,699</u>	<u>529,883</u>
Long-term liabilities – due in more than one year	<u>27,152</u>	<u>1,365,941</u>	<u>1,413</u>	<u>421</u>	<u>1,394,927</u>
Total noncurrent liabilities	<u>27,152</u>	<u>1,365,941</u>	<u>1,413</u>	<u>421</u>	<u>1,394,927</u>
Total liabilities	<u>198,755</u>	<u>1,658,981</u>	<u>15,954</u>	<u>51,120</u>	<u>1,924,810</u>
NET POSITION					
Net investment in capital assets	3,534,708	638,446	-	6,019,660	10,192,814
Unrestricted, reserved for capital assets	-	-	-	294,981	294,981
Unrestricted, undesignated	<u>1,574,462</u>	<u>1,371,938</u>	<u>884,169</u>	<u>1,293,561</u>	<u>5,124,130</u>
	<u>\$ 5,109,170</u>	<u>\$ 2,010,384</u>	<u>\$ 884,169</u>	<u>\$ 7,608,202</u>	<u>\$ 15,611,925</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION – NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2015**

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 371,675	\$ 3,585,517	\$ 720,996	\$ 1,728,117	\$ 6,406,305
OPERATING EXPENSES					
Services	1,903,474	2,996,867	864,257	556,763	6,321,361
Depreciation	409,887	15,163	-	302,642	727,692
Total operating expenses	2,313,361	3,012,030	864,257	859,405	7,049,053
Operating income (loss)	<u>(1,941,686)</u>	<u>573,487</u>	<u>(143,261)</u>	<u>868,712</u>	<u>(642,748)</u>
NONOPERATING REVENUES (EXPENSES)					
Sales income	4,800	-	155,475	-	160,275
Recovered costs	46,446	44,265	-	13,494	104,205
Loss on sale of capital assets	(65,667)	(9,286)	-	-	(74,953)
Other income	-	1,144	-	-	1,144
Federal and state grants	1,516,439	-	-	-	1,516,439
In-kind contributions	225,670	-	-	-	225,670
Interest income	2,921	12,340	29,755	9,686	54,702
Net change in the fair value of investments	(468)	(1,978)	(4,785)	(1,553)	(8,784)
Interest expense	(31)	(622)	-	-	(653)
Total nonoperating revenues	1,730,110	45,863	180,445	21,627	1,978,045
Income (loss) before transfers	<u>(211,576)</u>	<u>619,350</u>	<u>37,184</u>	<u>890,339</u>	<u>1,335,297</u>
Transfers					
Transfer in from other funds	296,063	-	-	-	296,063
Transfer out to general fund	-	-	-	(302,000)	(302,000)
Total transfers	296,063	-	-	(302,000)	(5,937)
Change in net position	84,487	619,350	37,184	588,339	1,329,360
Net position – beginning, as restated	5,024,683	1,391,034	846,985	7,019,863	14,282,565
Net position – ending	<u>\$ 5,109,170</u>	<u>\$ 2,010,384</u>	<u>\$ 884,169</u>	<u>\$ 7,608,202</u>	<u>\$ 15,611,925</u>

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS Year Ended June 30, 2015

	<u>Transportation</u>	<u>Sanitation</u>
OPERATING ACTIVITIES		
Received from customers	\$ 422,927	\$ 3,631,558
Payments to suppliers for goods and services	(631,219)	(1,385,263)
Payments to employees for services	(950,770)	(1,169,148)
Payments to internal service funds for goods and services	(4,502)	(494,859)
	<u>(1,163,564)</u>	<u>582,288</u>
Net cash provided by (used in) operating activities		
NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	296,063	-
Transfers in other funds	-	-
Interfund borrowing	19,204	-
Operating grants received	1,104,122	-
	<u>1,419,389</u>	<u>-</u>
Net cash provided by noncapital financing activities		
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(488,910)	-
Principal payments on long-term debt	(79)	(1,562)
Interest payments on long-term debt	(32)	(636)
Proceeds from sale of capital assets	11,000	-
	<u>(478,021)</u>	<u>(2,198)</u>
Net cash used in capital and related financing activities		
INVESTING ACTIVITIES		
Interest on investments	2,921	12,340
Net activity in investment securities	(468)	(1,978)
	<u>2,453</u>	<u>10,362</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and investments	(219,743)	590,452
CASH AND CASH EQUIVALENTS		
Beginning	219,743	899,843
Ending	<u>\$ -</u>	<u>\$ 1,490,295</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,941,686)	\$ 573,487
Adjustments:		
Depreciation charged to operations	409,887	15,163
Pension expense net of employer contributions	(26,695)	(38,599)
Nonoperating revenue, net	51,246	45,408
In-kind contributions	225,670	-
Change in noncash employee benefits charged to operations	26,076	(2,628)
Changes in assets and liabilities:		
Decrease in receivables	6	633
Increase in inventories	-	-
Increase in accounts payable	91,932	78,824
Decrease in landfill postclosure liability	-	(90,000)
	<u>(1,163,564)</u>	<u>582,288</u>
Net cash provided by (used in) operating activities		

EXHIBIT 23

Cemetery Operations	Tele- communications	Total
\$ 876,472	\$ 1,715,172	\$ 6,646,129
(306,452)	(603,808)	(2,926,742)
(469,528)	(66,471)	(2,655,917)
(103,812)	-	(603,173)
(3,320)	1,044,893	460,297
-	-	296,063
-	(302,000)	(302,000)
-	-	19,204
-	-	1,104,122
-	(302,000)	1,117,389
-	(552,185)	(1,041,095)
-	-	(1,641)
-	-	(668)
-	-	11,000
-	(552,185)	(1,032,404)
29,755	9,686	54,702
(4,785)	(1,553)	(8,784)
24,970	8,133	45,918
21,650	198,841	591,200
301,944	1,009,689	2,431,219
\$ 323,594	\$ 1,208,530	\$ 3,022,419
\$ (143,261)	\$ 868,712	\$ (642,748)
-	302,642	727,692
(15,814)	(2,280)	(83,388)
155,475	13,494	265,623
-	-	225,670
1,557	852	25,857
-	(26,438)	(25,799)
-	(49,492)	(49,492)
(1,277)	(62,597)	106,882
-	-	(90,000)
\$ (3,320)	\$ 1,044,893	\$ 460,297



COMBINING STATEMENTS INTERNAL SERVICE FUNDS

- **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.

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS
June 30, 2015

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
Current assets				
Cash and investments	\$ 174,102	\$ -	\$ 4,793,227	\$ 4,967,329
Cash and investments – held by fiscal agents	-	-	50,000	50,000
Receivables, net	-	2,308	-	2,308
Inventories	-	124,587	-	124,587
Total current assets	174,102	126,895	4,843,227	5,144,224
Noncurrent assets				
Net pension asset	606,532	94,996	-	701,528
Capital assets depreciable, net	2,390,526	33,971	-	2,424,497
Total noncurrent assets	2,997,058	128,967	-	3,126,025
Total assets	3,171,160	255,862	4,843,227	8,270,249
DEFERRED OUTFLOWS OF RESOURCES				
Net difference between projected and actual investment earnings on pension plan investments (Note 16)	117,245	18,363	-	135,608
Changes in expected and actual pension experience (Note 16)	25,821	4,044	-	29,865
Total deferred outflows of resources	143,066	22,407	-	165,473
LIABILITIES				
Current liabilities				
Accounts payable	131,078	6,944	5,046	143,068
Accrued interest	280	-	-	280
Due to other funds	-	87,889	-	87,889
Long-term liabilities – due within one year	27,459	1,096	-	28,555
Total current liabilities	158,817	95,929	5,046	259,792
Noncurrent liabilities				
Long-term liabilities – due in more than one year	16,966	122	-	17,088
Total noncurrent liabilities	16,966	122	-	17,088
Total liabilities	175,783	96,051	5,046	276,880
NET POSITION				
Net investment in capital assets	2,373,645	33,971	-	2,407,616
Unrestricted	764,798	148,247	4,838,181	5,751,226
	<u>\$ 3,138,443</u>	<u>\$ 182,218</u>	<u>\$ 4,838,181</u>	<u>\$ 8,158,842</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES – INTERNAL SERVICE FUNDS
Year Ended June 30, 2015**

