

*Financial Statements
Year Ended
June 30, 2010*

*Danville Public Schools
City of Danville, Virginia*

Goodman
& COMPANY

Certified Public Accountants
Specialized Services
Business Solutions

Danville Public Schools
City of Danville, Virginia
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Certified Public Accountants
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Report of Independent Auditors

Danville Public Schools City of Danville, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Danville Public Schools***, a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the ***Danville Public Schools***' basic financial statements as listed in the table of contents. These financial statements are the responsibility of ***Danville Public School's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Danville Public Schools*** as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2010 on our consideration of ***Danville Public Schools***' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and the budgetary information on page 32 be presented to supplement the basic financial statements. Such information, although not

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

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

Goodman + Company, LLP

Danville, Virginia
September 23, 2010

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

This section of the financial report presents our discussion and analysis of Danville Public Schools' (*DPS*), Danville, Virginia financial performance during the fiscal year that ended June 30, 2010. The intent of this discussion and analysis is to look at *DPS*'s financial performance as a whole. Please read it in conjunction with the financial statements.

Financial Highlights

Government-wide statements

General revenues accounted for \$44.5 million in revenues or 60.7 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$28.8 million or 39.3 percent of total revenues of \$73.3 million.

The school division had \$73.4 million in expenses related to governmental activities, of which only \$28.8 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily transfers from the City of Danville and Commonwealth of Virginia) were adequate to provide for these programs.

Fund Statements

Among major funds, the general fund had \$60.0 million in revenues and transfers in and \$61.2 million in expenditures and transfers out. There were no significant increases in fund balances.

Using this report

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

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

The government-wide statements report information about *DPS* as a whole using accounting methods similar to those used by private-sector companies. While this document contains a number of funds used by *DPS* to provide programs and activities, the view of *DPS* as a whole looks at all financial transactions and asks the question, "How did we do financially during FY2010?" The Statement of Net Assets and Statement of Activities answer this question. These statements report all assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

DPS utilizes two types of funds:

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

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

Financial Analysis of DPS as a Whole

Net assets. The *Statement of Net Assets* provides the perspective of *DPS* as a whole. The following provides a summary of *DPS's* net assets as of June 30, 2010, 2009 and 2008.

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

Net Assets

	Governmental Activities		
	2010	2009	2008
Assets			
Current and other assets	\$ 12,877,236	\$ 14,385,443	\$ 12,520,202
Capital assets - net	14,000,183	11,635,592	10,922,259
Total assets	\$ 26,877,419	\$ 26,021,035	\$ 23,442,461
Liabilities			
Current liabilities	\$ 8,498,386	\$ 8,991,359	\$ 6,431,762
Long-term liabilities	4,636,707	3,139,086	3,297,483
Total liabilities	\$ 13,135,093	\$ 12,130,445	\$ 9,729,245
Net assets			
Invested in capital assets – net of related debt	\$ 14,000,183	\$ 11,635,592	\$ 10,922,259
Restricted	1,582,354	2,869,669	3,364,738
Unrestricted (deficit)	(1,840,211)	(614,671)	(573,781)
Total net assets	\$ 13,742,326	\$ 13,890,590	\$ 13,713,216

Total assets represent equity in pooled cash and investments, due from other governments, prepaid items and net capital assets. The net assets of *DPS* either are restricted, unrestricted or are invested in capital assets (buildings, land, furniture and equipment). The restricted net assets represent grant funds that have been advanced. The unrestricted net assets show a deficit of approximately \$1,840,000, \$614,000, and \$573,000 in the years ended June 30, 2010, 2009, and 2008, respectively. This deficit includes the liabilities for compensated absences and retirement obligations.

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

Changes in net assets. The following shows the changes in net assets for FY 2010, 2009 and 2008.

