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

FINANCIAL REPORT

June 30, 2020

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FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Danville Public Schools (the "Schools"), a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Report on the Financial Statements (Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Schools as of June 30, 2020, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020 on our consideration of the Schools' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Schools' internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 14, 2020

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BASIC FINANCIAL STATEMENTS

EXHIBIT 1

DANVILLE PUBLIC SCHOOLS

STATEMENT OF NET POSITION
June 30, 2020

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents (Note 3)	$ 874,510
Investments (Note 3)	883,744
Due from other governments (Note 4)	4,833,354
Due from primary government	2,292,983
Other receivables (Note 8)	290,436
Inventories	139,370
Prepaid expenses	166,528
LONG TERM ASSETS	
Net pension asset (Notes 9, 10, and 11)	71,290
Non-depreciable (Note 6)	2,176,690
Depreciable, net (Note 6)	16,860,940
Total assets	28,589,845
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions (Notes 9, 10, and 11)	15,568,438
Deferred outflows related to other postemployment benefits (Note 12)	1,885,034
Total deferred outflows of resources	17,453,472
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and other liabilities	1,214,308
Accrued salaries and payroll taxes	3,001,243
Accrued interest	67,335
Unearned grants	96,880
Long-term liabilities due within one year (Notes 7 and 13)	1,229,334
LONG-TERM LIABILITIES	
Net pension liability (Notes 9, 10, and 11)	55,684,997
Net other postemployment benefit liability (Note 12)	8,755,000
Other long-term liabilities due in more than one year (Notes 7 and 13)	4,552,148
Total liabilities	74,601,245
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions (Notes 9, 10, and 11)	7,643,521
Deferred inflows related to other postemployment benefits (Note 12)	597,000
Total deferred inflows of resources	8,240,521
NET POSITION	
Net investment in capital assets	15,125,630
Restricted for scholarships	130,507
Restricted for net pension asset	71,290
Unrestricted	(52,125,876)
Total net position	$ (36,798,449)

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

EXHIBIT 2

DANVILLE PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

		Program Revenues			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Position**
Governmental Activities					
Instructional services:					
General instruction	$ 55,096,287	$ 43,910	$ 27,387,204	$ -	$ (27,665,173)
Support services:					
Administration, attendance, and health	4,838,749	-	311,490	-	(4,527,259)
Pupil transportation	2,915,771	-	-	-	(2,915,771)
Operations and maintenance	8,022,177	-	-	-	(8,022,177)
Noninstructional services:					
Technology	3,032,857	-	493,400	-	(2,539,457)
Facilities	1,000,354	-	-	-	(1,000,354)
Cafeteria	4,807,058	227,634	4,224,851	-	(354,573)
Capital lease interest	90,866	-	-	-	(90,866)
Total governmental activities	$ 79,804,119	$ 271,544	$ 32,416,945	$ -	(47,115,630)
	General revenues:				
	Appropriation from the City of Danville				24,849,631
	Noncategorical state aid				24,316,489
	Investment income				100,877
	Miscellaneous				705,797
	Total general revenues				49,972,794
	Change in net position				2,857,164
	Net position – beginning				(39,655,613)
	Net position – ending				$ (36,798,449)

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

EXHIBIT 3

DANVILLE PUBLIC SCHOOLS

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2020

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
ASSETS						
Cash and cash equivalents	$ 511,527	$ -	$ -	$ 362,983	$ -	$ 874,510
Investments	-	130,507	444,941	308,296	-	883,744
Due from other funds (Note 5)	191,953	-	1,749,055	144,656	-	2,085,664
Due from other governments	1,616,280	2,814,614	-	402,460	-	4,833,354
Due from primary government	2,243,170	-	-	-	49,813	2,292,983
Other receivables	290,395	-	-	41	-	290,436
Inventories	-	-	-	139,370	-	139,370
Prepaid expenses	166,528	-	-	-	-	166,528
Total assets	$ 5,019,853	$ 2,945,121	$ 2,193,996	$ 1,357,806	$ 49,813	$ 11,566,589
LIABILITIES						
Accounts payable and other liabilities	$ 278,052	$ 485,746	$ 296,813	$ 103,884	$ 49,813	$ 1,214,308
Accrued salaries and payroll taxes	2,666,650	276,661	1,532	56,400	-	3,001,243
Due to other funds (Note 5)	-	2,085,664	-	-	-	2,085,664
Unearned grants	-	96,880	-	-	-	96,880
Total liabilities	2,944,702	2,944,951	298,345	160,284	49,813	6,398,095
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	591,048	-	-	-	-	591,048
FUND BALANCES						
Nonspendable	166,528	-	-	139,370	-	305,898
Restricted	-	130,507	-	-	-	130,507
Assigned	1,317,575	647,893	1,895,651	1,058,152	-	4,919,271
Unassigned	-	(778,230)	-	-	-	(778,230)
Total fund balances	1,484,103	170	1,895,651	1,197,522	-	4,577,446
Total liabilities, deferred inflows of resources, and fund balances	$ 5,019,853	$ 2,945,121	$ 2,193,996	$ 1,357,806	$ 49,813	$ 11,566,589