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 3,088,945	\$ 305,237	\$ 2,724,260	\$ 6,118,442
OPERATING EXPENSES				
Operations	2,601,793	294,419	2,724,260	5,620,472
Depreciation	607,901	9,901	-	617,802
Total operating expenses	3,209,694	304,320	2,724,260	6,238,274
Operating income (loss)	(120,749)	917	-	(119,832)
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets	103,087	-	-	103,087
Recoveries and rebates	2,548	-	-	2,548
Net change in the fair value of investments	(298)	-	(6,699)	(6,997)
Interest income	1,898	-	41,703	43,601
Interest expense	(1,016)	-	-	(1,016)
Total nonoperating revenues	106,219	-	35,004	141,223
Income (loss) before transfers	(14,530)	917	35,004	21,391
Transfers				
Transfer to other funds	-	-	(96,600)	(96,600)
Change in net position	(14,530)	917	(61,596)	(75,209)
Net position – beginning – restated	3,152,973	181,301	4,899,777	8,234,051
Net position – ending	\$ 3,138,443	\$ 182,218	\$ 4,838,181	\$ 8,158,842

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS
Year Ended June 30, 2015

	Motorized Equipment	Central Services	Insurance	Total
OPERATING ACTIVITIES				
Received from interfund services	\$ 3,102,801	\$ 305,119	\$ 2,724,260	\$ 6,132,180
Payments to suppliers for goods and services	(1,164,972)	(189,312)	(2,796,718)	(4,151,002)
Payments to employees for services	(1,279,064)	(91,432)	-	(1,370,496)
Payments to internal service funds for goods and services	(92,977)	(5,945)	-	(98,922)
Net cash provided by (used in) operating activities	565,788	18,430	(72,458)	511,760
NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	-	(96,600)	(96,600)
Interfund borrowing	-	14,016	-	14,016
Net cash provided by (used in) noncapital financing activities	-	14,016	(96,600)	(82,584)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(770,105)	(32,446)	-	(802,551)
Principal payments on long-term debt	(3,518)	-	-	(3,518)
Interest payments on long-term debt	(1,040)	-	-	(1,040)
Proceeds from sale of capital assets	197,946	-	-	197,946
Net cash used in capital and related financing activities	(576,717)	(32,446)	-	(609,163)
INVESTING ACTIVITIES				
Interest on investments	-	-	41,703	41,703
Net activity in investment security	1,600	-	(6,699)	(5,099)
Net cash provided by investing activities	1,600	-	35,004	36,604
Net decrease in cash and investments	(9,329)	-	(134,054)	(143,383)
CASH AND CASH EQUIVALENTS				
Beginning	183,431	-	4,977,281	5,160,712
Ending	\$ 174,102	\$ -	\$ 4,843,227	\$ 5,017,329
RECONCILIATION TO EXHIBIT 21				
Cash and investments	\$ 174,102	\$ -	\$ 4,793,227	\$ 4,967,329
Cash and investments – held by fiscal agent	-	-	50,000	50,000
	\$ 174,102	\$ -	\$ 4,843,227	\$ 5,017,329
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (120,749)	\$ 917	\$ -	\$ (119,832)
Adjustments:				
Depreciation charged to operations	607,901	9,901	-	617,802
Pension expense net of employer contributions	(20,561)	(3,219)	-	(23,780)
Nonoperating revenue, net	2,548	-	-	2,548
Change in noncash employee benefits charged to operations	665	(1,166)	-	(501)
Changes in assets and liabilities:				
Increase (decrease) in accounts receivable	13,855	(118)	-	13,737
Increase in inventory	-	9,739	-	9,739
Increase (decrease) in accounts payable	82,129	2,376	(72,458)	12,047
Net cash provided by (used in) operating activities	\$ 565,788	\$ 18,430	\$ (72,458)	\$ 511,760

AGENCY FUND

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

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
VETERANS' MEMORIAL FUND
Year Ended June 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Assets				
Cash	<u>\$ 1,073</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 1,273</u>
Liabilities				
Amounts held for others	<u>\$ 1,073</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 1,273</u>

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 say about the government’s overall financial health.

CONTENTS

Page

Financial Trends	141
<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>	
Revenue Capacity	144
<i>These schedules contain information to help the reader assess the government’s most significant local revenue sources, such as property taxes and charges for utility services.</i>	
Debt Capacity	152
<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>	
Demographic and Economic Information	156
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
Operating Information	158
<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>	

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

TABLE 1

CITY OF DANVILLE, VIRGINIA

NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
Invested in capital assets, net of related debt	\$ 24,811,422	\$ 28,858,705	\$ 29,933,932	\$ 37,094,092	\$ 43,276,891	\$ 42,918,073	\$ 43,916,141	\$ 45,906,197	\$ 63,746,102	\$ 62,317,615
Restricted	8,602,821	10,031,903	8,229,657	10,207,310	10,668,601	15,329,590	15,892,978	20,156,434	9,769,912	12,513,267
Unrestricted	40,651,729	47,172,244	50,143,933	46,202,951	48,669,847	52,970,198	53,538,232	59,020,475	55,442,221	104,667,291
Total governmental activities net position	<u>\$ 74,065,972</u>	<u>\$ 86,062,852</u>	<u>\$ 88,307,522</u>	<u>\$ 93,504,353</u>	<u>\$ 102,615,339</u>	<u>\$ 111,217,861</u>	<u>\$ 113,347,351</u>	<u>\$ 125,083,106</u>	<u>\$ 128,958,235</u>	<u>\$ 179,498,173</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 162,072,054	\$ 172,325,000	\$ 189,153,872	\$ 190,621,794	\$ 197,322,894	\$ 205,342,317	\$ 215,409,229	\$ 229,150,139	\$ 241,435,018	\$ 243,029,734
Unrestricted	56,630,976	63,346,923	63,414,573	76,607,266	84,048,958	88,396,611	86,331,002	84,923,475	84,302,763	104,213,338
Total business-type activities net position	<u>\$ 218,703,030</u>	<u>\$ 235,671,923</u>	<u>\$ 252,568,445</u>	<u>\$ 267,229,060</u>	<u>\$ 281,371,852</u>	<u>\$ 293,738,928</u>	<u>\$ 301,740,231</u>	<u>\$ 314,073,614</u>	<u>\$ 325,737,781</u>	<u>\$ 347,243,072</u>
Primary government										
Invested in capital assets, net of related debt	\$ 186,883,476	\$ 201,183,705	\$ 219,087,804	\$ 227,715,886	\$ 240,599,785	\$ 248,260,390	\$ 259,325,370	\$ 275,056,336	\$ 305,181,120	\$ 305,347,349
Restricted	8,602,821	10,031,903	8,229,657	10,207,310	10,668,601	54,706,266	51,555,636	20,156,434	9,769,912	12,513,267
Unrestricted	97,282,705	110,519,167	113,558,506	122,810,217	132,718,805	101,990,133	104,206,576	143,943,950	139,744,984	208,880,629
Total primary government net position	<u>\$ 292,769,002</u>	<u>\$ 321,734,775</u>	<u>\$ 340,875,967</u>	<u>\$ 360,733,413</u>	<u>\$ 383,987,191</u>	<u>\$ 404,956,789</u>	<u>\$ 415,087,582</u>	<u>\$ 439,156,720</u>	<u>\$ 454,696,016</u>	<u>\$ 526,741,245</u>

