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

FINANCIAL REPORT

June 30, 2014

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FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

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, 2014, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2014, 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.

Prior Period Adjustments

As described in Note 15 to the financial statements, June 30, 2013 balances have been restated to adjust beginning balances for the Schools' early retirement incentive plan, capital assets, and textbooks. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress, 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 December 8, 2014 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
December 8, 2014

DANVILLE PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014

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, 2014. 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 $42.9 million in revenues or 63 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for $25.5 million or 37 percent of total revenues of $68.4 million.

The school division had $69.2 million in expenses related to governmental activities, of which only $43.6 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 $60.5 million in revenues and transfers in and $58.1 million in expenditures and transfers out. The $2.4 million increase in fund balance was caused by a transfer from 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 2014?" 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.

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, 2014 and 2013.

Net Position

	2014	2013
Assets		
Current and other assets	$ 13,245,187	$ 12,851,047
Capital assets – net	10,384,178	11,521,964
Total assets	23,629,365	24,373,011
Liabilities		
Current liabilities	3,843,119	3,456,131
Long-term liabilities	6,754,090	7,142,300
Total liabilities	10,597,209	10,598,431
Deferred Inflows of Resources		
Unavailable revenue	30,905	-
Total deferred inflows of resources	30,905	-
Net Position		
Investment in capital assets	10,384,178	11,521,964
Unrestricted	2,617,073	2,252,616
Total net position	$ 13,001,251	$ 13,774,580

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 surplus of approximately $2,617,000 and $2,253,000 for the years ended June 30, 2014 and 2013, respectively.

DANVILLE PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2014

Changes in net position. The following shows the changes in net position for fiscal years 2014 and 2013.

	2014	2013
Revenues		
Program revenues		
Charges for service	$ 743,207	$ 1,069,231
Operating grants and contributions	24,772,210	27,050,666
Capital grants and contributions	-	46,857
General revenues		
Appropriations from the City of Danville	18,712,123	19,368,240
Commonwealth of Virginia	23,264,700	22,595,498
Investment income	77,807	2,128
Miscellaneous	811,061	625,927
Total revenues	$ 68,381,108	$ 70,758,547
Expenses		
General instruction	$ 48,276,004	$ 50,442,928
Administration, attendance, and health	4,086,902	3,696,916
Pupil transportation	2,385,585	2,298,807
Operation and maintenance	7,063,759	7,091,156
Technology	2,516,457	2,357,542
Facilities	535,505	557,563
Cafeterias	4,290,225	3,845,612
Total expenses	$ 69,154,437	$ 70,290,524
Change in net position	$ (773,329)	$ 468,023

The change in net position in fiscal year 2014 is due primarily to an increase in the prepaid for health insurance.

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, 2014 and 2013, the total cost of services and the net cost of services are listed as follows:

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

Governmental Activities
June 30, 2013

	Total Cost of Services	Net Expense
General instruction	$ 50,442,928	$ 23,311,770
Administration, attendance, and health	3,696,916	3,696,916
Pupil transportation	2,298,807	2,016,740
Operations and maintenance	7,091,156	7,091,156
Technology	2,357,542	2,357,542
Facilities	557,563	510,706
Cafeterias	3,845,612	3,138,940
Total expenses	$ 70,290,524	$ 42,123,770

The cost of all governmental activities this year was $69.2 million. The amount that the citizens of Danville paid for these activities through City taxes was $18.7 million.

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 million and expenditures of $68.1 million. The net change in fund balance was most significant in the Special Grants Fund with a net decrease in fund balance of approximately $2.8 million.

General Fund Budgetary Highlights

The Schools' budget is prepared in accordance with Virginia School Laws. During the course of fiscal year 2014, the General Fund transferred $147,817 for support of the Textbooks Fund.

For the General Fund, revenue was $57.7 million, approximately $2 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 2015.

Facilities Fund Budgetary Change

Carryover appropriations are designated throughout the year for board approved projects. During fiscal year 2014, the projects approved by the Board consisted of a division wide facility study, enhancement to Bonner's Security System, establishment of a communications director department, and replacing funding lost from Title I for preschool program.

Capital Assets

At the end of fiscal year 2014, the Schools had $10.4 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	
	2014	**2013**
Land	$ 2,313,013	$ 2,313,013
Buildings	5,607,429	6,913,852
Furniture and equipment	2,463,736	2,295,099
Totals	$ 10,384,178	$ 11,521,964

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 $58.9 million for fiscal year 2015.