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

EXHIBIT 4

DANVILLE PUBLIC SCHOOLS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2020

Total Fund Balances – Governmental Funds		$ 4,577,446
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.		19,037,630
Receivables on the Statement of Net Position that do not provide current financial resources are reported as deferred inflows of resources in the funds.		591,048
Financial statement elements related to other postemployment benefits and pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to:		
Pensions	$ 15,568,438	
Other postemployment benefits	1,885,034	
Deferred inflows related to:		
Pensions	(7,643,521)	
Other postemployment benefits	(597,000)	
Net pension asset	71,290	
Net pension liability	(55,684,997)	
Other postemployment benefits liability	(8,755,000)	
		(55,155,756)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Lease purchase agreement	(3,912,000)	
Accrued interest	(67,335)	
Entering retirement in phases plan	(328,517)	
Compensated absences	(1,540,965)	
		(5,848,817)
Net Position – Governmental Activities		$ (36,798,449)

EXHIBIT 5

DANVILLE PUBLIC SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2020

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
REVENUES						
Charges for services	$ 43,910	$ -	$ -	$ 227,634	$ -	$ 271,544
Revenue from the use of money and property	90,557	2,092	7,132	1,096	-	100,877
Miscellaneous	596,299	105,305	-	4,193	-	705,797
Intergovernmental:						
City of Danville	20,976,527	-	-	-	3,873,104	24,849,631
Commonwealth of Virginia	43,377,913	297,415	406,688	104,646	-	44,186,662
Federal government	389,918	8,029,236	-	4,120,205	-	12,539,359
Total revenues	65,475,124	8,434,048	413,820	4,457,774	3,873,104	82,653,870
EXPENDITURES						
Instructional services:						
General instruction	46,770,237	7,776,523	1,901,699	-	-	56,448,459
Support services:						
Administration, attendance, and health	4,473,160	158,682	-	-	-	4,631,842
Pupil transportation	2,587,501	183,852	-	-	-	2,771,353
Operations and maintenance	7,894,992	65,996	-	-	-	7,960,988
Noninstructional services:						
Technology	2,512,861	265	-	-	-	2,513,126
Facilities	38,286	124,665	-	-	3,873,104	4,036,055
Cafeteria	-	177,831	-	4,572,598	-	4,750,429
Debt service:						
Lease payments	189,000	-	-	-	-	189,000
Interest payments	94,118	-	-	-	-	94,118
Total expenditures	64,560,155	8,487,814	1,901,699	4,572,598	3,873,104	83,395,370
Excess (deficiency) of revenues over expenditures	914,969	(53,766)	(1,487,879)	(114,824)	-	(741,500)
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 5)	-	-	136,741	-	-	136,741
Transfers out (Note 5)	(136,741)	-	-	-	-	(136,741)
Total other financing sources (uses)	(136,741)	-	136,741	-	-	-
Net change in fund balances	778,228	(53,766)	(1,351,138)	(114,824)	-	(741,500)
FUND BALANCES – beginning	705,875	53,936	3,246,789	1,312,346	-	5,318,946
FUND BALANCES – ending	$ 1,484,103	$ 170	$ 1,895,651	$ 1,197,522	$ -	$ 4,577,446

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

EXHIBIT 6

DANVILLE PUBLIC SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

Net Change in Fund Balances – Total Governmental Funds		$ (741,500)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation $(1,627,916) exceeds capital outlays $(3,870,468).		2,242,552
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		7,412
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Employer pension contributions	$ 5,947,478	
Pension expense	(5,166,580)	
		780,898
Governmental funds report other postemployment benefit contributions as expenditures. However, in the Statement of Activities the cost of these benefits earned net of employee contributions is reported as other postemployment benefit expense.		
Employer other postemployment benefit contributions	657,034	
Other postemployment benefit expense	(577,421)	
		79,613
Transactions involving debt principal and cash flows relating to other long-term items are expenditures in the governmental funds, however, these transactions increase or decrease long-term items in the Statement of Net Position		
Lease purchase principal	189,000	
Change in accrued interest	3,252	
		192,252
Some expenses reported in the Statement of Activities, such as compensated absences and retirement obligations, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(195,730)	
Entering retirement in phases plan	491,667	
		295,937
Change in Net Position – Governmental Activities		$ 2,857,164

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

DANVILLE PUBLIC SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2020

	Budgeted Amounts			Variance Positive
	Original	Final	Actual	(Negative)
REVENUES				
Charges for services	$ 58,000	$ 58,000	$ 43,910	$ (14,090)
Revenue from the use of money and property	99,000	99,000	90,557	(8,443)
Miscellaneous	548,914	548,914	596,299	47,385
Intergovernmental:				
City of Danville	26,218,186	25,997,186	20,976,527	(5,020,659)
Commonwealth of Virginia	43,020,782	43,020,782	43,377,913	357,131
Federal government	300,000	300,000	389,918	89,918
Total revenues	70,244,882	70,023,882	65,475,124	(4,548,758)
EXPENDITURES				
Instructional services:				
General instruction	49,230,026	49,280,620	46,770,237	2,510,383
Support services:				
Administration, attendance, and health	5,746,887	5,752,887	4,473,160	1,279,727
Pupil transportation	2,567,238	2,567,238	2,587,501	(20,263)
Operations and maintenance	8,393,761	8,377,411	7,894,992	482,419
Noninstructional services:				
Technology	3,044,970	3,044,970	2,512,861	532,109
Facilities	31,994	49,131	38,286	10,845
Contingency	810,147	752,765	-	752,765
Debt service:				
Lease payments	-	-	189,000	(189,000)
Interest payments	-	-	94,118	(94,118)
Total expenditures	69,825,023	69,825,022	64,560,155	5,264,867
Excess of revenues over expenditures	419,859	198,860	914,969	716,109
OTHER FINANCING SOURCES (USES)				
Transfers out	(419,859)	(419,859)	(136,741)	283,118
Net change in fund balance	$ -	$ (220,999)	$ 778,228	$ 999,227