	Governmental Activities		
	2010	2009	2008
Revenues			
Program revenues			
Charges for service	\$ 1,085,442	\$ 1,174,492	\$ 1,090,520
Operating grants and contributions	26,324,737	22,992,861	21,489,658
Capital grants and contributions	1,386,638	1,157,167	2,264,965
General revenues			
Transfers from the City of Danville	18,111,604	16,998,805	19,522,251
Commonwealth of Virginia	26,038,842	31,157,646	26,402,856
Investment income	4,991	18,019	193,157
Miscellaneous	345,375	338,935	294,646
Total revenues	\$ 73,297,629	\$ 73,837,925	\$ 71,258,053
Expenses			
General instruction	\$ 54,266,584	\$ 53,005,975	\$ 50,721,118
Administration, attendance, and health	4,752,147	4,900,101	3,695,033
Pupil transportation	2,244,526	2,166,075	2,118,881
Operation and maintenance	6,722,833	6,810,112	7,161,086
Technology	1,905,500	3,369,831	3,051,828
Cafeterias	3,156,968	3,359,298	3,221,719
Facilities	397,335	49,159	397,812
Total expenses	\$ 73,445,893	\$ 73,660,551	\$ 70,367,477
Change in net assets	\$ (148,264)	\$ 177,374	\$ 890,576

The change in net assets in fiscal year 2010 is due to the decrease in revenue from the Commonwealth of Virginia.

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

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, 2010, 2009 and 2008, the total cost of services and the net cost of services are listed as follows:

Governmental Activities

June 30, 2010

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

The cost of all governmental activities this year was \$73.4 million. The amount that the citizens of Danville paid for these activities through City taxes was \$18.1 million.

Governmental Activities

June 30, 2009

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

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

Governmental Activities

June 30, 2008

	Total Cost of Services	Net Expense (Revenue)
General instruction	\$ 50,721,118	\$ 30,814,646
Administration, attendance and health	3,695,033	3,695,033
Pupil Transportation	2,118,881	1,969,056
Operations and maintenance	7,161,086	7,161,086
Technology	3,051,828	1,937,027
Cafeterias	3,221,719	68,800
Facilities	397,812	(123,314)
Total expenses	\$ 70,367,477	\$ 45,522,334

Danville Public Schools (DPS) Funds

Information about the *DPS's* major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$73.3 million and expenditures of \$74.5 million. The net change in fund balance was most significant in the General fund with a loss of \$1,287,315.

General Fund Budgetary Highlights

DPS's budget is prepared in accordance with Virginia School Laws. The most significant budgeted fund is the General Fund. During the course of fiscal year 2010, the General Fund transferred \$708,098 for support of the Textbook Fund.

For the General Fund, revenue was \$60.0 million, approximately \$8.3 million below the original budget estimate but this amount was reappropriated for designated future expenditures for specific projects. This revenue will be received in FY2011.

Capital Assets

At the end of fiscal year 2010, *DPS* had \$42.8 million invested in land, buildings, and furniture and equipment in governmental activities. However, due to legislation in Virginia, the School Board was required to transfer capital assets to the City of Danville to cover any outstanding long-term capital related debt (see Note 9 to the financial statements). The net balance of \$14.0 million is recorded on the records of *DPS*. Fiscal years 2010, 2009, and 2008 balances net of accumulated depreciation after the transfer to the City of Danville are as follows:

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

Capital Assets at June 30
(Net of accumulated depreciation)

	Governmental Activities		
	2010	2009	2008
Land	\$ 5,352,941	\$ 4,056,386	\$ 3,972,629
Buildings	26,761,848	27,159,183	26,846,361
Furniture and equipment	10,648,862	9,183,491	8,866,737
Totals	\$ 42,763,651	\$ 40,399,060	\$ 39,685,727
Transferred to the City of Danville to match long-term debt	\$ (28,763,468)	\$ (28,763,468)	\$ (28,763,468)
Totals	\$ 14,000,183	\$ 11,635,592	\$ 10,922,259

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

Long-term Debt

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

Factors influencing future budgets:

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

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

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

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

*Danville Public Schools
City of Danville, Virginia*

Statement of Net Assets

June 30, 2010

	Governmental Activities
<hr/>	
Assets	
Cash and investments	\$ 1,739,168
Cash held by fiscal agents	1,582,354
Due from City of Danville	4,705,498
Due from other governments	3,829,024
Other receivables	30,789
Inventories	847,754
Prepayments	142,649
Capital assets	
Land and construction in progress, nondepreciable	5,352,941
Other capital assets, depreciable - net	8,647,242
	<hr/>
Total assets	\$ 26,877,419
<hr/>	
Liabilities	
Accounts payable	\$ 368,753
Accrued salaries	3,902,373
Accrued payroll taxes	298,530
Deferred grant revenue	2,020,472
OPEB liability	181,398
Long-term liabilities:	
Due within one year	1,726,860
Due in more than one year	4,636,707
	<hr/>
Total liabilities	\$ 13,135,093
<hr/>	
Net Assets	
Invested in capital assets, net of related debt	\$ 14,000,183
Restricted - insurance claims	
Workmen's compensation	386,920
Health insurance	1,195,434
Unrestricted	(1,840,211)
	<hr/>
Total net assets	\$ 13,742,326
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The accompanying notes are an integral part of these financial statements.

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

Statement of Activities

Year Ended June 30, 2010

	Program Revenues				Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants	
Governmental Activities					
Instructional service					
General instruction	\$ 54,266,584	\$ 135,810	\$ 23,709,204	\$ 447,298	\$ (29,974,272)
Support services:					
Administration, attendance, and health	4,752,147	-	-	-	(4,752,147)
Pupil transportation	2,244,526	161,933	-	386,574	(1,696,019)
Operations and maintenance	6,722,833	-	-	-	(6,722,833)
Operation of noninstructional services					
Technology	1,905,500	-	-	93,222	(1,812,278)
Cafeterias	3,156,968	787,699	2,615,533	128,162	374,426
Facilities	397,335	-	-	331,382	(65,953)
Total governmental activities	\$ 73,445,893	\$ 1,085,442	\$ 26,324,737	\$ 1,386,638	(44,649,076)
General revenues:					
Transfers from the City of Danville					18,111,604
State aid					26,038,842
Investment income					4,991
Miscellaneous					345,375
Total general revenues					44,500,812
Change in net assets					(148,264)
Net assets - beginning of year					13,890,590
Net assets - end of year					\$ 13,742,326

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

Danville Public Schools
City of Danville, Virginia

Balance Sheet - Governmental Funds

June 30, 2010

	General	Special Grants	Capital Projects	Nonmajor	Total
Assets					
Cash and investments	\$ 10,190	\$ 121,323	\$ -	\$ 1,607,655	\$ 1,739,168
Cash held by fiscal agents	1,582,354	-	-	-	1,582,354
Due from City of Danville	4,705,498	-	-	-	4,705,498
Due from other funds	-	-	54,764	2,110,577	2,165,341
Due from other governments	852,848	2,895,232	-	80,944	3,829,024
Other receivables	30,789	-	-	-	30,789
Inventories	-	-	-	847,754	847,754
Prepayments	142,649	-	-	-	142,649
Total assets	\$ 7,324,328	\$ 3,016,555	\$ 54,764	\$ 4,646,930	\$ 15,042,577
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 340,943	\$ 23,984	\$ -	\$ 3,826	\$ 368,753
Accrued salaries	3,527,285	319,971	-	55,117	3,902,373
Accrued payroll taxes	269,838	24,478	-	4,214	298,530
Due to other funds	1,603,733	561,608	-	-	2,165,341
Deferred grant revenue	-	2,020,472	-	-	2,020,472
Total liabilities	5,741,799	2,950,513	-	63,157	8,755,469
Fund Balances					
Reserved for:					
Inventories	-	-	-	816,769	816,769
Encumbrances	-	66,042	-	-	66,042
Insurance claims :					
Workmen's compensation	386,920	-	-	-	386,920
Health insurance	1,195,434	-	-	-	1,195,434
Petty cash	175	-	-	1,275	1,450
Asbestos removal	-	-	54,764	-	54,764
Unreserved	-	-	-	3,765,729	3,765,729
Total fund balances	1,582,529	66,042	54,764	4,583,773	6,287,108
Total liabilities and fund balances	\$ 7,324,328	\$ 3,016,555	\$ 54,764	\$ 4,646,930	\$ 15,042,577