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, 2014

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	$ 353,287
Investments (Note 3)	826,703
Due from other governments (Note 5)	2,717,899
Due from primary government	6,274,026
Other receivables (Note 8)	618,667
Inventories	26,577
Prepaid expenses (Note 8)	2,428,028
Capital assets: (Note 6)	
Non-depreciable	2,313,013
Depreciable, net	8,071,165
Total assets	23,629,365
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	494,599
Accrued salaries and payroll taxes	2,693,762
Self-insurance (Note 8)	446,097
Due to other governments (Note 5)	208,661
Long-term liabilities: (Notes 7 and 10)	
Due within one year	581,000
Due in more than one year	6,173,090
Total liabilities	10,597,209
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue (Note 5)	30,905
NET POSITION	
Investment in capital assets	10,384,178
Unrestricted	2,617,073
Total net position	$ 13,001,251

EXHIBIT 2

DANVILLE PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

		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	$ 48,276,004	$ 88,033	$ 21,136,980	$ -	$ (27,050,991)
Support services:					
Administration, attendance, and health	4,086,902	-	244,758	-	(3,842,144)
Pupil transportation	2,385,585	-	-	-	(2,385,585)
Operations and maintenance	7,063,759	-	-	-	(7,063,759)
Noninstructional services:					
Technology	2,516,457	-	303,397	-	(2,213,060)
Facilities	535,505	-	-	-	(535,505)
Cafeterias	4,290,225	655,174	3,087,075	-	(547,976)
Total governmental activities	$ 69,154,437	$ 743,207	$ 24,772,210	$ -	(43,639,020)
General revenues:					
Appropriation from the City of Danville					18,712,123
Noncategorical state aid					23,264,700
Investment income					77,807
Miscellaneous					811,061
Total general revenues					42,865,691
Change in net position					(773,329)
Net position – beginning, as restated (Note 15)					13,774,580
Net position – ending					$ 13,001,251

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

EXHIBIT 3

DANVILLE PUBLIC SCHOOLS

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
ASSETS						
Cash and cash equivalents	$ 187,543	$ 55	$ -	$ 165,689	$ -	$ 353,287
Investments	-	122,084	416,222	288,397	-	826,703
Due from other funds	1,130,615	-	907,583	1,737,772	4,007	3,779,977
Due from other governments	1,350,009	1,367,890	-	-	-	2,717,899
Due from primary government	6,274,026	-	-	-	-	6,274,026
Other receivables	618,667	-	-	-	-	618,667
Inventories	-	-	-	26,577	-	26,577
Prepaid expenses	2,426,811	1,217	-	-	-	2,428,028
Total assets	$ 11,987,671	$ 1,491,246	$ 1,323,805	$ 2,218,435	$ 4,007	$ 17,025,164
LIABILITIES						
Accounts payable and other liabilities	$ 447,177	$ 35,964	$ 4,571	$ 6,887	$ -	$ 494,599
Accrued salaries and payroll taxes	2,437,986	223,323	952	31,501	-	2,693,762
Self-insurance	446,097	-	-	-	-	446,097
Due to other funds	2,649,362	1,130,615	-	-	-	3,779,977
Due to other governments	180,000	28,661	-	-	-	208,661
Total liabilities	6,160,622	1,418,563	5,523	38,388	-	7,623,096
DEFERRED INFLOWS OF RESOURCES						
Unavailable/unearned revenue	574,356	25,080	-	-	-	599,436
FUND BALANCES						
Nonspendable	2,426,811	1,217	-	26,577	-	2,454,605
Assigned	1,482,406	46,386	1,318,282	2,153,470	4,007	5,004,551
Unassigned	1,343,476	-	-	-	-	1,343,476
Total fund balances	5,252,693	47,603	1,318,282	2,180,047	4,007	8,802,632
Total liabilities, deferred inflows of resources, and fund balances	$ 11,987,671	$ 1,491,246	$ 1,323,805	$ 2,218,435	$ 4,007	$ 17,025,164

EXHIBIT 4

DANVILLE PUBLIC SCHOOLS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Fund Balances – Governmental Funds		$ 8,802,632
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.		10,384,178
Receivables on the Statement of Net Position that do not provide current financial resources are reported as deferred inflows of resources in the funds.		568,531
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Retirement benefits	(5,502,797)	
Compensated absences	(1,251,293)	
		(6,754,090)
Net Position – Governmental Activities		$ 13,001,251