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

Note 1. Organization and Nature of Operations

Financial reporting entity

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

The Schools receive funding from taxes collected and allocated by the City, tuition and fees, and state and federal aid. School construction projects are funded by general obligation bonds approved by the Danville City Council (the "Council") and other state funding sources. The Schools themselves have no power to levy and collect taxes or to increase the budget. The Council annually appropriates funds to the Schools for educational expenditures, levies taxes, and issues debt on behalf of the Schools. The legal liability for general obligation debt remains with the City. Because of this relationship, the Schools are considered a component unit of the City.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

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

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

The Schools report the following major governmental funds:

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

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

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

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

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

During the course of operations, the Schools have activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, they are eliminated from the government-wide financial statements.

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

B. Measurement Focus and Basis of Accounting

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

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

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both "measurable" and "available." Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Schools consider revenues to be available if collected within 45 days of the end of the current fiscal period for most non-grant revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met and are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, post-employment benefits, claims and judgments, and retirement benefits are recorded only when payment is due.

C. Encumbrances

Encumbrance accounting, which is the recording of purchase orders, contracts, and other monetary commitments in order to reserve the applicable portion of an appropriation, is used as an extension of formal budgetary control in all of the funds. Encumbrances outstanding at year end are reported as an assignment of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Annual appropriations that are not spent, encumbered, or designated at year end lapse.

D. Cash, Cash Equivalents, and Investments

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

E. Due from Primary Government

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

F. Inventories

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

G. Prepaid Expenses

Prepaids represent costs applicable to future periods.

Note 2. Summary of Significant Accounting Policies (Continued)

H. Capital Assets

Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent capitalization thresholds have been met.

All capital assets over the $5,000 capitalization threshold are recorded at historical cost (or estimated historical cost). Donated capital assets are recorded at fair value as of the date received. The Schools do not possess any infrastructure. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extended an asset's life are expensed.

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

Buildings	40 years
Furniture and equipment	3-20 years

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

I. Compensated Absences

The Schools' employees are entitled to certain compensated absences (vacation and sick pay) based on length of employment. Compensated absences either vest or accumulate and are accrued when they are earned in the government-wide financial statements. Expenditures are recorded in governmental funds when the obligation is due and payable.

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

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

J. Deferred Outflows/Inflows of Resources

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

- Contributions subsequent to the measurement date for pensions and other postemployment benefits (OPEB) are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors as well as changes in actuarial assumptions in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over a closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Unavailable revenue is reported only in the governmental funds balance sheet for receivables not collected within 45 days of year end. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.
- Changes in proportion and differences between employer contributions and proportionate share of employer contributions in the Virginia Retirement System's teacher cost sharing pool or OPEB cost sharing pool plans. This difference is deferred and recognized in expense over the average remaining service life of the employees who are subject to the plan, and may be reported as a deferred outflow or inflow as appropriate.

K. Use of Estimates

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

Note 2. Summary of Significant Accounting Policies (Continued)

L. Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Schools' Plans and the additions to/deductions from the Schools' Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Fund Balance

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

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

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

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

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

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

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

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

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

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

M. Fund Balance (Continued)

The Schools consider restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balances are available unless prohibited by legal constraints or contracts. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, the Schools consider committed fund balance to be spent first, then assigned fund balance, and finally unassigned fund balance.

N. Net Position

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

O. Budgetary Information

The majority of funding for the Schools is provided by the City, the Commonwealth of Virginia, and the federal government. The *Code of Virginia* requires the Superintendent to submit a budget to the City Council, after approval by the School Board. The timeline for the budget is as follows:

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

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

Budgets are adopted on a modified accrual basis of accounting. The general fund budget is legally adopted. Budgets for the special revenue funds are adopted only for management control. The Schools are authorized to transfer budgeted amounts from the general fund to the special grants fund for cash deficits in that fund. Budgeted amounts shown are as originally adopted, and as amended by the Schools during the course of the year. Appropriations within the capital projects funds or special grants fund are continued until completion of applicable projects or grants, even when such projects or grants extend more than one fiscal year. All other appropriations lapse at year end.