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

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

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

June 30, 2010

Total fund balances - governmental funds \$ 6,287,108

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

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

Capital Assets	\$ 95,011,956	
Less - accumulated depreciation	(52,248,305)	
	<u>42,763,651</u>	
Less - cumulative cost of capital assets transferred	(28,763,468)	
		<u>14,000,183</u>

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

Early leave benefit plans	\$ (4,965,789)	
Compensated absences	(1,397,778)	
OPEB liability	(181,398)	
		<u>(6,544,965)</u>

Total net assets - governmental activities \$ 13,742,326

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

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

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

Year Ended June 30, 2010

	General	Special Grants	Capital Projects	Nonmajor	Total
Revenues:					
Intergovernmental:					
City of Danville	\$ 17,511,614	\$ -	\$ 599,990	\$ -	\$ 18,111,604
Commonwealth of Virginia	38,654,221	1,247,688	-	64,834	39,966,743
Federal government	3,226,159	7,941,782	-	2,615,533	13,783,474
Charges for services	133,291	-	-	790,218	923,509
Revenue from the use of money and property	161,933	364	-	4,627	166,924
Miscellaneous	273,131	72,244	-	-	345,375
Total revenues	59,960,349	9,262,078	599,990	3,475,212	73,297,629
Expenditures:					
Current:					
General instruction	43,812,085	8,557,719	-	221,087	52,590,891
Administration, attendance, and health	5,005,538	256,437	-	-	5,261,975
Pupil transportation	2,659,314	512,160	-	-	3,171,474
Operations and maintenance	6,710,618	-	-	-	6,710,618
Technology	2,028,974	212,476	-	-	2,241,450
Facilities	323,037	373,528	-	-	696,565
Cafeteria	-	146,881	-	3,127,066	3,273,947
Capital outlay	-	-	599,990	-	599,990
Total expenditures	60,539,566	10,059,201	599,990	3,348,153	74,546,910
Excess (deficiency) of revenues over expenditures	(579,217)	(797,123)	-	127,059	(1,249,281)
Other financing sources (uses)					
Transfers in	-	-	-	708,098	708,098
Transfers out	(708,098)	-	-	-	(708,098)
Total other financing sources (uses)	(708,098)	-	-	708,098	-
Net change in fund balances	(1,287,315)	(797,123)	-	835,157	(1,249,281)
Fund balances - beginning of year	2,869,844	863,165	54,764	3,748,616	7,536,389
Fund balances - end of year	\$ 1,582,529	\$ 66,042	\$ 54,764	\$ 4,583,773	\$ 6,287,108

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

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

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

Year Ended June 30, 2010

Net change in fund balances - total governmental funds **\$ (1,249,281)**

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

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

Capital assets acquired	\$ 2,668,557	
Depreciation expense	<u>(303,966)</u>	2,364,591

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

Early leave benefit plans	\$ (1,812,941)	
Compensated absences	39,539	
OPEB liability	<u>509,828</u>	<u>(1,263,574)</u>

Change in net assets of governmental activities **\$ (148,264)**

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

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

Statement of Fiduciary Net Assets

June 30, 2010

	Agency Fund
	<hr/>
Assets	
Cash held on behalf of student activity funds	\$ 371,720
	<hr/>
Total assets	\$ 371,720
	<hr/>
Liabilities	
Due to student activity funds	\$ 371,720
	<hr/>
Total liabilities	\$ 371,720
	<hr/>

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

Danville Public Schools
City of Danville, Virginia

Notes to Financial Statements

June 30, 2010

1. Organization and Nature of Operation
Reporting Entity

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

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

2. Summary of Significant Accounting Policies

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

A. Government-wide and Fund Accounting Financial Statements

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

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

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

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

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

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

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

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

B. Basis of Accounting

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

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

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

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

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

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

C. Budgets and Budgetary Accounting

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

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

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

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

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

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

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

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

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

D. Cash and Investments

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

E. Due From Other Governments

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

F. Prepayments

Prepayments at June 30, 2010 were as follows:

Program fees	\$ 66,120
Liability insurance	53,326
Rent	17,652
License renewals	5,075
Other	476
	<hr/>
	\$ 142,649

G. Inventories

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

H. Capital Assets

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

All capital assets over the \$5,000 capitalization threshold are recorded at historical cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. **DPS** does not possess any infrastructure. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extended an asset's life are expensed, not capitalized.