EXHIBIT 5

DANVILLE PUBLIC SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
REVENUES						
Charges for services	$ 87,639	$ -	$ 394	$ 655,174	$ -	$ 743,207
Revenue from the use of money and property	265,347	-	3,177	24,233	-	292,757
Miscellaneous	301,979	106,495	-	335	-	408,809
Intergovernmental:						
City of Danville	18,712,123	-	-	-	-	18,712,123
Commonwealth of Virginia	38,011,561	899,340	392,806	72,585	-	39,376,292
Federal government	331,143	5,280,515	-	2,846,932	-	8,458,590
Total revenues	57,709,792	6,286,350	396,377	3,599,259	-	67,991,778
EXPENDITURES						
Instructional services:						
General instruction	41,828,896	5,807,752	556,370	-	-	48,193,018
Support services:						
Administration, attendance, and health	4,026,444	153,079	-	-	-	4,179,523
Pupil transportation	2,519,686	116,877	-	-	-	2,636,563
Operations and maintenance	7,153,189	-	-	-	-	7,153,189
Noninstructional services:						
Technology	1,988,457	40,961	-	-	-	2,029,418
Facilities	456,975	-	-	-	29,160	486,135
Cafeteria	-	167,558	-	3,270,544	-	3,438,102
Total expenditures	57,973,647	6,286,227	556,370	3,270,544	29,160	68,115,948
Excess (deficiency) of revenues over expenditures	(263,855)	123	(159,993)	328,715	(29,160)	(124,170)
OTHER FINANCING SOURCES (USES)						
Transfers in	2,847,797	-	147,817	-	-	2,995,614
Transfers out	(147,817)	(2,847,797)	-	-	-	(2,995,614)
Total other financing sources (uses)	2,699,980	(2,847,797)	147,817	-	-	-
Net change in fund balances	2,436,125	(2,847,674)	(12,176)	328,715	(29,160)	(124,170)
FUND BALANCES – beginning, as restated (Note 15)	2,816,568	2,895,277	1,330,458	1,851,332	33,167	8,926,802
FUND BALANCES – ending	$ 5,252,693	$ 47,603	$ 1,318,282	$ 2,180,047	$ 4,007	$ 8,802,632

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, 2014

Net Change in Fund Balances – Total Governmental Funds		$	(124,170)
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 $(2,093,823) exceeds capital outlays $(956,037).			(1,137,786)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.			100,417
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	99,297		
Other post-employment benefits	288,913		
			388,210
Change in Net Position – Governmental Activities		$	(773,329)

EXHIBIT 7

DANVILLE PUBLIC SCHOOLS

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Revenues				
Charges for services	$ 82,500	$ 82,500	$ 87,639	$ 5,139
Revenue from the use of money and property	220,000	220,000	265,347	45,347
Miscellaneous	182,800	182,800	301,979	119,179
Intergovernmental:				
City of Danville	19,898,246	19,898,246	18,712,123	(1,186,123)
Commonwealth of Virginia	39,016,337	39,016,337	38,011,561	(1,004,776)
Federal government	333,000	333,000	331,143	(1,857)
Total revenues	59,732,883	59,732,883	57,709,792	(2,023,091)
Expenditures				
Instructional services:				
General instruction	41,928,890	41,927,607	41,828,896	98,711
Support services:				
Administration, attendance,	3,963,944	4,180,709	4,026,444	154,265
and health	2,530,695	2,514,307	2,519,686	(5,379)
Pupil transportation	6,876,493	7,324,845	7,153,189	171,656
Noninstructional services:				
Technology	2,020,715	2,363,755	1,988,457	375,298
Facilities	281,088	478,736	456,975	21,761
Contingency	1,987,631	799,497	-	799,497
Total expenditures	59,589,456	59,589,456	57,973,647	1,615,809
Excess (deficiency) of revenues over expenditures	143,427	143,427	(263,855)	(407,282)
Other financing sources (uses)				
Transfers in	-	-	2,847,797	2,847,797
Transfers out	(143,427)	(143,427)	(147,817)	(4,390)
Net change in fund balance	$ -	$ -	$ 2,436,125	$ 2,436,125

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: 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 government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, 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.

Note 2. Summary of Significant Accounting Policies (Continued)

J. Deferred Inflows of Resources

In addition to liabilities, the statement of 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 two 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.