(Continued)

Note 3. Deposits and Investments

Deposits

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

Investments

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

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

Deposits and investments consist of the following:

Petty cash	$ 1,175
Deposits	873,335
Virginia LGIP	883,744
	$ 1,758,254
Statement of net position:	
Cash and cash equivalents	$ 874,510
Investments	883,744
	$ 1,758,254

(Continued)

Note 4. Due From Other Governments

Due from other governments consists of the following:

	General Fund	Special Grants Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia:				
Sales tax	$ 1,127,567	$ -	$ -	$ 1,127,567
Other	488,713	-	-	488,713
State operated detention home	-	239,944	-	239,944
Federal government:				
Title I – local education agencies	-	921,393	-	921,393
Title VI-B	-	285,612	-	285,612
Title II – Part A	-	152,185	-	152,185
Perkins CTE secondary program	-	128,513	-	128,513
Lunch program	-	-	402,460	402,460
CARES Act Relief	-	779,383	-	779,383
Other	-	307,584	-	307,584
	$ 1,616,280	$ 2,814,614	$ 402,460	$ 4,833,354

Note 5. Interfund Transactions

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

Due To (Fund)	Due From (Fund): General Fund	Due From (Fund): Special Grants Fund	Total
Special Grants Fund	$ (2,085,664)	$ 191,953	$ (1,893,711)
Textbooks Fund	1,749,055	-	1,749,055
Cafeteria Fund	144,656	-	144,656
	$ (191,953)	$ 191,953	$ -

Note 5. Interfund Transactions (Continued)

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

Interfund transfers are as follows:

Transfer In Fund	Transfer Out Fund	Amount
Textbooks	General Fund	$ 136,741
		$ 136,741

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

Note 6. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 2,176,690	$ -	$ -	$ 2,176,690
Construction in progress	950,551	-	(950,551)	-
Total capital assets, nondepreciable	3,127,241	-	(950,551)	2,176,690
Capital assets, depreciable				
Buildings	55,097,692	4,773,841	-	59,871,533
Furniture and equipment	10,587,850	47,177	(43,060)	10,591,967
Total capital assets, depreciable	65,685,542	4,821,018	(43,060)	70,463,500
Less accumulated depreciation				
Buildings	45,290,620	653,946	-	45,944,566
Furniture and equipment	6,727,085	973,969	(43,060)	7,657,994
Total accumulated depreciation	52,017,705	1,627,915	(43,060)	53,602,560
Depreciable capital assets, net	13,667,837	3,193,103	-	16,860,940
Capital assets, net	$ 16,795,078	$ 3,193,103	$ (950,551)	$ 19,037,630

(Continued)

Note 6. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

General instruction	$ 68,208
Administration, attendance, and health	2,361
Pupil transportation	149,506
Operations and maintenance	11,221
Technology	553,441
Cafeteria	55,590
Facilities	787,588
	$ 1,627,915

Note 7. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	$ 1,345,235	$ 814,730	$ 619,000	$ 1,540,965	$ 709,000
Lease purchase agreement	4,101,000	-	189,000	3,912,000	204,000
ERIP (Note 13)	820,184	-	491,667	328,517	316,334
	$ 6,266,419	$ 814,730	$ 1,299,667	$ 5,781,482	$ 1,229,334

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

The lease purchase agreement was executed on October 18, 2017 in the amount of $4,242,000 to finance the energy performance contract for the purpose of the purchase and installation of specified energy saving equipment designed to save energy and reduce related costs for identified property and buildings owned by the Schools. The Schools recorded a liability for this agreement at the time it was executed. The obligation bears interest at 2.295% with principal and interest due annually from October 2018 through October 2032. The related equipment was purchased and installed over the fiscal years ended June 30, 2018 and 2019.

Note 7. Long-Term Liabilities (Continued)

Aggregate maturities are as follows:

Year Ending June 30,	Lease Purchase Agreement Principal	Lease Purchase Agreement Interest
2021	$ 204,000	$ 89,780
2022	220,000	85,099
2023	236,000	80,050
2024	253,000	74,633
2025	271,000	68,827
2026-2030	1,586,000	242,834
2031-2033	1,142,000	53,428
	$ 3,912,000	$ 694,651

Note 8. Risk Management

Workers' compensation

The Schools are a member of the School Systems of Virginia Group Self-Insurance Association (the "Association"), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since the Schools entered the pool in 1982. The Schools have elected to have the Association hold the Board's dividends as a reserve against possible future claims. At June 30, 2020, the cumulative amount held in escrow amounted to $260,154. This amount is included on the Statement of Net Position with other receivables. During the current fiscal year, the Schools paid $204,736 in workers' compensation claims.

General liability and other

The Schools carry commercial insurance for all other risks of loss, including theft, auto liability, physical damage and general liability insurance. General liability and business automobile has a $1,000,000 limit. Boiler and machinery coverage has a $5,000,000 per accident limit and the blanket buildings and contents insurance has a $207,000,000 limit. Crime coverage has a $250,000 limit. The Schools maintain an additional $5,000,000 umbrella policy over general liability. Total premiums for the current fiscal year were $206,789.