TABLE 2

CITY OF DANVILLE, VIRGINIA

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expenses										
Governmental activities:										
General government	\$ 10,706,147	\$ 10,978,148	\$ 16,703,620	\$ 17,366,229	\$ 11,190,407	\$ 11,513,535	\$ 26,522,291	\$ 27,448,521	\$ 10,985,447	\$ 8,772,098
Judicial administration	4,803,342	5,218,767	4,853,835	4,680,120	4,677,118	4,895,286	5,349,323	6,115,877	6,210,609	5,879,586
Public safety	25,172,041	24,929,011	25,809,136	27,871,098	27,905,805	27,211,372	27,119,838	29,449,843	26,273,320	28,403,082
Public works	11,832,496	10,844,833	12,423,465	18,044,882	13,746,621	10,468,862	12,690,486	10,251,460	10,114,068	15,073,851
Heath and welfare	12,285,520	12,844,409	13,743,677	14,011,832	13,662,743	12,236,155	11,614,813	11,413,162	11,250,069	13,380,667
Parks, recreation, cultural	5,009,150	5,367,886	5,666,299	5,834,463	5,831,486	6,227,105	5,235,582	5,573,523	5,247,916	6,366,189
Community development	7,392,661	11,796,198	4,133,310	4,127,674	4,429,763	3,862,302	4,715,326	3,395,882	21,838,752	6,255,078
Education	20,143,175	16,903,673	22,343,504	19,762,967	21,190,425	29,939,742	21,382,291	21,303,585	20,646,479	18,342,352
Interest on long-term debt	1,665,956	1,617,511	6,732,839	6,988,805	6,447,064	12,513,650	7,235,159	1,339,765	1,552,148	1,382,842
Total governmental activities expenses	99,010,488	100,500,436	112,409,685	118,688,070	109,081,432	118,868,009	121,865,109	116,291,618	114,118,808	103,855,745
Business-type activities:										
Wastewater	6,464,670	6,561,949	6,975,203	6,696,533	6,912,126	6,954,269	6,761,973	6,411,408	6,328,929	6,447,892
Water	4,598,119	4,739,464	5,035,842	5,299,264	5,676,850	5,407,252	5,541,327	5,562,611	5,352,732	5,494,478
Gas	31,008,668	23,320,491	28,436,785	29,694,406	21,633,916	20,911,099	17,955,882	19,464,631	22,819,175	20,545,403
Electric	61,160,771	72,817,037	75,313,686	84,712,087	92,884,951	95,215,780	89,185,930	89,532,367	113,273,134	104,497,754
Nonmajor	5,393,641	5,836,847	6,313,481	6,586,104	6,711,765	6,787,829	7,085,616	7,007,241	7,612,881	7,115,373
Total business-type activities expenses	108,625,869	113,275,788	122,074,997	132,988,394	133,819,608	135,276,229	126,530,728	127,978,258	155,386,851	144,100,900
Total primary government expenses	<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>\$ 248,395,837</u>	<u>\$ 244,269,876</u>	<u>\$ 269,505,659</u>	<u>\$ 247,956,645</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 5,103,657	\$ 5,685,591	\$ 5,727,677	\$ 6,071,953	\$ 6,838,951	\$ 6,171,322	\$ 313,908	\$ 1,015,444	\$ 27,316	\$ 47,057
Judicial administration	576,841	1,489,794	618,268	652,091	717,847	1,044,237	3,592,835	3,004,455	3,498,685	3,424,310
Public safety	219,838	231,309	312,503	201,788	253,638	223,330	182,461	217,675	10,935	9,313
Public works	-	-	-	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-	-	-
Parks, recreation, cultural	202,418	210,182	224,462	232,848	310,103	68,083	23,218	31,155	419,975	416,055
Community development	-	-	83,151	-	-	-	-	-	315	230
Education	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	36,552,849	38,205,373	41,172,782	43,012,678	39,784,055	39,799,066	41,329,002	45,271,317	19,523,936	19,065,751
Capital grants and contributions	1,596,539	4,055,930	2,139,975	6,580,922	5,887,846	4,654,262	8,702,174	7,927,634	18,332,445	11,661,581
Total governmental activities program revenues	44,252,142	49,878,179	50,278,818	56,752,280	53,792,440	51,960,300	54,143,598	57,467,680	41,813,607	34,624,297

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Program Revenues (Continued)										
Business-type activities:										
Charges for services:										
Wastewater	\$ 7,528,176	\$ 7,805,221	\$ 8,362,522	\$ 9,306,293	\$ 9,511,518	\$ 9,812,296	\$ 9,862,984	\$ 9,373,746	\$ 9,410,786	\$ 9,697,361
Water	6,117,848	7,012,772	7,142,932	6,930,045	6,480,696	6,230,140	5,897,749	5,714,753	7,345,579	8,251,968
Gas	33,414,367	26,290,132	32,949,771	32,501,486	27,060,176	24,700,569	21,475,496	23,474,585	26,497,854	23,991,058
Electric	72,751,817	88,910,376	90,181,855	98,949,812	106,248,337	109,022,347	102,304,323	100,176,098	125,670,235	116,039,450
Nonmajor	5,433,299	5,602,965	5,719,119	5,782,975	5,731,883	5,857,175	6,103,392	5,975,111	6,525,644	6,406,305
Operating grants and contributions	500,546	355,921	405,673	500,537	826,340	2,101,602	1,584,669	1,390,628	1,473,919	1,742,109
Capital grants and contributions	3,333,743	1,741,248	2,735,406	2,317,309	1,524,609	1,511,920	226,283	318,635	268,697	29,772
Total business-type activities program revenues	129,079,796	137,718,635	147,497,278	156,288,457	157,383,559	159,236,049	147,454,896	146,423,556	177,192,714	166,158,023
Total primary government program revenues	\$ 173,331,938	\$ 187,596,814	\$ 197,776,096	\$ 213,040,737	\$ 211,175,999	\$ 211,196,349	\$ 201,598,494	\$ 203,891,236	\$ 219,006,321	\$ 200,782,320
Net (expense)/revenue										
Governmental activities	\$ (54,758,346)	\$ (50,622,257)	\$ (62,130,867)	\$ (61,935,790)	\$ (55,288,992)	\$ (66,907,709)	\$ (67,721,511)	\$ (58,823,938)	\$ (72,305,201)	\$ (69,231,448)
Business-type activities	20,453,927	24,442,847	25,422,281	23,300,063	23,563,951	23,959,820	20,924,168	18,445,298	21,805,863	22,057,123
Total primary government net expense	\$ (34,304,419)	\$ (26,179,410)	\$ (36,708,586)	\$ (38,635,727)	\$ (31,725,041)	\$ (42,947,889)	\$ (46,797,343)	\$ (40,378,640)	\$ (50,499,338)	\$ (47,174,325)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 25,453,656	\$ 25,930,246	\$ 26,590,389	\$ 26,487,289	\$ 26,464,571	\$ 25,869,256	\$ 26,720,274	\$ 26,758,831	\$ 27,868,180	\$ 27,726,602
Sales taxes	7,326,695	7,598,276	8,071,419	7,800,856	7,662,498	7,745,308	8,109,198	8,101,954	8,082,871	8,419,504
Business licenses	4,889,518	4,572,218	4,989,707	4,474,854	4,419,042	4,677,012	4,704,465	5,512,860	5,833,099	5,344,704
Utility taxes	4,246,590	2,654,769	994,536	1,013,694	985,162	997,935	972,637	984,613	991,780	981,093
Hotel and meals taxes	4,499,854	5,165,368	5,495,291	5,488,960	6,629,741	7,008,520	7,335,791	7,595,830	7,442,989	7,840,067
Recordation and bank stock taxes	1,109,217	946,397	948,038	862,181	978,498	957,247	901,985	870,757	930,744	1,030,735
Auto license and recordation taxes	895,776	1,034,967	1,047,044	1,055,948	1,159,830	1,095,474	1,086,443	1,090,372	1,120,071	1,113,862
Contributions from Component Unit	-	-	-	-	-	-	-	-	-	3,342,319
Noncategorical state and federal aid	-	-	-	-	-	-	-	-	6,038,488	5,939,560
Investment income	701,529	885,861	1,626,835	1,327,296	683,469	591,487	986,545	521,402	1,641,092	1,020,884
Miscellaneous	775,157	1,047,591	1,235,600	5,260,403	2,044,711	11,461,568	2,602,443	1,005,617	1,682,156	613,199
Transfers	12,326,398	12,783,444	13,376,678	13,361,140	13,372,456	13,411,864	16,431,220	17,234,663	14,548,860	14,533,937
Total governmental activities	62,224,390	62,619,137	64,375,537	67,132,621	64,399,978	73,815,671	69,851,001	69,676,899	76,180,330	77,906,466

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Revenues and Other Changes in Net Position (Continued)										
Business-type activities:										
Investment income	\$ 1,481,092	\$ 3,452,939	\$ 2,610,753	\$ 2,023,614	\$ 1,440,386	\$ 1,373,048	\$ 1,954,386	\$ 874,230	\$ 1,583,234	\$ 686,097
Miscellaneous	823,241	1,856,551	2,240,166	2,698,079	2,510,911	446,072	1,553,969	2,145,633	2,823,930	2,230,591
Transfers	(12,326,398)	(12,783,444)	(13,376,678)	(13,361,141)	(13,372,456)	(13,411,864)	(16,431,220)	(17,234,663)	(14,548,860)	(14,533,937)
Total business-type activities	(10,022,065)	(7,473,954)	(8,525,759)	(8,639,448)	(9,421,159)	(11,592,744)	(12,922,865)	(14,214,800)	(10,141,696)	(11,617,249)
Total primary government	<u>\$ 52,202,325</u>	<u>\$ 55,145,183</u>	<u>\$ 55,849,778</u>	<u>\$ 58,493,173</u>	<u>\$ 54,978,819</u>	<u>\$ 62,222,927</u>	<u>\$ 56,928,136</u>	<u>\$ 55,462,099</u>	<u>\$ 66,038,634</u>	<u>\$ 66,289,217</u>
Change in Net Position										
Governmental activities	\$ 7,466,044	\$ 11,996,880	\$ 2,244,670	\$ 5,196,831	\$ 9,110,986	\$ 6,907,962	\$ 2,129,490	\$ 10,852,961	\$ 3,875,129	\$ 8,675,018
Business-type activities	10,431,862	16,968,893	16,896,522	14,660,615	14,142,792	12,367,076	8,001,303	4,230,498	11,664,167	10,439,874
Total primary government	<u>\$ 17,897,906</u>	<u>\$ 28,965,773</u>	<u>\$ 19,141,192</u>	<u>\$ 19,857,446</u>	<u>\$ 23,253,778</u>	<u>\$ 19,275,038</u>	<u>\$ 10,130,793</u>	<u>\$ 15,083,459</u>	<u>\$ 15,539,296</u>	<u>\$ 19,114,892</u>