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. Fund Balance

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

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

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

Committed **–** 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.

(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

L. Fund Balance (Continued)

The Schools establishes (and modifies or rescinds) 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 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.

M. 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.

N. 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.

Note 2. Summary of Significant Accounting Policies (Continued)

N. <u>Budgetary Information</u> (Continued)

- 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 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

<u>Deposits</u>:

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.

<u>Investments</u>:

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 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.

Note 3. Deposits and Investments (Continued)

Deposits and investments consist of the following:

Petty cash	$	1,251
Deposits		352,036
Virginia LGIP		826,703
	$	1,179,990
Statement of net position:		
Cash and cash equivalents	$	353,287
Investments		826,703
	$	1,179,990

Note 4. Interfund Transactions

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

Receivable Fund	Payable Fund		Amount
Textbooks	General Fund	$	907,583
Cafeteria	General Fund		1,737,772
Capital Projects	General Fund		4,007
General Fund	Special Grants		1,130,615
		$	3,779,977

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
General Fund	Special Grants	$	2,847,797
Textbooks	General Fund		147,817
		$	2,995,614

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

Note 5. Due To/From Other Governments and Deferred Inflows of Resources

Due from other governments consists of the following:

	General	Special Grants	Governmental Activities
Commonwealth of Virginia			
Sales tax	$ 1,082,864	$ -	$ 1,082,864
Technology	267,145	-	267,145
State Operated Detention Home	-	241,854	241,854
Other	-	2,573	2,573
Federal government			
Title I – Local Education Agencies	-	520,206	520,206
IDEA 611	-	282,773	282,773
Title II – Part A	-	187,021	187,021
Perkins CTE Secondary Program	-	45,968	45,968
Preschool Handicapped Allocation	-	34,390	34,390
Other	-	53,105	53,105
	$ 1,350,009	$ 1,367,890	$ 2,717,899

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	$ 568,531
Miscellaneous grants – unearned	30,905
Total unavailable/unearned revenue – governmental funds	599,436
Less deferrals for unavailability	(568,531)
Total unearned revenue – statement of net position	$ 30,905

Due to other governments consists of a refund owed to the state due to an amount received in error.

Note 6. Capital Assets

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

	Beginning Balance (Restated, Note 15)	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 2,313,013	$ -	$ -	$ 2,313,013
Capital assets, depreciable				
Buildings	47,860,598	216,998	-	48,077,596
Furniture and equipment	6,784,815	739,039	-	7,523,854
Total capital assets, depreciable	54,645,413	956,037	-	55,601,450
Less accumulated depreciation				
Buildings	40,946,746	1,523,421	-	42,470,167
Furniture and equipment	4,489,716	570,402	-	5,060,118
Total accumulated depreciation	45,436,462	2,093,823	-	47,530,285
Depreciable capital assets, net	9,208,951	(1,137,786)	-	8,071,165
Capital assets, net	$ 11,521,964	$ (1,137,786)	$ -	$ 10,384,178

Depreciation was charged to governmental functions as follows:

General instruction	$ 87,730
Administration, attendance, and health	3,037
Pupil transportation	192,294
Operations and maintenance	14,432
Technology	711,834
Cafeteria	71,500
Facilities	1,012,996
	$ 2,093,823

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	$ 1,350,590	$ 402,703	$ 502,000	$ 1,251,293	$ 581,000
	$ 1,350,590	$ 402,703	$ 502,000	$ 1,251,293	$ 581,000

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 $5,194,000 in aggregate. The escrow balance of $2,273,145 is the excess of amounts paid over claims received by Anthem and is included on the Statement of Net Position with prepaid expenses. Estimated claims incurred but not reported (IBNR) as of year end were $446,097.

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)	5,765,837
Increase (decrease) in claims reserve	(488,372)
Claim payments	(5,277,465)
Unpaid claims estimate – end of fiscal year	$ 446,097

Note 8. Risk Management (Continued)

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, 2014, the cumulative amount held in escrow amounted to $577,671. The escrow is included on the Statement of Net Position with other receivables. During the current fiscal year, the Schools paid $109,571 in workers' compensation claims.

General liability and other:

The Schools carry commercial insurance for all other risks of loss, including theft, auto liability, physical damage and general liability insurance. General liability and business automobile has a $1,000,000 limit. Boiler and machinery coverage has a $5,000,000 per accident limit and the blanket buildings and contents insurance has a $207,000,000 limit. Crime coverage has a $250,000 limit. The Schools maintain an additional $5,000,000 umbrella policy over general liability. Total premiums for the current fiscal year were $197,310.