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

Note 9. Defined Benefit Pension Plan – School Nonprofessionals

Plan Description

All full-time, salaried permanent non-professional employees (non-teachers) of the Danville Public Schools, (the "School division") are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

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

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Members
Inactive members or their beneficiaries currently receiving benefits	45
Inactive members:	
Vested inactive members	4
Non-vested inactive members	12
Inactive members active elsewhere in VRS	6
Total inactive members	22
Active members	60
Total covered employees	127

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

Contributions

The school division's contractually required contribution rate for the year ended June 30, 2020 was 3.82% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

Contributions to the pension plan from the school division were $90,525 and $86,013 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For school division's, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions

The total pension liability for General Employees in the school division's Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

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

(Continued)

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

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00	0.88	0.13
Credit Strategies	14.00	5.13	0.72
Real Assets	14.00	5.27	0.74
Private Equity	14.00	8.77	1.23
MAPS – Multi-Asset Public Strategies	6.00	3.52	0.21
PIP – Private Investment Partnership	3.00	6.29	0.19
Total	100.00%		5.13
	Inflation		2.50
*Expected arithmetic nominal return			7.63%

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

Long-Term Expected Rate of Return (Continued)

* The above allocation provides for a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, school division's were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever is greater. From July 1, 2019 on, participating employers are assumed to continue 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.

(Continued)

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2018	$ 8,176,028	$ 8,538,195	$ (362,167)
Changes for the year:			
Service cost	190,357	-	190,357
Interest	552,528	-	552,528
Benefit changes	-	-	-
Differences between expected and actual experience	48,564	-	48,564
Assumption changes	224,954	-	224,954
Contributions – employer	-	73,060	(73,060)
Contributions – employee	-	103,220	(103,220)
Net investment income	-	555,378	(555,378)
Benefit payments, including refunds of employee contributions	(565,540)	(565,540)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(5,785)	5,785
Other changes	-	(347)	347
Net changes	450,863	159,986	290,877
Balances at June 30, 2019	$ 8,626,891	$ 8,698,181	$ (71,290)

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

The following presents the net pension liability of the school division using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
School division's net pension liability (asset)	$ 904,588	$ (71,290)	$ (861,324)

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

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

For the year ended June 30, 2020, the school division recognized pension expense (benefit) of $156,359. At June 30, 2020, 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	$ 31,404	$ 38,703
Change in assumptions	145,465	-
Net difference between projected and actual earnings on pension plan investments	-	73,875
Employer contributions subsequent to the measurement date	90,525	-
Total	$ 267,394	$ 112,578

The $90,525 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2021	$ 58,241
2022	1,672
2023	(1,315)
2024	5,693

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

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-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, 2020, approximately $8,439 was payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

Note 10. Defined Benefit Pension Plan – Teacher Cost Sharing Plan

General Information about the Teacher Cost Sharing Plan

Plan Description

All full-time, salaried permanent (professional) employees of Virginia public school divisions, including Danville Public Schools, (the "School Division"), are automatically covered by the VRS Teacher Retirement Plan upon employment. This multiple employer, cost sharing plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employers pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those referenced in Note 9.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required contribution rate for the year ended June 30, 2020 was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were $5,856,953 and $5,611,419 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2020, the school division reported a liability of $55,684,997 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. For the year ended June 30, 2019, the school division's proportion was 0.4231% as compared to 0.3857% at June 30, 2018.

For the year ended June 30, 2020, the school division recognized pension expense of $4,804,958. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2020, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,565,746
Change in assumptions	5,514,120	-
Net difference between projected and actual earnings on pension plan investments	-	1,222,710
Changes in proportion and differences between Employer contributions and proportionate share of contributions	3,929,971	2,742,487
Employer contributions subsequent to the measurement date	5,856,953	-
Total	$ 15,301,044	$ 7,530,943

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

General Information about the Teacher Cost Sharing Plan (Continued)

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

The $5,856,953 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2021	$ (391,320)
2022	(1,033,923)
2023	839,444
2024	1,665,333
2025	833,614
Thereafter	-

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2019, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total pension liability	$ 49,683,336
Plan fiduciary net position	36,522,769
Employers' net pension liability	$ 13,160,567
Plan fiduciary net position as a percentage of the total pension liability	73.51%

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

General Information about the Teacher Cost Sharing Plan (Continued)

Net Pension Liability (Continued)

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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

The following presents the school division's proportionate share of the net pension liability of the school division using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	$ 83,830,111	$ 55,684,997	$ 32,414,200

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-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, 2020, approximately $198,376 was payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

Note 11. Summary of VRS Pension Plans

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

	Governmental Activities
Net pension asset:	
VRS – nonprofessionals	$ 71,290
Deferred outflows of resources:	
Difference between expected and actual experience	
VRS – nonprofessionals	$ 31,404
Changes in assumptions	
VRS – nonprofessionals	145,465
VRS Teacher cost sharing plan	5,514,120
Changes in proportion and differences between employer contributions and proportionate share of contributions	
VRS Teacher cost sharing plan	3,929,971
Contributions subsequent to measurement date	
VRS – nonprofessionals	90,525
VRS Teacher cost sharing plan	5,856,953
	$ 15,568,438
Net pension liability:	
VRS Teacher cost sharing plan	$ 55,684,997
Deferred inflows of resources:	
Difference between expected and actual experience	
VRS – nonprofessionals	$ 38,703
VRS teacher cost sharing plan	1,222,710
Net difference between projected and actual earnings on pension plan investments	
VRS – nonprofessionals	73,875
VRS teacher cost sharing plan	3,565,746
Changes in proportion and related differences –	
VRS Teacher cost sharing plan	2,742,487
	$ 7,643,521

(Continued)

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

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Schools also participate in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and other employees are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp

Teacher Employee Health Insurance Credit Program

All full time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit (HIC) Program. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

Specific information about the Teacher HIC is available at https://www.varetire.org/retirees/insurance/healthinscredit/index.asp

The GLI and Teacher HIC are administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Both of these plans are considered multiple employer, cost sharing plans.