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

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

I. Due from City of Danville

Amounts due from the City of Danville represent **DPS** expenditures from FY2010 support of the schools requested but not yet received at June 30, 2010.

J. Compensated Absences

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

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

K. New Accounting Pronouncements

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

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

L. Use of Estimates

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

M. Fund Balance

DPS reserves those portions of fund balances which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for inventories, encumbrances, insurance claims, petty cash and asbestos removal. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

N. Net Assets

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

O. Interfund Receivables and Payables

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

	Due from other funds	Due to other funds
General fund	\$ -	\$ 1,603,733
Capital projects fund	54,764	-
Special grants fund	-	561,608
Nonmajor funds:		
Textbook fund	1,987,511	-
Cafeteria fund	123,066	-
Total	<u>\$ 2,165,341</u>	<u>\$ 2,165,341</u>

P. Subsequent Events

In preparing these financial statements, *DPS* has evaluated events and transactions for potential recognition or disclosure through September 23, 2010, the date the financial statements were available to be issued.

3. Deposits

As of June 30, 2010, the carrying value of *DPS's* deposits was \$916,167 and the bank balance was \$2,305,007. *DPS* had \$1,450 in petty cash funds at June 30, 2010. The carrying value of *DPS's* student activity deposits was \$371,720 and the bank balance was \$319,637. The entire bank balances for these accounts were covered by federal depository insurance or collateralized in accordance with the Virginia

Security for Public Deposits Act (Act). The Act provides for the pooling of collateral pledged to the Treasurer of Virginia to secure public deposits as a class. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and notifying local governments of compliance by banks and saving and loan associations. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance.

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

4. Investments

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

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

Investments were as follows:

Investment	Fair Value
LGIP	\$ 821,551

5. Other Receivables

Other receivables consist of the following:

Summer school tuition	\$ 24,535
Reimbursements due from employees and vendors	2,723
Summer school transportation	1,800
Miscellaneous	1,731
	<u>\$ 30,789</u>

6. Due From Other Governments

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

Federal government	\$ 2,753,121
Commonwealth of Virginia	1,074,682
Local	<u>1,221</u>
Total	<u>\$ 3,829,024</u>

7. Risk Management

Self-Insurance Coverage

In October 2005, **DPS** entered into an agreement with Anthem Blue Cross Blue Shield (Anthem) to administer a self-insurance plan for employee medical and pharmacy insurance. **DPS**' contingent liability is limited to an annual stop loss amount of \$100,000 per participant. The escrow balance of \$1,195,434 is the balance of premiums paid net of claims received by Anthem of \$1,709,661 less the estimated claims incurred but not paid as of for the same period (\$514,127) for the period ended June 30, 2010.

Workers Compensation

DPS is a member of the School Systems of Virginia Group Self-Insurance Association (Association), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since **DPS** entered the pool in 1982. **DPS** has elected to have the Association hold the Board's dividends in escrow as a reserve against possible future claims. At June 30, 2010 the cumulative amount held in escrow by the Association for **DPS** amounted to \$386,920.

Other Risks

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

8. Accrued Salaries

Teachers' payroll is prorated over 10, 11, or 12 months based on teacher elections rather than the 10 month school year in an effort to assist employees in financial planning. Consequently, accrued salaries at June 30, include salaries earned prior to year end but not distributed until the months of July and August 2010.

9. Capital Assets

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

	Balance July 1, 2009	Additions/ (Retirements)	Balance June 30, 2010
Capital assets not being depreciated:			
Land and construction in process:	\$ 4,056,386	\$ 1,296,555	\$ 5,352,941
Other capital assets:			
Buildings	66,259,724	(27,630)	66,232,094
Furniture and equipment	22,027,289	1,399,632	23,426,921
Total other capital assets	88,287,013	1,372,002	89,659,015
Less – accumulated depreciation			
Buildings	(39,100,541)	(369,705)	(39,470,246)
Furniture and equipment	(12,843,798)	65,739	(12,778,059)
Total accumulated depreciation	(51,944,339)	(303,966)	(52,248,305)
Capital assets – net	40,399,060	2,364,591	42,763,651
Assets transferred to City of Danville to match long-term debt	(28,763,468)	-	(28,763,468)
Total	\$ 11,635,592	\$ 2,364,591	\$ 14,000,183

The City of Danville has recorded \$1,923,440 in depreciation expense for the year ended June 30, 2010 on the assets transferred to match long-term debt.

