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

FINANCIAL REPORT

June 30, 2015

CONTENTS

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Danville Public Schools (the "Schools"), a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Report on the Financial Statements (Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Schools as of June 30, 2015, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2015 the Schools adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 on our consideration of the Schools' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Schools' internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 23, 2015

DANVILLE PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2015

This section of the financial report presents our discussion and analysis of ***Danville Public Schools*** (the "Schools") financial performance during the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Schools' financial performance as a whole. Please read it in conjunction with the financial statements.

Financial Highlights

Government-wide Statements

General revenues accounted for $42.0 million in revenues or 61 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for $26.5 million or 39 percent of total revenues of $68.5 million.

The school division had $65.1 million in expenses related to governmental activities, of which only $26.5 million of these expenses were partially offset by program specific charges for services, grants, or contributions. General revenues (primarily funds from the City of Danville and Commonwealth of Virginia) were adequate to provide for these programs.

Fund Statements

Among major funds, the general fund had $57.5 million in revenues and $57.7 million in expenditures and transfers out. The $0.2 million decrease in fund balance was caused by a transfer to the special grant fund.

Using this Report

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

Government-wide Statements – *Statement of Net Position* and *Statement of Activities*

The government-wide statements report information about the Schools as a whole using accounting methods similar to those used by private-sector companies. While this document contains a number of funds used by the Schools to provide programs and activities, the view of the Schools as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The *Statement of Net Position* and *Statement of Activities* answer this question. These statements report all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Financial Highlights (Continued)

Government-wide Statements – *Statement of Net Position* and *Statement of Activities* (Continued)

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

In the *Statement of Net Position* and the *Statement of Activities*, the Schools report only activities related to governmental activities since they have no business-type activities. The Schools' governmental activities include instruction, administration, attendance and health, pupil transportation, operation, and maintenance of school buildings, summer school, adult education, food services, and community services.

Restatement

In 2015 the Schools adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The overall effect of this new standard is to reflect the Schools' long-term Virginia Retirement System (VRS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the Schools were current with its required VRS contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Schools record a net pension liability directly on the *Statement of Net Position*. Beginning net position has been restated as discussed in Note 15, and this has had a significant impact on the Schools' net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

Fund Financial Statements

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

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

Financial Highlights (Continued)

Financial Analysis of the Schools as a Whole

Net position. The *Statement of Net Position* provides the perspective of the Schools as a whole. The following provides a summary of the Schools' net position as of June 30, 2015 and 2014.

Net Position

	2015	2014
Assets		
Current and other assets	$ 13,573,733	$ 13,245,187
Capital assets – net	8,318,339	10,384,178
Total assets	21,892,072	23,629,365
Deferred Outflows of Resources	4,754,301	-
Liabilities		
Current liabilities	4,147,802	3,843,119
Long-term liabilities	61,194,536	6,754,090
Total liabilities	65,342,338	10,597,209
Deferred Inflows of Resources	12,095,001	30,905
Net Position		
Investment in capital assets	8,318,339	10,384,178
Unrestricted	(59,109,305)	2,617,073
Total net position	$ (50,790,966)	$ 13,001,251

Total assets represent equity in pooled cash and investments, due from other governments, prepaid items, and net capital assets. The net position of the Schools is either unrestricted or invested in capital assets (buildings, land, furniture, and equipment). The unrestricted net position shows a deficit of approximately $59,109,305 for the year ended June 30, 2015, and a surplus of $2,617,073 for the year ended June 30, 2014.

Financial Highlights (Continued)

Financial Analysis of the Schools as a Whole (Continued)

Changes in net position. The following shows the changes in net position for fiscal years 2015 and 2014.

	2015	2014
Revenues		
Program revenues		
Charges for service	$ 702,138	$ 743,207
Operating grants and contributions	25,835,384	24,772,210
General revenues		
Appropriations from the City of Danville	16,408,422	18,712,123
Commonwealth of Virginia	24,828,017	23,264,700
Investment income	207,997	77,807
Miscellaneous	570,923	811,061
Total revenues	$ 68,552,881	$ 68,381,108
Expenses		
General instruction	$ 43,683,631	$ 48,276,004
Administration, attendance, and health	3,902,122	4,086,902
Pupil transportation	2,494,107	2,385,585
Operation and maintenance	7,282,789	7,063,759
Technology	2,634,457	2,516,457
Facilities	1,046,814	535,505
Cafeterias	4,017,177	4,290,225
Total expenses	$ 65,061,097	$ 69,154,437
Change in net position	$ 3,491,784	$ (773,329)

The change in net position in fiscal year 2015 is due primarily to several expenses declining such as the decrease in health insurance claims and pension expenses related to implementing GASB No. 68.