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

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2020 Contribution – general employees	$10,438
June 30, 2020 Contribution – teachers	$198,344
June 30, 2019 Contribution – general employees	$9,978
June 30, 2019 Contribution – teachers	$189,587

Teacher Health Insurance Credit Program

Governed by:	*Code of Virginia* 51.1-1401(E) and may be impacted as a result of funding provided to school divisions by the Virginia General Assembly.
Total rate:	1.20% of covered employee compensation.
June 30, 2020 Contribution	$448,252
June 30, 2019 Contribution	$429,856

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

The net OPEB liabilities were measured as of June 30, 2019 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers.

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

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

Group Life Insurance Program

General Employees

June 30, 2020 proportionate share of liability	$	187,000
June 30, 2019 proportion		0.01151%
June 30, 2018 proportion		0.01015%
June 30, 2020 expense	$	8,000

Teachers

June 30, 2020 proportionate share of liability	$	2,978,000
June 30, 2019 proportion		0.18300%
June 30, 2018 proportion		0.16574%
June 30, 2020 expense	$	85,000

Teacher Health Insurance Credit Program

June 30, 2020 proportionate share of liability	$	5,590,000
June 30, 2019 proportion		0.42705%
June 30, 2018 proportion		0.38827%
June 30, 2020 expense	$	483,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

Group Life Insurance Program – General Employees

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,000	$ 2,000
Change in assumptions	12,000	6,000
Net difference between projected and actual earnings on OPEB plan investments	-	4,000
Changes in proportion	25,000	3,000
Employer contributions subsequent to the measurement date	10,438	-
	$ 59,438	$ 15,000

(Continued)

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

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

Group Life Insurance Program – Teachers

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 198,000	$ 39,000
Change in assumptions	188,000	90,000
Net difference between projected and actual earnings on OPEB plan investments	-	61,000
Changes in proportion	230,000	106,000
Employer contributions subsequent to the measurement date	198,344	-
	$ 814,344	$ 296,000

Teacher Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 31,000
Change in assumptions	130,000	39,000
Net difference between projected and actual earnings on OPEB plan investments	-	-
Changes in proportion	433,000	216,000
Employer contributions subsequent to the measurement date	448,252	-
	$ 1,011,252	$ 286,000

(Continued)

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

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

The deferred outflows of resources related to OPEB resulting from the Schools' contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Increase (Reduction) to OPEB Expense		
Year Ending June 30,	**Group Life Insurance Program – General Employees**	**Group Life Insurance Program – Teachers**	**Teacher Health Insurance Credit Program**
2021	$ 4,663	$ 26,282	$ 28,163
2022	4,663	26,285	28,157
2023	6,293	52,192	30,607
2024	8,275	84,366	29,787
2025	7,823	99,885	43,036
Thereafter	2,283	30,990	117,250

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Teachers	3.50 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.25 – 4.75%
• Ages 65 and older	5.50 – 4.75%
Investment rate of return, net of expenses, including inflation	6.75%

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans.

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

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program	Teacher Employee HIC OPEB Plan
Total OPEB Liability	$ 3,390,238	$ 1,438,114
Plan fiduciary net position	1,762,972	129,016
Employers' net OPEB liability	1,627,266	1,309,098
Plan fiduciary net position as a percentage of total OPEB liability	52.00%	8.97%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities was 6.75%, because the expectation is that all future benefit payments will be funded by the Plans' fiduciary net position.

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

The following presents the net OPEB liabilities of the Schools, as well as what the Schools' net OPEB liabilities would be if they were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability – general employees	$ 246,058	$ 187,000	$ 139,646
GLI Net OPEB liability – teachers	3,912,133	2,978,000	2,220,258
Teacher HIC Net OPEB liability	6,256,719	5,590,000	5,024,546

(Continued)

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

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2020, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2020 payroll.