10. Defined Benefit Pension Plan

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

A. Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating local law enforcement officers and firefighters) or at age 50 with at least 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an

amount equal to 1.7% of their average final compensation (AFC) for each year of credited service (1.85% for eligible law enforcement officers and firefighters). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia (1950)*, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplemental information for VRS. A copy of that report may be obtained from their website at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

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

The required contributions for *DPS* for professional employees were determined as part of an actuarial valuation performed as of June 30, 2009 using the entry age normal actuarial cost method. *DPS's* employer and employee contributions to the VRS cost sharing multiple-employer plan for the three years ended June 30, 2010, 2009 and 2008 were \$, \$5,218,972, and \$5,441,917 respectively, equal to the required contributions for each year. *DPS's* contribution rate for FY2010 was 13.81% (8.81% plus 5% employee portion) for professional employees and 11.49% (6.49% and 5% for employee portion) for nonprofessional of the annual covered payroll. See additional required disclosures below.

C. Annual Pension Cost

For the year ended June 30, 2010, *DPS's* annual pension cost of \$203,790 for nonprofessional employees and \$4,190,176 for professional employees was equal to *DPS's* required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal cost method. The actuarial assumptions for nonprofessional employees included (a) 7.50% investment rate of return, (b) projected salary increases of 3.0% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of *DPS's* plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. *DPS* participates in the VRS teacher cost sharing pool for professional employees. The following information is required for three years in accordance with GASB No. 27.

Schedule of Employer Contributions

Fiscal Year Ending June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010 – Professional	\$ 4,190,176	100 %	\$ -
2010 – Nonprofessional	\$ 203,790	100 %	\$ -
2009 – Professional	\$ 5,218,972	100 %	\$ -
2009 – Nonprofessional	\$ 203,404	100 %	\$ -
2008 – Professional	\$ 5,441,917	100 %	\$ -
2008 – Nonprofessional	\$ 274,786	100 %	\$ -

Schedule of Funding Progress (Nonprofessional employees)

The following information is from the most recent actuarial valuation (June 30, 2009):

	Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liabilities (2)	Actuarial Accrued Liabilities (2) – (1)	Funded Ratio (1) / (2)	Annual Covered Payroll (4)	Liabilities Percentage of Payroll (2-1)/(4)
DPS							
Nonprofessional							
employees	June 30, 2009	\$ 5,456,196	\$ 5,771,480	\$ 315,284	94.54 %	\$ 1,752,370	17.99 %
	June 30, 2008	\$ 5,344,343	\$ 5,409,356	\$ 65,012	98.80 %	\$ 1,610,061	4.04 %
	June 30, 2007	\$ 4,772,714	\$ 4,850,109	\$ 77,395	98.40 %	\$ 1,729,675	4.47 %

Notes to Schedules of Employer Contributions and Funding Progress – VRS

Valuation date	June 30, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3.0 %
Remaining amortization period	20 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return*	7.50 %
Projected salary increases*	
Nonprofessional	3.75 – 5.60 %
Professional	3.50 – 4.75 %
Cost of living adjustment	2.50 %

*Includes inflation of 2.50%

11. Post Retirement Benefits

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

12. Long-Term Liabilities

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

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within 1 Year
January 1, 2008 early leave benefit plan (A)	\$ 886,842	\$ 2,792,003	\$ (233,476)	\$ 3,445,369	\$ 622,528
July 1, 1997 early leave benefit plan (B)	2,266,006	-	(745,586)	1,520,420	562,649
Accrued vacation pay (C)	803,550	501,270	(512,837)	791,983	466,000
Vested sick leave (D)	633,767	36,941	(64,913)	605,795	75,683
	<u>\$ 4,590,165</u>	<u>\$ 3,330,214</u>	<u>\$ (1,556,812)</u>	<u>\$ 6,363,567</u>	<u>\$ 1,726,860</u>