Financial Highlights (Continued)

Financial Analysis of the Schools as a Whole (Continued)

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. For the years ended June 30, 2015 and 2014, the total cost of services and the net cost of services are listed as follows:

Governmental Activities
June 30, 2015

	Total Cost of Services	Net Expense
General instruction	$ 43,683,631	$ 21,733,278
Administration, attendance, and health	3,902,122	3,640,797
Pupil transportation	2,494,107	2,494,107
Operations and maintenance	7,282,789	7,282,789
Technology	2,634,457	2,255,876
Facilities	1,046,814	1,046,814
Cafeterias	4,017,177	69,914
Total expenses	$ 65,061,097	$ 38,523,575

Governmental Activities
June 30, 2014

	Total Cost of Services	Net Expense
General instruction	$ 48,276,004	$ 27,050,991
Administration, attendance, and health	4,086,902	3,842,144
Pupil transportation	2,385,585	2,385,585
Operations and maintenance	7,063,759	7,063,759
Technology	2,516,457	2,213,060
Facilities	535,505	535,505
Cafeterias	4,290,225	547,976
Total expenses	$ 69,154,437	$ 43,639,020

The cost of all governmental activities this year was $65.1 million. The amount that the citizens of Danville paid for these activities through City taxes was $16.4 million.

Financial Highlights (Continued)

Danville Public Schools Funds

Information about the Schools' major funds starts on page 6. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $68.5 million and expenditures of $68.5 million. The net change in fund balance was most significant in the General Fund with a net decrease in fund balance of approximately $0.2 million.

General Fund Budgetary Highlights

The Schools' budget is prepared in accordance with Virginia School Laws. During the course of fiscal year 2015, the General Fund transferred $150,297 for support of the Textbooks Fund.

For the General Fund, revenue was $57.5 million, approximately $2.6 million below the original budget estimate but this amount was reappropriated for designated future expenditures for specific projects. This revenue will be received in fiscal year 2016.

Reappropriations Fund Budgetary Change

Carryover appropriations are designated throughout the year for board approved projects. During fiscal year 2015, the projects approved by the Board consisted of additional security equipment for George Washington High School and Westwood Middle School, security software systems division wide, marching band uniforms, a required actuarial evaluation of the local ERIP plan, and instructional software and technology.

Capital Assets

At the end of fiscal year 2015, the Schools had $8.3 million invested in land, buildings, and furniture and equipment in governmental activities. Balances at June 30 net of accumulated depreciation are as follows:

Capital Assets at June 30
(Net of accumulated depreciation)

	Governmental Activities	
	2015	2014
Land	$ 2,176,690	$ 2,313,013
Buildings	3,925,238	5,607,429
Furniture and equipment	2,216,411	2,463,736
Totals	$ 8,318,339	$ 10,384,178

Financial Highlights (Continued)

Long-term Debt

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

Factors Influencing Future Budgets

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

These indicators were taken into account when adopting the General Fund budget for fiscal year 2015. The Board approved a General Fund budget of $59.1 million for fiscal year 2016.

Contacting the Danville Public Schools' Financial Management

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

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

DANVILLE PUBLIC SCHOOLS

STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	$ 778,853
Investments (Note 3)	827,628
Due from other governments (Note 4)	3,759,933
Due from primary government	7,121,955
Other receivables (Note 8)	643,709
Inventories	37,699
Prepaid expenses (Note 8)	403,956
Capital assets: (Note 6)	
Non-depreciable	2,176,690
Depreciable, net	6,141,649
Total assets	21,892,072
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions subsequent to measurement date (Notes 9 and 10)	4,754,301
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	314,456
Accrued salaries and payroll taxes	3,488,551
Self-insurance (Note 8)	344,795
Long-term liabilities:	
Net pension liability (Notes 9 and 10)	54,667,526
Due within one year (Notes 7 and 11)	1,982,442
Due in more than one year (Notes 7 and 11)	4,544,568
Total liabilities	65,342,338
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue (Note 4)	30,707
Net difference between projected and actual investment earnings on pension plan investments (Notes 9 and 10)	8,489,294
Changes in proportion and related differences (Note 10)	3,575,000
Total deferred inflows of resources	12,095,001
NET POSITION	
Investment in capital assets	8,318,339
Unrestricted	(59,109,305)
Total net position	$ (50,790,966)