TABLE 3

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

Fiscal Year	Property Taxes	Other Local Taxes						Total	Grand Total
		Sales Taxes	Business License Taxes	Utility Taxes	Hotel and Meals Taxes	Recordation and Bank Stock Taxes	Auto License and Recordation Taxes		
2006	\$ 25,453,656	\$ 7,326,695	\$ 4,889,518	\$ 4,246,590	\$ 4,499,854	\$ 1,109,217	\$ 895,778	\$ 22,967,652	\$ 48,421,308
2007	25,930,246	7,598,276	4,572,218	2,654,769	5,165,368	946,397	1,034,967	21,971,995	47,902,241
2008	26,590,389	8,071,419	4,989,707	994,536	5,495,291	948,038	1,047,044	21,546,035	48,136,424
2009	26,487,289	7,800,856	4,474,854	1,013,694	5,488,960	862,181	1,055,948	20,696,493	47,183,782
2010	26,464,571	7,662,498	4,419,042	985,162	6,629,741	978,498	1,159,830	21,834,771	48,299,342
2011	25,869,256	7,745,308	4,677,012	997,935	7,008,520	957,247	1,095,474	22,481,496	48,350,752
2012	26,720,274	8,109,198	4,704,465	972,637	7,335,791	901,985	1,086,443	23,110,519	49,830,793
2013	26,758,831	8,101,954	5,512,860	984,613	7,595,830	870,757	1,090,372	24,156,386	50,915,217
2014	27,868,180	8,082,871	5,833,099	991,780	7,442,989	930,744	1,120,071	24,401,554	52,269,734
2015	27,726,602	8,419,504	5,344,704	981,093	7,840,067	1,030,735	1,113,862	24,729,965	52,456,567

TABLE 4

CITY OF DANVILLE, VIRGINIA

FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund										
Nonspendable/Restricted/Committed/Assigned	\$ 5,526,954	\$ 7,242,459	\$ 8,568,727	\$ 9,436,920	\$ 9,872,609	\$ 7,721,548	\$ 6,473,442	\$ 7,103,594	\$ 7,792,980	\$ 11,016,803
Unassigned	24,843,213	26,731,939	27,812,317	24,728,115	26,107,235	30,350,466	30,690,145	29,013,386	35,078,780	37,048,908
Total general fund	<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>	<u>\$ 36,116,980</u>	<u>\$ 42,871,760</u>	<u>\$ 48,065,711</u>
All other governmental funds										
Nonspendable/Restricted/Committed Community Development	\$ 968,016	\$ 662,725	\$ 510,543	\$ 470,193	\$ 439,347	\$ 264,537	\$ 55,793	\$ 25,623	\$ 7,625	\$ 3,218,964
Nonspendable/Restricted/Committed Capital Projects	3,212,561	4,931,135	4,479,245	6,479,604	6,934,477	12,422,706	13,154,663	17,421,894	13,911,991	11,267,939
Restricted – Special Revenue	691,607	602,405	704,385	652,711	691,804	1,145,379	1,109,613	1,434,005	1,361,801	1,622,818
Restricted – VDOT	-	-	-	-	-	-	-	1,474,956	947,450	2,056,622
Restricted – Economic Development	-	-	-	-	-	-	-	2,649,962	1,238,644	2,650,732
Nonspendable – Cemetery Maintenance	2,475,562	2,504,847	2,541,972	2,569,222	2,606,597	2,642,347	2,682,522	2,708,917	2,734,092	2,766,767
Total all other governmental funds	<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>	<u>\$ 25,715,357</u>	<u>\$ 20,201,603</u>	<u>\$ 23,583,842</u>

TABLE 5

CITY OF DANVILLE, VIRGINIA

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)**

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Property taxes	\$ 25,453,656	\$ 25,930,246	\$ 26,556,332	\$ 27,085,091	\$ 26,898,585	\$ 26,150,093	\$ 27,284,133	\$ 27,848,904	\$ 27,754,056	\$ 27,618,077
Local taxes	22,963,374	21,971,995	21,546,035	20,696,492	21,834,771	22,481,496	23,110,519	23,413,891	24,396,546	24,720,732
Fines and forfeitures	505,328	541,399	560,327	564,204	614,983	597,250	589,063	539,186	520,154	487,897
Permits, privilege fees, and regulatory licenses	219,668	235,358	270,052	170,178	225,791	210,694	182,461	217,675	218,083	216,705
Revenue from use of money and property	957,075	2,194,319	2,013,713	2,753,033	1,331,257	1,296,328	1,530,398	945,900	1,553,782	882,640
Charges for services	3,511,114	3,770,733	3,562,920	3,679,665	3,543,026	3,536,954	3,572,557	2,561,408	3,411,896	3,376,394
Miscellaneous & Contributions	2,600,487	1,838,547	1,014,896	5,006,274	944,433	1,074,889	1,258,407	1,167,282	927,694	973,177
Recovered costs	4,194,578	5,173,681	4,951,992	5,270,698	5,166,640	5,502,072	5,779,290	6,003,288	6,313,810	9,029,221
Intergovernmental	28,728,127	34,136,326	35,080,153	39,894,367	37,863,690	36,122,952	40,497,593	46,347,841	43,438,861	35,215,362
Total revenues	89,133,407	95,792,604	95,556,420	105,120,002	98,423,176	96,972,728	103,804,421	109,045,375	108,534,882	102,520,205
Expenditures										
General government	6,024,273	9,211,810	9,753,673	7,809,264	6,362,187	5,459,861	9,349,502	12,894,894	7,848,419	7,699,046
Judicial administration	4,584,788	5,128,684	5,379,273	5,423,448	5,256,851	5,114,279	5,431,560	5,973,866	6,036,322	6,330,493
Public safety	22,423,516	24,673,695	25,657,267	27,704,661	27,249,668	26,797,585	26,649,896	25,235,947	26,889,959	26,858,824
Public works	10,277,641	10,407,920	12,114,049	19,096,899	11,528,184	11,784,512	14,686,446	13,623,926	12,463,018	15,187,957
Health and welfare	11,808,295	15,352,675	13,675,562	14,066,073	13,632,948	12,652,403	11,678,445	11,387,410	11,526,481	13,250,461
Education	18,219,735	17,370,028	19,918,463	17,538,766	17,931,496	19,608,733	22,462,199	22,380,145	18,724,575	16,420,448
Parks, recreation, and cultural	5,131,578	6,144,838	5,150,624	5,266,742	5,064,459	5,172,499	5,023,585	5,288,584	5,203,975	5,442,125
Community development	4,757,407	3,026,397	4,164,824	4,284,071	3,982,907	4,044,531	3,871,343	2,603,250	8,962,080	4,646,975
Nondepartmental	3,301,482	3,542,949	3,952,931	4,370,594	5,494,121	6,062,030	6,390,130	9,148,205	5,419,946	8,037,822
Capital outlay	3,298,494	2,993,314	1,544,060	7,704,522	10,482,170	9,063,568	11,687,731	7,786,891	22,187,029	8,136,643
Debt service										
Principal	3,438,597	4,181,152	4,242,206	4,275,988	1,410,402	992,617	4,911,916	2,990,346	1,226,188	1,424,172
Interest	1,654,538	1,567,139	1,438,487	1,654,426	1,086,885	916,047	2,323,243	1,340,152	1,129,392	1,316,796
Bond issuance costs	-	-	-	-	-	-	-	-	-	35,847
Total expenditures	94,920,344	103,600,601	106,991,419	119,195,454	109,482,278	107,668,665	124,465,996	120,653,616	127,617,384	114,787,609
Ratio of debt service to total non-capital expenditures	5.6%	5.7%	5.4%	5.3%	2.5%	1.9%	6.4%	3.8%	2.2%	2.6%
Excess of revenues over (under) expenditures	(5,786,937)	(7,807,997)	(11,434,999)	(14,075,452)	(11,059,102)	(10,695,937)	(20,661,575)	(11,608,241)	(19,082,502)	(12,267,404)
Other financing sources (uses)										
Transfers in	16,878,713	20,753,576	20,415,323	24,236,283	20,420,329	18,714,276	25,446,671	31,387,755	26,543,687	25,714,460
Transfers out	(4,552,315)	(7,987,982)	(7,038,645)	(10,875,142)	(7,045,923)	(5,302,412)	(9,015,451)	(14,153,092)	(11,994,827)	(11,083,923)
Bonds issued	-	-	-	-	-	-	3,849,550	-	4,123,367	2,953,000
Refunding bonds issued	-	-	-	12,227,851	-	9,721,943	-	8,266,227	-	-
Payments to refunded bond escrow agent	-	-	-	(11,793,964)	-	(4,542,956)	-	(6,226,490)	-	-
Total other financing sources (uses)	12,326,398	12,765,594	13,376,678	13,795,028	13,374,406	18,590,851	20,280,770	19,274,400	18,672,227	17,583,537
Net change in fund balances	\$ 6,539,461	\$ 4,957,597	\$ 1,941,679	\$ (280,424)	\$ 2,315,304	\$ 7,894,914	\$ (380,805)	\$ 7,666,159	\$ (410,275)	\$ 5,316,133