• Group Life Insurance – general employees	$ 2,534
• Group Life Insurance – teachers	12,663
• Teacher Employee Health Insurance Credit	11,554

Summary of OPEB Amounts

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

Deferred outflows of resources	
OPEB contributions subsequent to measurement date:	
GLI – general employees	$ 10,438
GLI – teachers	198,344
HIC – teachers	448,252
Changes in proportion and related differences – cost sharing plans:	
GLI – general employees	25,000
GLI – teachers	230,000
HIC – teachers	433,000
Changes in assumptions	
GLI – general employees	12,000
GLI – teachers	188,000
HIC – teachers	130,000
Difference between expected and actual experience:	
GLI – general employees	12,000
GLI – teachers	198,000
	$ 1,885,034

(Continued)

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

<u>Summary of OPEB Amounts</u> (Continued)

Net OPEB liability		
GLI – general employees	$	187,000
GLI – teachers		2,978,000
HIC – teachers		5,590,000
	$	8,755,000

Deferred inflows of resources		
Difference between expected and actual experience:		
GLI – general employees	$	2,000
GLI – teachers		39,000
HIC – teachers		31,000
Changes in assumptions		
GLI – general employees		6,000
GLI – teachers		90,000
HIC – teachers		39,000
Net difference between projected and actual earnings on OPEB plan investments:		
GLI – general employees		4,000
GLI – teachers		61,000
HIC – teachers		-
Changes in proportion and related differences – cost sharing plans:		
GLI – general employees		3,000
GLI – teachers		106,000
HIC – teachers		216,000
	$	597,000

Note 13. Entering Retirement In Phases Plan

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

Note 13. Entering Retirement In Phases Plan (Continued)

ERIP Qualifications and Benefits by Group

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

Prior to the July 16, 2015 revision the plan allowed participants to use sick leave to "buy out" the work requirement. This created a future benefit for these individuals, i.e. a liability for the future payouts. The plan no longer allows new participants entering the plan (retiring) to use sick leave to eliminate the work requirement, thus effectively freezing the plan. The liability, with a calculated discount rate of 3.50%, was $328,517 at June 30, 2020 and will continue to decline each year as participants who had retired and entered the plan prior to July 16, 2015 continue to receive their final pay-outs.

Note 14. Commitments and Contingencies

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

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

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

(Continued)

Note 15. Retirement Plan

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

Note 16. Fund Balances

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

	General Fund	Special Grants Fund	Textbooks Fund	Cafeteria Fund	Capital Projects Fund
Fund balances:					
Nonspendable:					
Prepaid expenses	$ 166,528	$ -	$ -	$ -	$ -
Inventories	-	-	-	139,370	-
Total nonspendable	166,528	-	-	139,370	-
Restricted:					
Educational scholarships	-	130,507	-	-	-
Total restricted	-	130,507	-	-	-
Assigned:					
Instructional services:					
General instruction	145,756	647,893	1,895,651	-	-
Support services:					
Administration, attendance, and health	317,667	-	-	-	-
Pupil transportation	53,231	-	-	-	-
Operations and maintenance	17,994	-	-	-	-
Operation of noninstructional services:					
Technology	2,896	-	-	-	-
Facilities	1,803	-	-	-	-
Cafeteria	-	-	-	1,058,152	-
Total assigned	539,347	647,893	1,895,651	1,058,152	-
Unassigned	-	-	-	-	-
Total fund balances	$ 705,875	$ 778,400	$ 1,895,651	$ 1,197,522	$ -

(Continued)

Note 17. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95**, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In January 2017, the GASB issued **Statement No. 84**, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87**, *Leases*. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

In August 2018, the GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

(Continued)

Note 17. New Accounting Standards (Continued)

In May 2019, the GASB issued **Statement No. 91**, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

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

Note 18. COVID-19 Uncertainty

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Schools' operations are heavily dependent on the City's ability to raise taxes, assess fees, and access the capital markets. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed the tax bases and other areas in which the City received revenue during fiscal year 2020.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Schools' financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Schools are not able to estimate the effects of the COVID-19 outbreak on the results of operations, financial condition, or liquidity for future fiscal years.

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REQUIRED
SUPPLEMENTARY INFORMATION

EXHIBIT 8

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS – NONPROFESSIONAL EMPLOYEES
June 30, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	$ 190,357	$ 174,350	$ 186,119	$ 189,058	$ 186,876	$ 212,808
Interest on total pension liability	552,528	546,294	519,760	529,082	525,413	494,905
Difference between expected and actual experience	48,564	(140,555)	116,563	(478,030)	(322,695)	-
Changes in assumptions	224,954	-	(71,319)	-	-	-
Benefit payments, including refunds of employee contributions	(565,540)	(416,515)	(327,611)	(418,969)	(255,375)	(288,413)
Net change in total pension liability	450,863	163,574	423,512	(178,859)	134,219	419,300
Total pension liability – beginning	8,176,028	8,012,454	7,588,942	7,767,801	7,633,582	7,214,282
Total pension liability – ending	8,626,891	8,176,028	8,012,454	7,588,942	7,767,801	7,633,582
Plan Fiduciary Net Position						
Contributions – employer	73,060	79,096	75,562	154,870	156,811	169,720
Contributions – employee	103,220	91,413	85,108	87,249	88,856	89,035
Net investment income	555,378	599,557	902,372	125,624	330,257	986,601
Benefit payments, including refunds of employee contributions	(565,540)	(416,515)	(327,611)	(418,969)	(255,375)	(288,413)
Administrative expenses	(5,785)	(5,276)	(5,271)	(4,691)	(4,474)	(5,283)
Other	(347)	(530)	(800)	(55)	(69)	52
Net change in plan fiduciary net position	159,986	347,745	729,360	(55,972)	316,006	951,712
Plan fiduciary net position – beginning	8,538,195	8,190,450	7,461,090	7,517,062	7,201,056	6,249,344
Plan fiduciary net position – ending	8,698,181	8,538,195	8,190,450	7,461,090	7,517,062	7,201,056
Net pension liability (asset) – ending	(71,290)	$ (362,167)	$ (177,996)	$ 127,852	$ 250,739	$ 432,526
Plan fiduciary net position as a percentage of total pension liability	101%	104%	102%	98%	97%	94%
Covered employee payroll	$ 2,249,743	$ 1,927,099	$ 1,763,226	$ 1,788,926	$ 2,145,082	$ 1,778,846
Net pension liability as a percentage of covered employee payroll	-3%	-19%	-10%	7%	12%	24%