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

DANVILLE PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

		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	$ 43,683,631	$ 80,973	$ 21,869,380	$ -	$ (21,733,278)
Support services:					
Administration, attendance, and health	3,902,122	-	261,325	-	(3,640,797)
Pupil transportation	2,494,107	-	-	-	(2,494,107)
Operations and maintenance	7,282,789	-	-	-	(7,282,789)
Noninstructional services:					
Technology	2,634,457	-	378,581	-	(2,255,876)
Facilities	1,046,814	-	-	-	(1,046,814)
Cafeteria	4,017,177	621,165	3,326,098	-	(69,914)
Total governmental activities	$ 65,061,097	$ 702,138	$ 25,835,384	$ -	(38,523,575)
General revenues:					
Appropriation from the City of Danville					16,408,422
Noncategorical state aid					24,828,017
Investment income					207,997
Miscellaneous					570,923
Total general revenues					42,015,359
Change in net position					3,491,784
Net position – beginning (as restated, Note 15)					(54,282,750)
Net position – ending					$ (50,790,966)

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

EXHIBIT 3

DANVILLE PUBLIC SCHOOLS

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2015

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
ASSETS						
Cash and cash equivalents	$ 6,714	$ -	$ -	$ 772,139	$ -	$ 778,853
Investments	-	122,220	416,688	288,720	-	827,628
Due from other funds	-	-	1,286,493	949,250	4,007	2,239,750
Due from other governments	1,463,467	2,228,875	-	67,591	-	3,759,933
Due from primary government	7,121,955	-	-	-	-	7,121,955
Other receivables	643,709	-	-	-	-	643,709
Inventories	-	-	-	37,699	-	37,699
Prepaid expenses	403,834	122	-	-	-	403,956
Total assets	$ 9,639,679	$ 2,351,217	$ 1,703,181	$ 2,115,399	$ 4,007	$ 15,813,483
LIABILITIES						
Accounts payable and other liabilities	$ 245,248	$ 32,729	$ -	$ 36,479	$ -	$ 314,456
Accrued salaries and payroll taxes	3,113,576	282,993	344	91,638	-	3,488,551
Self-insurance	344,795	-	-	-	-	344,795
Due to other funds	282,700	1,957,050	-	-	-	2,239,750
Total liabilities	3,986,319	2,272,772	344	128,117	-	6,387,552
DEFERRED INFLOWS OF RESOURCES						
Unavailable/unearned revenue	608,006	30,707	-	-	-	638,713
FUND BALANCES						
Nonspendable	403,834	122	-	37,699	-	441,655
Assigned	2,067,925	47,616	1,702,837	1,949,583	4,007	5,771,968
Unassigned	2,573,595	-	-	-	-	2,573,595
Total fund balances	5,045,354	47,738	1,702,837	1,987,282	4,007	8,787,218
Total liabilities, deferred inflows of resources, and fund balances	$ 9,639,679	$ 2,351,217	$ 1,703,181	$ 2,115,399	$ 4,007	$ 15,813,483

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

DANVILLE PUBLIC SCHOOLS

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

Total Fund Balances – Governmental Funds		$ 8,787,218
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.		8,318,339
Receivables on the Statement of Net Position that do not provide current financial resources are reported as deferred inflows of resources in the funds.		608,006
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions for 2015 employer contributions	4,754,301	
Deferred inflows of resources related to pensions	(12,064,294)	
Net pension liability	(54,667,526)	
		(61,977,519)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Retirement benefits	(5,392,987)	
Compensated absences	(1,134,023)	
		(6,527,010)
Net Position – Governmental Activities		$ (50,790,966)