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

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

Year Ending June 30,	July 1, 1997 Incentive Program for Early Retirement		January 1, 2008 Incentive Program for Early Retirement	
	Principal	Interest	Principal	Interest
2011	\$ 562,649	\$ 110,493	\$ 622,528	\$ 16,919
2012	458,755	109,105	599,716	39,732
2013	340,637	94,804	571,159	68,290
2014	158,379	49,426	543,962	95,488
2015	-	-	494,285	114,022
2016 - 2017	-	-	613,719	177,648
	<u>\$ 1,520,420</u>	<u>\$ 363,828</u>	<u>\$ 3,445,369</u>	<u>\$ 512,099</u>

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

13. Commitments and Contingencies

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

14. Postretirement Benefits Other Than Pensions

In accordance with governmental accounting standards, *DPS* recorded the liability for non-pension postemployment benefits, chiefly the health care premiums for retirees. In accordance with these standards, *DPS* is not required to obtain an actuarial report every year, therefore, *DPS's* liability was recorded using the June 30, 2009 valuation. A separate, audited GAAP-basis postemployment benefit plan report is not available. Disclosures concerning participation are outlined as follows:

A. Plan Provisions

In addition to providing the pension benefits described above, *DPS* provides post-employment healthcare (OPEB) for retired employees through a single-employer defined benefit plan. The benefit levels, employee contributions and employer contributions are governed by *DPS* and can be amended by *DPS* through its personnel manual.

B. Funding Policy

DPS does not intend to establish a trust to prefund this liability. The exhibit below shows the anticipated growth in the Net OPEB Obligation based on contributions to the benefit plan on a pay-as-you-go basis. *DPS* has used the fresh start method of amortization for the unfunded actuarial accrued liability each year for this estimate. The data has been projected into the future based on the current active population remaining constant. Also, the estimated employer contributions are based on estimated pay-as-you-go

benefit plan costs (retiree claims minus retiree contributions paid premiums) made during the year on behalf of the retired employees of Danville Public Schools.

C. Plan Description

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

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

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

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

Membership at June 30, 2010, membership consisted of:

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

D. Annual OPEB Costs and Net OPEB Obligation

The net OPEB obligation as of June 30, 2010 was calculated as follows:

	2010	2009	2008
Annual Required Contribution	\$ 531,888	\$ 581,364	\$ 581,364
Interest on Net OPEB Obligation	21,276	-	-
Adjustment to Annual Required Contribution	29,576	-	-
Annual OPEB Cost	582,740	581,364	581,364
Contributions Made	(1,092,568)	(235,751)	(235,751)
Increase in Net OPEB Obligation	(509,828)	345,613	345,613
Net OPEB Obligation, beginning of year	691,226	345,613	-
Net OPEB Obligation, end of year	<u>\$ 181,398</u>	<u>\$ 691,226</u>	<u>\$ 345,613</u>

E. Actuarial Methods and Assumptions

The valuation of the liabilities as of June 30, 2009 is based on a closed group. Current employees and retirees only are considered; no provision is made for future hires. For the five-year projection, we have assumed one new entrant will enter the plan for every active employee who either retires or terminates from Danville Public Schools. Therefore, the active population will remain at a constant level based on the June 30, 2009 count.

In the June 30, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included on investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 8% reduced by 1% each year to arrive at an ultimate healthcare cost trend rate of 5%. Both rates include a 4% inflation assumption. The actuarial accrued liability was \$4,487,363. The plan's unfunded actuarial accrued liability is being amortized using the fresh start method. The remaining amortization period at June 30, 2010 was 30 years.