TABLE 6

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
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
2012-13	100,176,098	23,474,585	9,373,746	5,714,753	138,739,182
2013-14	125,670,235	26,497,854	9,410,786	7,345,579	168,924,454
2014-15	116,039,450	23,991,058	9,697,361	8,251,968	157,979,837

TABLE 7

CITY OF DANVILLE, VIRGINIA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund										
General Government Administration	97	98	98	102	102	99	95	95	99	96
Judicial Administration	98	98	97	97	97	97	99	98	110	116
Public Safety	403	403	406	406	406	408	394	392	392	392
Public Works	110	111	111	111	111	111	106	105	103	101
Health, Welfare & Social Services	100	101	101	101	101	101	98	99	99	99
Park, Recreational and Cultural	49	49	49	49	49	51	49	49	49	52
Community Development	18	18	19	19	19	18	17	17	17	17
Total General Fund	875	878	881	885	885	885	858	855	869	873
Wastewater Fund	11	11	11	11	11	11	11	11	11	11
Water Fund	16	16	16	16	16	19	18	18	18	18
Gas Fund	55	55	55	55	56	54	53	52	51	51
Electric Fund	116	114	114	114	113	106	99	99	100	100
Telecommunications Fund	-	2	2	4	4	4	4	4	4	3
Transportation Fund	17	16	16	16	17	17	18	18	18	20
Central Services Fund	4	4	4	4	3	3	3	3	3	3
Motorized Equipment Fund	22	22	22	20	20	20	19	19	19	19
Sanitation Fund	53	53	46	43	43	43	37	30	28	30
Cemetery Fund	16	16	16	16	16	16	16	16	15	15
Total Other Funds	310	309	302	299	299	293	278	270	267	270
Total	1,185	1,187	1,183	1,184	1,184	1,178	1,136	1,125	1,136	1,143

Source: City Council Approved Budget – Authorized Positions

TABLE 8

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
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
2013	2,232,454,800	301,421,189	89,409,088	3,889,155	46,254,322	2,488,700	2,675,917,254
2014	2,245,455,200	303,862,061	85,276,081	3,157,546	46,364,169	5,596,700	2,689,711,757
2015	2,234,658,900	314,269,866	88,642,291	3,089,306	46,364,169	5,376,000	2,692,400,532

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) Real property assessed on a fiscal year basis.

(2) Personal property assessed on a calendar year basis.

(3) Real property and mobile home tax rates:

2006 – 2008 \$0.77 per \$100

2009 – 2015 \$0.73 per \$100

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

TABLE 9

CITY OF DANVILLE, VIRGINIA

PRINCIPAL REAL ESTATE TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2015			2006		
	Total Assessed Value	Rank	Percentage of Total Assessed Value (1)	Total Assessed Value	Rank	Percentage of Total Assessed Value
Danville Regional Medical Center LLC	\$ 76,780,300	1	3.44%	65,462,200	1	3.35%
Goodyear Tire and Rubber Company	28,906,700	2	1.29%	32,312,100	2	1.65%
Daniel Group Inc.	18,987,900	3	0.85%	17,808,200	5	0.91%
NAP Coleman Marketplace LLC	18,156,800	4	0.81%			
JTI Leaf Services US LLC	16,093,100	5	0.72%			
Danville Mall LLC (Piedmont Mall LLC)	13,011,700	6	0.58%	30,524,000	3	1.56%
Nestle USA Inc. (formerly Carnation Co.)	11,019,200	7	0.49%	10,246,600	6	0.52%
Sams Real Estate Business Trust	10,564,900	8	0.47%			
Industrial Development Authority of Danville	10,329,000	9	0.46% (2)	7,298,700	14	0.37%
Wal-Mart Real Estate Business Trust	10,240,900	10	0.46%	9,843,900	7	0.50%
EBI LLC	9,941,600	11	0.44%			
Piedmont Lands of Virginia LLC	9,029,600	12	0.40%			
Pemberton Lofts LLC	8,170,000	13	0.37%			
Marshall, Robert & Margaret D. (Rev Trust)	7,619,100	14	0.34%			
ITG Brands LLC	7,184,500	15	0.32%			
Lorillard Tobacco Company				8,354,800	9	0.43%
Dan Shopping Center Inc				7,570,200	13	0.39%
Riverside Shopping Center LP				9,462,600	8	0.48%
Dan River Inc.				21,429,400	4	1.10%
Dibrell Brothers Inc.				8,067,900	10	0.41%
Finlay Interests 5 LTD				7,824,500	12	0.40%
Belk Stores of Virginia				7,443,800	15	0.38%
Medical Facilities of America XXII				7,865,400	11	0.40%
	<u>\$ 256,035,300</u>		<u>11.46%</u>	<u>\$ 251,514,300</u>		<u>12.85%</u>

(1) Total 2015 Assessed Real Estate Value is \$2,234,658,900 for the City of Danville.

(2) Industrial Development Authority of Danville includes Esselpropack only in Fiscal Year 2015.

TABLE 10

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)	Percentage of Original Levy Collected in Year of Levy (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 in Subsequent Years (1)	Total Collections & Adjustments Thru June 30, 2014	Uncollected Balance At June 30, 2014	Percentage of Original Levy Collected At June 30, 2014
2006	\$ 0.77	\$ 15,043,445	\$ 14,242,460	94.68 %	\$ 800,985	5.32 %	\$ 766,558	\$ 15,009,018	\$ 34,426	99.77 %
2007	0.77	15,922,433	14,964,100	93.98	958,333	6.02	916,411	15,880,511	41,922	99.74
2008	0.77	15,980,915	15,126,749	94.66	854,166	5.34	798,829	15,925,578	55,337	99.65
2009	0.73	16,320,733	15,419,024	94.48	901,709	5.52	839,445	16,258,469	62,264	99.62
2010	0.73	16,415,615	15,475,506	94.27	940,109	5.73	853,904	16,329,410	86,205	99.47
2011	0.73	16,156,634	15,134,880	93.68	1,021,754	6.32	926,249	16,061,129	95,505	99.41
2012	0.73	16,321,848	15,319,292	93.86	1,002,556	6.14	880,299	16,199,591	122,257	99.25
2013	0.73	16,165,990	15,204,912	94.05	961,078	5.95	773,539	15,978,451	187,539	98.84
2014	0.73	16,241,177	15,223,541	93.73	1,017,636	6.27	625,712	15,849,253	391,924	97.59
2015	0.73	16,175,657	14,985,466	92.64	1,190,191	7.36	-	14,985,466	1,190,191	92.64

(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.