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

EXHIBIT 5

DANVILLE PUBLIC SCHOOLS

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

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
REVENUES						
Charges for services	$ 80,291	$ -	$ 682	$ 621,165	$ -	$ 702,138
Revenue from the use of money and property	207,171	-	826	-	-	207,997
Miscellaneous	498,965	71,592	-	366	-	570,923
Intergovernmental:						
City of Danville	16,408,422	-	-	-	-	16,408,422
Commonwealth of Virginia	39,945,424	2,774,364	422,656	68,141	-	43,210,585
Federal government	345,815	3,976,840	-	3,090,686	-	7,413,341
Total revenues	57,486,088	6,822,796	424,164	3,780,358	-	68,513,406
EXPENDITURES						
Instructional services:						
General instruction	42,012,638	6,317,242	187,175	-	-	48,517,055
Support services:						
Administration, attendance, and health	3,693,362	255,676	-	-	-	3,949,038
Pupil transportation	2,176,350	131,728	-	-	-	2,308,078
Operations and maintenance	7,281,049	108,238	2,731	-	-	7,392,018
Noninstructional services:						
Technology	1,959,448	62,663	-	-	-	2,022,111
Facilities	128,536	71,590	-	-	-	200,126
Cafeteria	-	167,271	-	3,973,123	-	4,140,394
Total expenditures	57,251,383	7,114,408	189,906	3,973,123	-	68,528,820
Excess (deficiency) of revenues over expenditures	234,705	(291,612)	234,258	(192,765)	-	(15,414)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	291,747	150,297	-	-	442,044
Transfers out	(442,044)	-	-	-	-	(442,044)
Total other financing sources (uses)	(442,044)	291,747	150,297	-	-	-
Net change in fund balances	(207,339)	135	384,555	(192,765)	-	(15,414)
FUND BALANCES – beginning	5,252,693	47,603	1,318,282	2,180,047	4,007	8,802,632
FUND BALANCES – ending	$ 5,045,354	$ 47,738	$ 1,702,837	$ 1,987,282	$ 4,007	$ 8,787,218

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 THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Net Change in Fund Balances – Total Governmental Funds		$ (15,414)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation $(2,011,641) exceeds capital outlays $(456,921).		(1,554,720)
The net effect of transactions involving capital assets (loss on disposition of assets) that do not provide or use current financial resources and are not reported as revenue or expenditures in the governmental funds.		(511,119)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		39,474
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	4,754,301	
Pension expense	(3,578,602)	
		1,175,699
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	117,270	
Other post-employment benefits	4,240,594	
		4,357,864
Change in Net Position – Governmental Activities		$ 3,491,784

EXHIBIT 7

DANVILLE PUBLIC SCHOOLS

**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2015**

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Revenues				
Charges for services	$ 82,500	$ 82,500	$ 80,291	$ (2,209)
Revenue from the use of money and property	80,000	80,000	207,171	127,171
Miscellaneous	459,367	459,367	498,965	39,598
Intergovernmental:				
City of Danville	18,585,980	18,585,980	16,408,422	(2,177,558)
Commonwealth of Virginia	40,638,717	40,638,717	39,945,424	(693,293)
Federal government	200,000	200,000	345,815	145,815
Total revenues	60,046,564	60,046,564	57,486,088	(2,560,476)
Expenditures				
Instructional services:				
General instruction	42,940,504	42,261,734	42,012,638	249,096
Support services:				
Administration, attendance, and health	4,091,903	3,957,062	3,693,362	263,700
Pupil transportation	2,195,153	2,646,212	2,176,350	469,862
Operations and maintenance	7,292,010	7,514,063	7,281,049	233,014
Noninstructional services:				
Technology	2,376,301	2,557,874	1,959,448	598,426
Facilities	21,761	-	128,536	(128,536)
Contingency	978,636	959,323	-	959,323
Total expenditures	59,896,268	59,896,268	57,251,383	2,644,885
Excess of revenues over expenditures	150,296	150,296	234,705	84,409
Other financing uses				
Transfers out	(150,296)	(150,296)	(442,044)	(291,748)
Net change in fund balance	$ -	$ -	$ (207,339)	$ (207,339)

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") is 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 of Danville, Virginia.

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 inflow 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.

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 specific purposes.

Cafeteria Fund: A special revenue fund used to account for revenue legally restricted to expenditures for specific purposes.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

C. Encumbrances

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

D. Cash, Cash Equivalents, and Investments

Cash balances include demand deposits and cash on hand. Investments include amounts in investment pools which are carried at fair value.