F. Schedule of Funding Progress

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

Actuarial Valuation Date June 30,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age Normal	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
2010	-	\$ 4,487,363	-	% \$ 4,487,363	\$ 38,826,790	11.56%
2009	-	\$ 4,264,380	-	% \$ 4,264,380	\$ 38,826,790	10.98%
2008	-	\$ 4,021,544	-	% \$ 4,021,544	\$ 39,740,763	10.12%

G. Schedule of Employer Contributions

Year Ended December 31,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2010	\$ 1,092,568	\$ 582,740	187.49%
2009	\$ 235,751	\$ 581,364	40.55%
2008	\$ 235,751	\$ 581,364	40.55%

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

Required

Supplementary

Information

(RSI)

For The Year Ended June 30, 2010

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

Year Ended June 30, 2010

	Original Budget	Budget as Amended	Actual
Revenues			
Intergovernmental			
City of Danville	\$ 23,124,303	\$ 23,124,303	\$ 17,511,614
Commonwealth of Virginia	42,324,614	42,324,614	38,654,221
Federal government	2,270,473	2,270,473	3,226,159
Charges for services	134,000	134,000	133,291
Revenue from the use of money and property	141,000	141,000	161,933
Miscellaneous	225,400	225,400	273,131
Total revenues	68,219,790	68,219,790	59,960,349
Expenditures			
Current			
General instruction	47,023,800	44,592,659	43,812,085
Administration, attendance, and health	3,627,383	3,752,441	5,005,538
Pupil transportation	2,818,192	2,659,615	2,659,314
Operations and maintenance	7,454,640	6,937,838	6,710,618
Technology	2,422,262	2,498,240	2,028,974
Facilities	889,505	1,616,949	323,037
Total expenditures	64,235,782	62,057,742	60,539,566
Excess of revenues over expenditures	3,984,008	6,162,048	(579,217)
Other financing uses			
Transfer to textbook fund	-	-	(708,098)
Total other financing uses	-	-	(708,098)
Net change in fund balance	3,984,008	6,162,048	(1,287,315)
Fund balance - beginning of year	7,568,260	10,398,691	2,869,844
Fund balance - end of year	\$ 11,552,268	\$ 16,560,739	\$ 1,582,529

See independent auditor's report.

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

Combining Statements

Nonmajor Governmental Funds

For The Year Ended June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2010

	Textbook	Cafeteria	Total
Assets			
Cash and investments	\$ 439,572	\$ 1,168,083	\$ 1,607,655
Due from other funds	1,987,511	123,066	2,110,577
Due from other governments	-	80,944	80,944
Inventories	816,769	30,985	847,754
Total assets	\$ 3,243,852	\$ 1,403,078	\$ 4,646,930
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 3,826	\$ 3,826
Accrued salaries	955	54,162	55,117
Accrued payroll taxes	73	4,141	4,214
Total liabilities	1,028	62,129	63,157
Fund Balances			
Reserved for:			
Inventories	816,769	-	816,769
Petty cash	-	1,275	1,275
Unreserved	2,426,055	1,339,674	3,765,729
Total fund balances	3,242,824	1,340,949	4,583,773
Total liabilities and fund balances	\$ 3,243,852	\$ 1,403,078	\$ 4,646,930

See independent auditor's report.

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

Year Ended June 30, 2010

	Textbook	Cafeteria	Total
Revenues:			
Intergovernmental:			
Commonwealth of Virginia	\$ -	\$ 64,834	\$ 64,834
Federal government	-	2,615,533	2,615,533
Charges for services	2,519	787,699	790,218
Revenue from the use of money and property	1,297	3,330	4,627
Total revenues	3,816	3,471,396	3,475,212
Expenditures:			
Current:			
General instruction	221,087	-	221,087
Cafeteria	-	3,127,066	3,127,066
Total expenditures	221,087	3,127,066	3,348,153
Excess (deficiency) of revenues over expenditures	(217,271)	344,330	127,059
Other financing sources			
Transfers in from general fund	708,098	-	708,098
Net change in fund balances	490,827	344,330	835,157
Fund balances - beginning of year	2,751,997	996,619	3,748,616
Fund balances - end of year	\$ 3,242,824	\$ 1,340,949	\$ 4,583,773

See independent auditor's report.

Compliance Report

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

Danville Public Schools

We have audited the financial statements of ***Danville Public Schools*** as of and for the year ended June 30, 2010 and have issued our report thereon dated September 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***Danville Public Schools'*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Danville Public Schools'*** internal control over the financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Danville Public Schools'*** internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Goodman & Company, LLP

Danville, Virginia
September 23, 2010