TABLE 11

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

Fiscal Year	Tax Rate Per \$100 (5)	Original Levy (1)	Collections and Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Collected in Year of Levy (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 and Adjustments in Subsequent Years (1)	Total Collections and Adjustments Thru June 30, 2015	Uncollected Balance at June 30, 2015 (2)	Percentage of Original Levy Collected at June 30, 2015
2006	\$ 3.00	\$ 9,581,768	\$ 9,238,435	96.42 %	\$ 343,333 (3)	3.58 %	\$ 343,333	\$ 9,581,768	\$ -	100.00 %
2007	3.00	9,722,045	9,391,605	96.60	330,440 (3)	3.40	330,440	9,722,045	-	100.00
2008	3.00	10,114,292	9,837,085	97.26	277,207 (3)	2.74	277,207	10,114,292	-	100.00
2009	3.00	9,360,208	9,123,802	97.47	236,405 (3)	2.53	236,405	9,360,208	-	100.00
2010	3.00	9,708,729	9,527,123	98.13	181,606 (3)	1.87	102,460	9,629,582	79,147	99.18
2011	3.00	9,516,667	9,315,272	97.88	201,395 (3)	2.12	115,538	9,430,810	85,857	99.10
2012	3.00	10,330,962	10,139,346	98.15	191,616 (3)	1.85	88,915	10,228,261	102,701	99.01
2013	3.00	10,210,303	9,944,695	97.40	265,608 (3)	2.60	129,828	10,074,523	135,780	98.67
2014	3.00	10,560,822	10,271,351	97.26	289,471 (3)	2.74	-	10,271,351	289,471	97.26
2015	3.00	10,897,755	3,678,318	33.75	7,219,437 (4)	66.25	-	3,678,318	7,219,437	33.75

(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.

(5) Personal property tax rate shown is for personal property which is the largest portion of the tax levy. However, data includes:

Machinery and Tools (\$1.50 per \$100)
Mobile Home (\$0.73 per \$100)
Aircraft (\$0.30 per \$100)

TABLE 12

CITY OF DANVILLE, VIRGINIA

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 and Personal Property	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities
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	58,776,721	1.12	2.21	696.27	1,369.51
2012	43,332	2,702,338,379	31,756,730	55,924,755	1.18	2.07	732.87	1,290.61
2013	43,400	2,675,917,254	31,523,096	57,637,831	1.18	2.15	726.34	1,328.06
2014	42,912	2,689,711,757	34,379,976	55,712,660	1.28	2.07	801.17	1,298.30
2015	42,975	2,692,400,532	35,893,854	51,844,337	1.33	1.93	835.23	1,206.38

TABLE 13

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	Capital Leases	Revenue Bonds	General Obligation Bonds	Capital Leases			
2006	\$ 32,105,970	\$ 11,047,929	\$ -	\$ 6,349,929	\$ 37,001,542	\$ -	\$ 86,505,370	\$ 1,875	3.10 %
2007	28,488,092	10,230,059	-	5,708,574	38,073,432	-	82,500,157	1,810	3.00
2008	24,819,277	9,394,098	-	5,133,548	33,909,608	-	73,256,531	1,614	2.70
2009	22,068,904	8,535,748	-	4,575,890	40,766,777	-	75,947,319	1,682	2.70
2010	21,223,853	7,651,912	-	4,011,631	52,266,777	-	85,154,172	1,978	3.00
2011	29,882,557	3,681,077	-	3,440,544	55,336,177	-	92,340,355	2,152	2.90
2012	31,756,730	-	-	2,862,396	53,062,359	-	87,681,485	2,023	2.70
2013	31,523,096	-	-	2,276,945	55,360,887	-	89,160,928	2,054	2.70
2014	34,600,414	-	-	1,683,940	54,764,742	-	91,049,096	2,122	2.70
2015	36,062,098	-	-	1,318,940	51,177,687	-	88,558,725	2,061	2.53

(1) Danville MSA includes Danville and Pittsylvania County.

TABLE 14

CITY OF DANVILLE, VIRGINIA

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assessed Value:										
Real Property	\$ 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	\$ 2,232,454,800	\$ 2,245,455,200	\$ 2,234,658,900
Public Service – Real Property	50,633,290	50,191,401	50,416,709	45,331,826	50,347,484	49,603,302	46,416,815	45,836,076	46,088,538	46,088,538
Total Assessed value	2,004,327,390	2,118,039,801	2,140,191,109	2,298,217,426	2,317,427,484	2,285,278,902	2,304,321,415	2,278,290,876	2,291,543,738	2,280,747,438
Debt Limit Per State (10% of Assessed Value – Real Property)	200,432,739	211,803,980	214,019,111	229,821,743	231,742,748	228,527,890	230,432,142	227,829,088	229,154,374	228,074,744
Gross bond debt	75,457,441	72,270,098	63,862,433	67,411,571	77,502,261	88,659,278	87,657,729	89,137,171	90,094,568	87,738,191
Less bond debt not applicable to limit: Revenue Bonds	6,349,929	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396	2,276,945	1,683,940	1,318,940
Total debt not applicable to limit	6,349,929	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396	2,276,945	1,683,940	1,318,940
Total net debt applicable to state limit	69,107,512	66,561,524	58,728,885	62,835,681	73,490,630	85,218,734	84,795,333	86,860,226	88,410,628	86,419,251
Legal debt margin per state	\$ 131,325,227	\$ 145,242,456	\$ 155,290,226	\$ 166,986,062	\$ 158,252,118	\$ 143,309,156	\$ 145,636,809	\$ 140,968,862	\$ 140,743,746	\$ 141,655,493
Total net debt applicable to the limit as a percentage of debt limit	34.48%	31.43%	27.44%	27.34%	31.71%	37.29%	36.80%	38.13%	38.58%	37.89%
Total net debt applicable to the limit as a percentage of assessed value	3.45%	3.14%	2.74%	2.73%	3.17%	3.73%	3.68%	3.81%	3.86%	3.79%

TABLE 15

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
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
2013	140,480,644	105,273,005	35,207,638	585,451	108,903	694,355	50.71
2014	170,599,462	131,792,691	38,806,771	593,004	86,932	679,936	57.07
2015	159,980,502	121,029,290	38,951,212	365,000	66,516	431,516	90.27

(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.

TABLE 16

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

Year	Population	Danville MSA Per Capita Income	Median Age	Percentage of Population with Bachelor's Degree or Higher	School Enrollment	Danville MSA Personal Income (thousands of \$)	Percentage of Unemployment Rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
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
2013	43,400	31,297	42.6	16.8	6,362	3,307,949	11.00
2014	42,912	32,775	42.6	16.8	6,362	3,467,733	9.80
2015	42,975	33,244	42.6	16.8	6,391	3,501,737	8.60

(1) Source: Weldon Cooper Center for Public Services, University of Virginia estimated population for 2003-2009 and 2011-2015.
U.S. Census Bureau actual count for 2010.

(2) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
Danville MSA includes 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.
2012-2015 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 2015.

NOTE: Data is most current available at June 30. Prior years is previously published data.

TABLE 17

CITY OF DANVILLE, VIRGINIA

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	2015			2006		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees (1)	Rank	Percentage of Total City Employment (2)
City of Danville	2,335	1	13.21%	2,471	1	13.29%
Goodyear Tire & Rubber Co.	2,074	2	11.74%	2,400	2	12.90%
Danville Regional Health System	1,300	3	7.36%	1,555	3	8.36%
Nestle Refrigerated Food	600	4	3.40%	575	6	3.09%
Averett University	455	5	2.57%			
EBI	428	6	2.42%			
Swedwood	410	7	2.32%			
Roman Eagle Memorial Home	375	8	2.12%	350	10	1.88%
Wal-Mart	370	9	2.09%	575	5	3.09%
Telvista	294	10	1.66%	580	4	3.12%
CIT Commercial				400	8	2.15%
Danville Community College				373	9	2.01%
Dan River, Inc.				400	7	2.15%

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

(2) Source: Virginia Employment Commission – employed civilian labor force for June 2015 (17,672) and June 2006 (18,599).