E. Due from Primary Government

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

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 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 a rate of $15 a day. Accrued vacation is recorded based on the employees' current rate of pay. The maximum amount of accrued vacation an employee can have 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.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Schools has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

Note 2. Summary of Significant Accounting Policies (Continued)

J. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements that present financial position reports a separate section for deferred inflows of resources. *Deferred inflows of resources* represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Schools have four items that qualify for reporting in this category. One item occurs only under the modified accrual basis of accounting. This item, *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 an inflow of resources in the period that the amounts become available. The second item is *unearned revenue* and occurs in both the fund balance sheet and the government-wide Statement of Net Position. The unearned revenue occurs when grant funds have been received but a qualifying expenditure/expense has not been incurred. These amounts are deferred and recognized when the qualifying expenditure/expense is incurred. The third item is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

An additional deferred inflow or outflow results from participation in the Virginia Retirement System's teacher cost sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred inflow or outflow, 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.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement 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.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

M. Fund Balance (Continued)

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 **–** includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority.

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

Unassigned **–** 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.

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. Investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use by grantors, laws, or regulations.

Note 2. Summary of Significant Accounting Policies (Continued)

O. Budgetary Information

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

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.

Note 3. Deposits and Investments (Continued)

Investments:

The Schools' current investment policy limits investments to the LGIP (a 2a-7 like pool, rated 'AAAm' by Standard & Poor's rating service). Although the LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, it operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 and in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, definition of "2a-7 like pools." Copies of the LGIP report can be obtained from the Virginia Department of the Treasury, 101 North 14th Street, Richmond, VA 23219. All investments were held with the LGIP at June 30.

Deposits and investments consist of the following:

Petty cash	$ 1,174
Deposits	777,679
Virginia LGIP	827,628
	$ 1,606,481
Statement of net position:	
Cash and cash equivalents	$ 778,853
Investments	827,628
	$ 1,606,481

Note 4. Due From Other Governments and Deferred Inflows of Resources

Due from other governments consists of the following:

	General Fund	Special Grants Fund	Cafeteria Fund	Governmental Activities
Commonwealth of Virginia				
Sales tax	$ 1,127,467	$ -	$ -	$ 1,127,467
Technology	336,000	-	-	336,000
State operated detention home	-	266,766	-	266,766
Federal government				
Title I – local education agencies	-	1,047,892	-	1,047,892
Title VI-B	-	555,396	-	555,396
Title II – Part A	-	204,871	-	204,871
Perkins CTE secondary program	-	93,486	-	93,486
Summer school lunch	-	-	67,591	67,591
Other	-	60,464	-	60,464
	$ 1,463,467	$ 2,228,875	$ 67,591	$ 3,759,933

Note 4. Due From Other Governments and Deferred Inflows of Resources (Continued)

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and in connection with resources that have been received, but not yet earned. The components of deferred inflows of resources are as follows:

Sales tax receivable – unavailable	$ 608,006
Miscellaneous grants – unearned	30,707
Total unavailable/unearned revenue – governmental funds	638,713
Less deferrals for unavailability	(608,006)
Total unearned revenue – statement of net position	$ 30,707

Note 5. Interfund Transactions

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

Due To (Fund)	Due From (Fund) General Fund	Special Grants Fund	Total
Special Grants Fund	$ (1,957,050)	$ 1,957,050	$ -
Textbooks Fund	1,286,493	-	1,286,493
Cafeteria Fund	949,250	-	949,250
Capital Projects Fund	4,007	-	4,007
	$ 282,700	$ 1,957,050	$ 2,239,750

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

Interfund transfers are as follows:

Transfer In Fund	Transfer Out Fund	Amount
Special Grants	General Fund	$ 291,747
Textbooks	General Fund	150,297
		$ 442,044

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	$ 2,313,013	$ -	$ (136,323)	$ 2,176,690
Capital assets, depreciable				
Buildings	48,077,596	126,548	(3,243,117)	44,961,027
Furniture and equipment	7,523,854	330,373	(11,769)	7,842,458
Total capital assets, depreciable	55,601,450	456,921	(3,254,886)	52,803,485
Less accumulated depreciation				
Buildings	42,470,167	1,433,943	(2,868,321)	41,035,789
Furniture and equipment	5,060,118	577,698	(11,769)	5,626,047
Total accumulated depreciation	47,530,285	2,011,641	(2,880,090)	46,661,836
Depreciable capital assets, net	8,071,165	(1,554,720)	(374,796)	6,141,649
Capital assets, net	$ 10,384,178	$ (1,554,720)	$ (511,119)	$ 8,318,339