The plan years above are reported in the Schools' financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the Schools' fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS – NONPROFESSIONAL EMPLOYEES
June 30, 2020

School Division Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Schools – Nonprofessional Employees					
2020	$ 90,525	$ 90,525	$ -	$ 2,370,974	3.82 %
2019	86,013	86,013	-	2,249,743	3.82
2018	87,044	87,044	-	1,927,099	4.52
2017	75,562	75,562	-	1,763,226	4.29
2016	157,146	157,146	-	1,788,926	8.78
2015	157,999	157,999	-	2,145,082	7.37

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

The covered payroll amounts above are for the school division's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

EXHIBIT 10

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY –
VRS TEACHER RETIREMENT PLAN
June 30, 2020

School Division Fiscal Year Ended June 30,	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	42.31 %	$ 55,684,997	$ 35,879,963	155.20 %	73.51 %
2019	38.57	45,360,000	31,410,746	144.41	74.81
2018	39.64	48,745,000	31,339,331	155.54	72.92
2017	41.42	58,050,000	31,568,468	183.89	68.28
2016	42.64	53,666,000	32,356,641	165.86	70.68
2015	44.88	54,235,000	32,833,731	165.18	70.88

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

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

EXHIBIT 11

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
VRS TEACHER RETIREMENT PLAN
June 30, 2020

School Division Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2020	$ 5,856,953	$ 5,856,953	$ -	$ 37,348,749	15.68 %
2019	5,611,419	5,611,419	-	35,879,963	15.64
2018	5,124,075	5,124,075	-	31,410,746	16.31
2017	4,510,278	4,510,278	-	31,339,331	14.39
2016	4,439,145	4,439,145	-	31,568,468	14.06
2015	4,596,302	4,596,302	-	32,356,641	14.21

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

The covered payroll amounts above are for the school division's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

EXHIBIT 12

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2020

School Division Fiscal Year Ended June 30,	Employer's Proportion of the Net OPEB Liability	Employer's Proportionate Share of the Net OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Health Insurance Credit – Teachers					
2020	0.4271 %	$ 5,590,000	$ 35,879,963	15.58 %	8.97 %
2019	0.3883	4,930,000	31,410,746	15.70	8.08
2018	0.4000	5,040,000	31,339,331	16.08	7.04
Virginia Retirement System – Group Life Insurance – General Employees					
2020	0.0115 %	$ 187,000	$ 2,249,743	8.31 %	52.00 %
2019	0.0102	154,000	1,927,099	7.99	51.22
2018	0.0096	145,000	1,763,226	8.22	48.86
Virginia Retirement System – Group Life Insurance – Teachers					
2020	0.1830 %	$ 2,978,000	$ 35,879,963	8.30 %	52.00 %
2019	0.1657	2,517,000	31,410,746	8.01	51.22
2018	0.1703	2,564,000	31,339,331	8.18	48.86

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

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

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2020

School Division Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System – Health Insurance Credit – Teachers					
2020	$ 448,252	$ 448,252	$ -	$ 37,348,749	1.20 %
2019	429,856	429,856	-	35,879,963	1.20
2018	386,288	386,288	-	31,410,746	1.23
Virginia Retirement System – Group Life Insurance – General Employees					
2020	$ 10,438	$ 10,438	$ -	$ 2,370,974	0.44 %
2019	9,978	9,978	-	2,249,743	0.44
2018	8,733	8,733	-	1,927,099	0.45
Virginia Retirement System – Group Life Insurance – Teachers					
2020	$ 198,344	$ 198,344	$ -	$ 37,348,749	0.53 %
2019	189,587	189,587	-	35,879,963	0.53
2018	165,932	165,932	-	31,410,746	0.53

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year – i.e., the covered payroll on which required contributions were based for the same year.

DANVILLE PUBLIC SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ended June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

(Continued)

Note 2. Changes of Assumptions (Continued)

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

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

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

Teacher Cost-Sharing Pool

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

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COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the accompanying financial statements of the governmental activities and each major fund of Danville Public Schools (the "Schools"), a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements, and have issued our report thereon dated December 14, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 14, 2020

DANVILLE PUBLIC SCHOOLS

SUMMARY OF COMPLIANCE MATTERS
June 30, 2020

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

STATE COMPLIANCE MATTERS

Code of Virginia	State Agency Requirements
Budget and Appropriation Laws	Education
Cash and Investment Laws	Virginia Retirement System
Conflicts of Interest Act	
Local Retirement Systems	
Procurement Laws	