TABLE 18

CITY OF DANVILLE, VIRGINIA

OPERATING INDICATORS AND CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

Date of Incorporation: 1830
Form of Government: Council / Manager
Area in Square Miles: 44

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of Employees (Full & Part-Time)	1,219	1,212	1,237	1,267	1,258	1,235	1,222	1,220	1,233	1,210
<u>Name of Government Facilities and Services:</u>										
Miles of streets	315	316	316	318	318	318	318	318	318	318
Number of street lights	8,485	8,483	8,804	8,804	8,822	8,822	8,827	8,827	8,827	8,827
<u>Culture and Recreation:</u>										
Recreation Centers	12	12	10	10	10	8	8	8	8	8
Number of parks	10	10	10	11	11	11	12	12	12	12
Park Acreage	349	349	466	575	575	575	680	680	680	680
Number of trails	8	8	8	8	8	8	6	6	6	6
Trail Mileage	25	25	28	28	28	38	41	41.5	41.5	41.5
Number of athletic fields	23	23	31	31	31	31	22	22	22	22
Athletic field acreage	45	45	49	49	49	49	46	46	46	46
Number of playgrounds	24	24	22	20	20	21	16	14	14	14
Playground acreage	74	74	74	74	74	74	64	64	64	64
Number of outdoor basketball courts	10	10	12	10	10	10	10	10	10	10
Number of tennis courts	19	19	21	21	21	21	19	19	19	19
<u>Fire Protection:</u>										
Number of stations	7	7	7	7	7	7	7	7	7	7
Number of fire personnel and officers	123	123	123	123	123	123	122	123	123	123
Number of calls answered	4,860	5,002	5,143	5,176	5,836	6,326	6,432	6,609	6,703	7,321
Number of inspections conducted	2,821	2,152	1,030	1,569	929	997	1,042	1,541	1,043	1,288
<u>Police Protection:</u>										
Number of stations	3	3	3	2	2	2	2	2	2	2
Number of police officers	137	137	137	136	136	133	133	133	133	131
Number of police vehicles and trailers	40	53	53	53	53	54	56	56	56	56
Number of law violations:										
Criminal arrests	7,253	7,434	5,840	7,427	7,603	8,183	9,188	8,994	7,911	7,196
Traffic violations	6,127	6,571	7,896	8,276	9,476	8,190	7,447	6,224	7,251	8,019
Parking violations	2,132	2,515	1,813	1,599	2,042	2,374	2,537	1,504	1,390	1,395

(Continued)

TABLE 18

CITY OF DANVILLE, VIRGINIA

OPERATING INDICATORS AND CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<u>Sewerage System:</u>										
Miles of sanitary sewers	384	386	386	386	371	385	385	386	386	386
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	16,651	16,589	16,665	16,665	16,511	16,511	16,663	16,335	16,235	16,258
Average daily treatment	6.26	5.46	5.95	6.71	6.81	6.47	6.70	6.51	7.34	7.86
Maximum daily capacity of treatment	24	24	24	24	24	24	24	20	20	20
<u>Water System:</u>										
Miles of water mains	312	317	319	319	319	331	337	340	342	344
Active number of service connections	17,880	17,826	17,942	19,029	17,734	17,426	17,837	17,712	17,780	17,481
Number of fire hydrants	1,951	1,967	2,029	2,050	2,056	2,065	2,073	2,081	2,107	2,107
Average daily consumption - MGD	6.38	6.39	4.76	5.79	5.28	5.40	5.30	4.93	5.19	5.39
Maximum daily capacity of treatment	18	18	18	18	18	18	18	18	18	18
<u>Electric Distribution System:</u>										
Square Miles of service	500	500	500	500	500	500	500	500	500	500
Number of distribution stations	14	14	14	14	17	17	17	17	17	17
<u>Facilities and services not included in the</u>										
<u>Education:</u>										
Number of preschools	1	1	1	1	1	1	1	2	2	2
Number of elementary schools	9	9	9	9	9	9	9	8	6	6
Number of middle schools	3	3	3	3	3	3	3	3	2	2
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	21	21	22
Number of elementary school instructors	255	250	251	254	252	251	251	228	223	216
Number of middle school instructors	134	137	144	134	127	125	125	123	111	107
Number of high school instructors	186	183	182	174	172	175	175	167	152	140
<u>Facilities and services not included in the</u>										
<u>Hospitals:</u>										
Number of hospitals	1	1	1	1	1	1	1	1	1	1
Number of patient beds	350	350	350	290	290	290	290	250	250	250

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits for Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, (both issued by the Auditor of the Public Accounts of the Commonwealth of Virginia), 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 (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. **We consider Items 14-01, 14-03, 14-05, 14-06, and 14-07 as described in the accompanying schedule of findings and questioned costs to be material weaknesses.**

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 instances of noncompliance or other matters identified as Items 15-1VA through 15-6VA in the accompanying schedule of findings and questioned costs, that are required to be reported under *Government Auditing Standards*.

City of Danville, Virginia's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 24, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

To the Honorable Mayor and Members of City Council
City of Danville, Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Danville, Virginia's (the "City") compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the City'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Danville, Virginia, complied, in all material respects, with the types of compliance 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, 2015.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the City'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 24, 2015

CITY OF DANVILLE, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Comprehensive Services Act

Uniform Disposition of Unclaimed Property Act

Sheriff Internal Controls

State Agency Requirements

Education

Social Services

Urban Highway Maintenance

Virginia Retirement Systems

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Five material weaknesses** related to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

<u>Name of Program</u>	<u>CFDA #</u>
National School Breakfast Program	10.553
National School Lunch Program	10.555
Formula Grants for Rural Areas	20.509
Title I – Educationally Deprived Children – Local Education Agencies	84.010
Foster Care – Title IV – E	93.658
Social Services Block Grant	93.667

8. The **threshold for** distinguishing Type A and B programs was **\$493,724**.
9. The City of Danville was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

14-01: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties in such a way that no one employee will have access to both physical assets and the related accounting records, or to all phases of a transaction. At the City, IDA, and Employee Retirement System we noted several instances where duties are not fully segregated.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-01: Segregation of Duties (Material Weakness) (Continued)

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

Management will take actions to effectively segregate duties or implement compensating controls where complete segregation is not feasible.

14-03: Overtime Compensation – (Material Weakness)

Condition:

During fiscal year 2014 the City identified several instances where certain hourly employees allegedly overstated the work time submitted on their time sheets. Several employees were charged with fraud and either resigned or were terminated. We also noted that the ratio of overtime pay relative to total compensation was higher in certain funds than in others. There appear to have been at least two points where a key control was either absent or ineffective: the first was where a department supervisor approved timesheets reflecting overtime that management later concluded may have been misreported. The second is that no monitoring appears to have provided a timely warning of unusual amounts of overtime compensation. Certain departments have now added a requirement for an additional signature on time sheets with overtime, but no city-wide provisions or monitoring controls have been implemented.

Recommendation:

We recommend that management begin monitoring the ratio of overtime to total payroll, both on an individual employee basis and at the fund level. We also recommend that supervisors receive training that emphasizes the importance of understanding and evaluating the time sheets submitted by employees, both to ensure that the supervisors have an understanding of the hours worked by the employees as well as to aid them in identifying unusual overtime compensation as it is occurring. Strengthening controls both at the payroll-transaction level and at the monitoring/oversight level can reduce the risk of fraud and maximize the efficient use of City resources.

Management's Response:

Management will develop overtime reports and require appropriate review within each department during each payroll cycle. The Finance Department will also review overtime and monitor the ratio of overtime to total payroll.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-05: Low Income Housing Loans Receivable – (Material Weakness)

Condition:

We noted that the accounting and controls over these loans exists nearly entirely in the community development department rather than in the finance department. In obtaining our understanding and auditing these loans, we noted that loans are issued with the approval of a very small committee; there is not a reliable reconciliation process between the finance department and the community development department; the mortgage software/reporting system is under the control of one individual, and others are unfamiliar with it; there does not appear to be a reliable process to monitor and ensure that “forgiveness loans” are being reduced appropriately and at the proper periods; and loan statements are not mailed regularly.

Recommendation:

We recommend that the membership of the committee be expanded to include knowledgeable individuals, possibly from other departments, who are not otherwise involved in the processing of the loans. Management should endeavor to increase the depth of the committee. We also recommend that reconciliations be regularly provided to the finance department, and that they include all cash collections/disbursements. We recommend that others be cross-trained to use the mortgage software, that loan statements be mailed at least quarterly, and that “forgiveness loan” write-downs be reviewed and approved at least quarterly.

Management’s Response:

Management will expand the loan committee membership to include individuals from other departments with appropriate knowledge. The Finance Department will work with the Community Development Department to establish processes for controls over cash receipts, payment posting, loan forgiveness, and reconciliation to the general ledger. Management will also initiate needed cross-training.

14-06: Accounting for Grants – (Material Weakness)

Condition:

We noted that the understanding of grant agreements was not uniformly documented, and that there is not an overall process to monitor compliance with grant agreements. This was also evidenced as management worked to prepare the schedule of expenditures of federal awards (SEFA) for the current year.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-06: Accounting for Grants – (Material Weakness) (Continued)

Recommendation:

We recommend that management develop a process that ensures that all federal grants are monitored in such a way that a full inventory of such grants can be readily accessed, and not simply manually prepared at the end of the year. We also recommend that a process be implemented to ensure that there is monitoring and oversight of each grant – in other words, compliance and reporting requirements at the grant level should not simply be performed by one individual without review from others with the appropriate knowledge and understanding of the grant requirements.

Management's Response:

Management will establish procedures to ensure all federal grants are monitored, creating a readily available inventory of grants. Appropriate grant reviews will be established.