Depreciation was charged to governmental functions as follows:

General instruction	$ 84,286
Administration, attendance, and health	2,918
Pupil transportation	184,746
Operations and maintenance	13,866
Technology	683,895
Cafeteria	68,694
Facilities	973,236
	$ 2,011,641

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	$ 1,251,293	$ 463,730	$ 581,000	$ 1,134,023	$ 527,000
ERIP (as restated, see Notes 11 and 15)	9,633,581	-	4,240,594	5,392,987	1,455,442
	$ 10,884,874	$ 463,730	$ 4,821,594	$ 6,527,010	$ 1,982,442

Long-term liabilities are liquidated using general fund resources.

Note 8. Risk Management

Health benefits:

The Schools administer a self-insurance plan for employee medical and pharmacy insurance, subject to the annual stop loss coverage in the amount of $100,000 per participant and approximately 120% in aggregate. Estimated claims incurred but not reported (IBNR) as of year end were $344,795.

Changes in the balances of claims liabilities during the fiscal year is as follows:

Unpaid claims estimate – beginning of fiscal year	$ 446,097
Incurred claims (including IBNRs)	3,293,027
Claim payments	(3,394,329)
Unpaid claims estimate – end of fiscal year	$ 344,795

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 in escrow as a reserve against possible future claims. At June 30, 2015, the cumulative amount held in escrow amounted to $617,409. The escrow is included on the Statement of Net Position with other receivables. During the current fiscal year, the Schools paid $149,628 in workers' compensation claims.

Note 8. Risk Management (Continued)

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 $192,670.

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

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees

Plan Description

All full-time, salaried permanent nonprofessional employees of the Schools, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a 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.

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

Plan Description (Continued)

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

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

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

<u>Plan Description</u> (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

<u>Plan Description</u> (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

Plan Description (Continued)

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

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

Employees Covered by Benefit Terms

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

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

Contributions

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

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

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

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

Net Pension Liability

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

Actuarial Assumptions – General Employees

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

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

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

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS: (Continued)

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

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

Long-Term Expected Rate of Return

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

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

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

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

Discount Rate

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

Changes in Net Pension Liability

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

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	$ 1,366,974	$ 432,526	$ (355,611)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	420,294
Employer contributions subsequent to the measurement date	157,999	-
Total	$ 157,999	$ 440,294

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

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

The $157,999 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2016	$ 110,074
2017	110,074
2018	110,074
2019	110,074
Thereafter	-

Payables to the Pension Plan

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

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

General Information about the Teacher Cost Sharing Pool

Plan Description

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

		About the Hybrid Retirement Plan (Continued) • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • School division employees. • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

<table>
<tr><td></td><td></td><td>Vesting (Continued)

<u>Defined Contributions Component</u>: (Continued)

• After two years, a member is 50% vested and may withdraw 50% of employer contributions.
• After three years, a member is 75% vested and may withdraw 75% of employer contributions.
• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.</td></tr>
<tr><td>Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</td><td>Calculating the Benefit

See definition under Plan 1.</td><td>Calculating the Benefit

<u>Defined Benefit Component</u>:

See definition under Plan 1.

<u>Defined Contribution Component</u>:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</td></tr>
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Note 10. Defined Benefit Pension Plan – Teacher Cost Sharing Pool (Continued)

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Defined Contribution Component:** Not applicable.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1.	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continue) **Exceptions to COLA Effective Dates: (Continued)** • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Not applicable.	**Disability Coverage** Not applicable.	**Disability Coverage** Employees of political subdivisions and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.

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

General Information about the Teacher Cost Sharing Pool (Continued)

Plan Description (Continued)

		Disability Coverage (Continued) Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

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

General Information about the Teacher Cost Sharing Pool (Continued)

Contributions

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

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

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

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

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

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

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

$4,596,302 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	$ 2,801,000
2017	2,801,000
2018	2,801,000
2019	2,801,000

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

General Information about the Teacher Cost Sharing Pool (Continued)

Actuarial Assumptions

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

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.95%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females were set back 5 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back years and females were set back 3 years.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

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

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Long-Term Expected Rate of Return

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

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

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Discount Rate

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

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

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

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

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

General Information about the Teacher Cost Sharing Pool (Continued)

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

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

Note 11. Entering Retirement In Phases Plan

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

ERIP Qualifications and Benefits by Group

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

Note 11. Entering Retirement In Phases Plan (Continued)

ERIP Qualifications and Benefits by Group (Continued)

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

Because the Plan is not exclusive to employees who are retiring early, and because the plan has been in place for a substantial period, the Plan has been accounted for as a pension plan. Because Group A employees have been frequently able to satisfy all work requirements through the use of accumulated sick leave, these employees are considered to receive a meaningful benefit after retirement, and an actuarial accrued liability has been measured for this employee group. The other groups typically must work in exchange for some or all of their future benefits, and thus no pension liability has been accrued for these groups.

Prior to 2014, no actuarial calculation was prepared for the plan; a liability was recorded for the estimated present value of payments due to participants who had declared their retirement and entered the plan. An actuarial study was prepared to estimate the pension liability at June 30, 2014. With the adoption of GASB No. 68, the net pension liability of $9,633,581 was recorded at the beginning of the 2015 fiscal year. In July 2015, the School Board elected to change the plan; new retirees are no longer allowed to use sick leave to satisfy the work requirement. Among other changes, Group A retirees now must work 15% to receive 15% of final compensation. This change by the board reduced the estimated net pension liability to $5,392,987, which is the fixed stream of payments to Group A retirees who had already retired before the new policy change became effective, discounted to present value with a discount rate of 3.50%. The net gain of $4,240,594 offset instruction expenses in the statement of activities.

Note 12. Commitments and Contingencies

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

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 January of 2007 the Schools entered into a ten year operating lease for the administration building. The minimum yearly lease payments through the end of the term are $192,718.

Note 13. 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 14. 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:					
Prepaids	$ 403,834	$ 122	$ -	$ -	$ -
Inventory	-	-	-	37,699	-
Assigned:					
Instructional services:					
General instruction	119,455	47,616	1,702,837	-	-
Support services:					
Administration, attendance, and health	770,290	-	-	-	-
Pupil transportation	471,857	-	-	-	-
Operations and maintenance	120,760	-	-	-	-
Operation of noninstructional services:					
Technology	585,563	-	-	-	-
Facilities	-	-	-	-	4,007
Cafeteria	-	-	-	1,949,583	-
Unassigned	2,573,595	-	-	-	-
Total fund balances	$ 5,045,354	$ 47,738	$ 1,702,837	$ 1,987,282	$ 4,007

Note 15. Adoption of New Standard and Prior Period Restatement

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

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

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

Note 16. New Accounting Standards

The GASB has issued the following Statements which are not yet effective.

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

Note 16. New Accounting Standards (Continued)

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

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

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

REQUIRED
SUPPLEMENTARY INFORMATION

EXHIBIT 8

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2015

	Schools – Nonprofessional Employees
Total Pension Liability	
Service cost	$ 212,808
Interest on total pension liability	494,905
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(288,413)
Net change in total pension liability	419,300
Total pension liability – beginning	7,214,282
Total pension liability – ending	7,633,582
Plan Fiduciary Net Position	
Contributions – employer	169,720
Contributions – employee	89,035
Net investment income	986,601
Benefit payments, including refunds of employee contributions	(288,413)
Administrative expenses	(5,283)
Other	52
Net change in plan fiduciary net position	951,712
Plan fiduciary net position – beginning	6,249,344
Plan fiduciary net position – ending	7,201,056
Net pension liability – ending	$ 432,526
Plan fiduciary net position as a percentage of total pension liability	94%
Covered employee payroll	$ 2,145,082
Net pension liability as a percentage of covered employee payroll	20%

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

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Schools – Nonprofessional Employees					
2015	$ 157,999	$ 157,999	$ -	$ 2,145,082	7.37%

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

DANVILLE PUBLIC SCHOOLS

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

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

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

EXHIBIT 11

DANVILLE PUBLIC SCHOOLS

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

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

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

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

DANVILLE PUBLIC SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

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

COMPLIANCE SECTION

BROWN EDWARDS
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, 2015, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements, and have issued our report thereon dated October 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's 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 we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

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Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 23, 2015

DANVILLE PUBLIC SCHOOLS

SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the 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	