14-07: Purchase Orders and Bid Processes – (Material Weakness)

Condition:

Purchase orders at times have been used for several years' worth of construction/maintenance work that possibly should have been broken into several projects and subjected to the full bid process. The City does not have a firm policy regarding the frequency for which contracts should be put out to bid, or for how purchase orders should be allowed to continue.

Recommendation:

We recommend that management clarify current procurement policies and provide additional oversight to prevent fraud or inefficient use of resources. We recommend that the City monitor the use of blanket purchase orders to ensure that they are not being used to avoid the bid process. For situations where a low bidder is not selected, we recommend that the bid file contain memoranda signed by both the department head and the procurement department head, and that any such analysis be reviewed and approved by the finance department. If the results are unclear management should consult with legal counsel.

Management's Response:

Management will establish a Procurement Administrative Policy and Procedure to clarify proper procurement processes including, but not limited to, blanket purchase orders and documentation of the bidding process.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

15-1VA: Annual Review of System Access – Department of Social Services

Condition:

The Virginia Department of Social Services requires all local departments of social services to review the system access granted to all users at least annually to determine that access aligns with current individual job functions and responsibilities. We noted in our testing that this review did not occur on five of the five employees selected.

Recommendation:

All users' system access should be reviewed annually as required.

Management's Response:

The auditee concurs with the recommendation.

15-2VA: Annual Review of System Access – Department of Social Services

Condition:

The Virginia Department of Social Services requires review of local employees with access to OASIS, VaCMS, ADAPT, and EAS to determine if they have current access request form on file and it agrees to the system access. We noted in our testing that this review did not occur on one of the five employees selected and this employee had access to systems not on their access request form.

Recommendation:

User's access should be limited to approved access per request form.

Management's Response:

The auditee concurs with the recommendation.

15-3VA: VDSS Training– Department of Social Services

Condition:

The Virginia Department of Social Services requires initial and annual training in the Security Access Management System (SAMs). We noted in our testing of one employee that the initial training was not completed within 90 days of hire date.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

15-3VA: VDSS Training– Department of Social Services (Continued)

Recommendation:

Employees should have proper training within 90 days of hire date.

Management's Response:

The auditee concurs with the recommendation.

15-4VA: VIEW and SNAPET Credit Cards Issued – Department of Social Services

Condition:

We noted instances where Sheetz gift cards were issued for the VIEW and SNAPET program. Cards issued to participants of these programs should be limited to gas purchases only. Since these cards are gift cards, they are unable to limit the usage to only gas.

Recommendation:

We recommend that City obtain gas cards that are limited to only the purchase of gas.

Management's Response:

Management will review the processes that other localities use to limit the use of gas cards and establish procedures for that purpose.

15-5VA: Legality of Investments

Condition:

During our review of investments, we noted one instance of funds invested in a corporate bond that was not rated at least "AA" by Standard & Poor's and was also not rated at least "Aa" by Moody's.

Recommendation:

All investments in corporate notes and bonds must be rated at least "AA" by Standard & Poor's and "Aa" by Moody's as required by State statute.

Management's Response:

The auditee concurs with this recommendation and intends to liquidate the investment.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

15-6VA: Commonwealth of Virginia Disclosure Statements

Condition:

Twelve City officials did not file a statement of economic interest by the December 15, 2014 due date deadlines as required by the *Code of Virginia* and four were filed after the June 15, 2015 deadline. It was also noted that one disclosure statement was not signed or dated.

Recommendation:

Steps should be taken to ensure that these statements are filed and in a timely manner.

Management's Response:

The auditee concurs with the recommendation.

D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CITY OF DANVILLE, VIRGINIA
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2015

Auditor Reference No.

2014-001: Community Development Block Grant – CFDA 14.218

Condition:

The Federal Funding Accountability and Transparency Act (FFATA) reporting requirements for subrecipients were not properly followed and reports were not submitted.

Current Status:

This requirement was removed from the program in fiscal year 2015 and no testing was necessary.

2014-002: Community Development Block Grant Loans – CFDA 14.218 (Material Weakness)

Condition:

We noted that the accounting and controls over these loans exists nearly entirely in the community development department rather than in the finance department. In obtaining our understanding and auditing these loans, we noted that loans are issued with the approval of a very small committee; there is not a reliable reconciliation process between the finance department and the community development department; the mortgage software/reporting system is under the control of one individual, and others are unfamiliar with it; there does not appear to be a reliable process to monitor and ensure that “forgiveness loans” are being reduced appropriately and at the proper periods; and loan statements are not mailed regularly.

Current Status:

Still applicable for the year ended June 30, 2015.

SCHEDULE 1**CITY OF DANVILLE, VIRGINIA****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****Year Ended June 30, 2015**

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
<u>Primary Government</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Supplemental Nutrition Assistance Program	10.561	\$ 713,319
National School Lunch Program	10.555	45,196
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Special Programs for the Aging – Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	101,249
Family Preservation and Support	93.556	28,470
TANF Block Grant	93.558	686,198
Refugee and Entrant Assistance State – Administered Programs	93.566	1,047
Low Income Energy Assistance	93.568	78,604
SSB	93.575	(295)
Child Care Development Fund	93.596	107,385
Chafee Education and Training Vouchers Program (ETV)	93.599	2,115
Child Welfare Services	93.645	4,912
Foster Care – Title IV-E	93.658	714,505
Adoption Assistance	93.659	207,929
Social Services Block Grant	93.667	491,422
Independent Living	93.674	10,772
Children's Insurance Program	93.767	21,439
Medical Assistance	93.778	773,636
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	820,179
Home Investment Partnership Program	14.239	517,137
DEPARTMENT OF JUSTICE		
Direct payments:		
Bulletproof Vest Partnership	16.607	22,328
Passed through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
State Criminal Alien Assistance Program	16.606	2,899
Byrne Memorial Justice Assistance Grant	16.738	28,070

(Continued)

SCHEDULE 1**CITY OF DANVILLE, VIRGINIA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
<u>Primary Government (Continued)</u>		
DEPARTMENT OF TRANSPORTATION		
Direct payments:		
Highway Planning and Construction	20.205	\$ 423,127
Federal Transit:		
Formula Grants for Rural Areas	20.509	984,411
New Freedom Program	20.521	57,496
Danville Art Trail	45.025	7,500
Passed through Commonwealth of Virginia:		
Department of Motor Vehicles:		
Alcohol Impaired Driving Grants	20.600	13,456
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	7,989
DEPARTMENT OF THE INTERIOR		
Passed through Commonwealth of Virginia:		
Historic Preservation Fund Grants-In-Aid	15.904	8,440
FEDERAL AVIATION ADMINISTRATION		
Direct Payments:		
Department of Aviation:		
Airport Improvement Program	20.106	155,785
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Direct Payments:		
Department of Homeland Security:		
Emergency Communications	97.042	27,013
2013 Aid to Firefighter Grant	97.044	188,901
Passed through Commonwealth of Virginia:		
Department of Emergency Management:		
State Homeland Security Program Grant	97.067	56,180
<u>Component Unit – Danville Schools</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program	10.555	2,148,709
National School Breakfast Program	10.553	880,229
Fresh Fruit and Vegetables	10.582	167,271

(Continued)

SCHEDULE 1**CITY OF DANVILLE, VIRGINIA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Federal Expenditures
<u>Component Unit – Danville Schools (Continued)</u>		
DEPARTMENT OF EDUCATION		
Passed through Commonwealth of Virginia:		
Title I – Educationally Deprived Children – LEA	84.010	\$ 3,453,218
Title I – Detention Home 14	84.013	2,069
Adult Education – State Grant Program	84.002	100,976
Title VI-B – Special Education	84.027	1,420,755
Special Education Preschool Grants	84.173	51,059
English Language Acquisition State Grants	84.365	37,907
Title II – Part A Funds	84.367	441,733
Basic Grants to States	84.048	215,200
Total		<u><u>\$ 16,227,940</u></u>
		 <u>Donated Food Received</u>
<u>Primary Government</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
W. W. Moore, Jr. Detention Home (Commodities)	10.555	\$ 1,905
Summer Feeding Program	10.559	1,009
<u>Component Unit – Danville Schools</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program (Commodities)	10.555	226,613
Total		<u><u>\$ 229,527</u></u>

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards 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.

Subrecipients

The City provided the following amounts to subrecipients during fiscal year 2015:

<u>Program Title</u>	<u>CFDA</u>	<u>Amount</u>
Department of Housing and Urban Development Home Investment Partnership Program	14.239	\$ 93,116