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

Plan Description

The Schools contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out below:

VRS PLAN 1

About VRS Plan 1 – VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Hybrid Opt-In Election – VRS non-hazardous duty covered plan 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 VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; 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.

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.

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.

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.

Average Final Compensation – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Note 9. Defined Benefit Pension Plan (Continued)

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

VRS PLAN 1 (Continued)

Service Retirement Multiplier – 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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. 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.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

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%.

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.

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.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – (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.
- 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.

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.

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS 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.

Average Final Compensation – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 2 (Continued)

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%.

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.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

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 VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- 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.

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- School division employees
- Political subdivision employees*
- Judges appointed or elected to an original term on or after January 1, 2014
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Eligible Members – (Continued)

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions – 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.

Creditable Service

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 Contribution 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 (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Vesting

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 of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution 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.

- 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

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.

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years 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

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS 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. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9. Defined Benefit Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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. In addition, the Schools are 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 Schools non-professional employees' contribution rate for the fiscal year ended 2013 was 14.53% of annual covered payroll. The Schools' professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended 2014 was 11.66% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the Schools for the fiscal years ended June 30, 2014, 2013, and 2012 were $3,817,358, $4,028,446, and $3,964,564, respectively, and were equal to the required contributions for each year.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the Schools' annual pension cost of $169,522 for VRS was equal to the required and actual contributions.

Three-Year Trend Information
Schools (non-professional employees)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$ 169,522	100%	$ -
June 30, 2013	$ 185,993	100%	$ -
June 30, 2012	$ 205,519	100%	$ -

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Schools' assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Schools' unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

Note 9. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

For the Schools' non-professional employees as of June 30, 2013, the most recent actuarial valuation date, the plan was 82.36% funded. The actuarial accrued liability for benefits was $7,214,282, and the actuarial value of assets was $5,941,759, resulting in an unfunded actuarial accrued liability (UAAL) of $1,272,523. The covered payroll (annual payroll of active employees covered by the plan) was $1,948,731, and the ratio of the UAAL to the covered payroll was 65.30%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 10. 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 are as follows:

ERIP Qualifications and Benefits by Group

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

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

(Continued)

Note 10. Entering Retirement In Phases Plan (Continued)

ERIP Qualifications and Benefits by Group (Continued)

Accounting for 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 are 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. It would be impracticable to actuarially recalculate all annual required contributions and benefit payments since the plan's inception in the 1980's, and therefore the previously recognized liability of $5,502,797 has been carried forward on the current statement of net position with no change because the carrying amount and actual amounts are not believed to be material. However, the actuarial accrued liability, which was previously unreported, is now disclosed as required supplementary information. With the adoption of GASB No. 68 in fiscal year 2015, a net pension liability of $9,633,580 will be recorded as of the beginning of the fiscal year.

Actuarial Calculations: Details regarding the plan for the current year, as calculated by the plan's actuary, are as follows:

Actuarially determined contribution:		
Normal cost	$	206,197
Amortization of Unfunded Actuarial Liability		559,081
Actuarially determined contribution		765,278
Change in the actuarial accrued liability:		
Service cost	$	199,224
Interest		347,664
Differences between expected and actual experience		132,770
Benefit payments, including refunds of member contributions		(1,546,923)
Net change in actuarial accrued liability		(867,265)
Actuarial accrued liability – beginning		10,500,845
Actuarial accrued liability – ending		9,633,580
Covered employee payroll		20,429,573
Actuarial accrued liability as a percentage of covered payroll		47.16%
Contributions as a percentage of covered payroll		7.57%
The sensitivity of the pension liability to a change in discount rate is as follows:		
Total Pension Liability (ending) – 1% Decrease in Discount Rate	$	9,965,627
Total Pension Liability (ending) – 1% Increase in Discount Rate		9,312,874
Membership:		
Active members		489
Retired members		140
Total members		629

(Continued)

Note 10. Entering Retirement In Phases Plan (Continued)

ERIP Qualifications and Benefits by Group (Continued)

Funded Status: The plan is funded on a pay-as-you go basis.
Actuarial assumptions include use of the entry age actuarial cost method. The amortization period for the unfunded actuarial liability is 20 years, and the discount rate was 3.5%. Actuarial valuations for the plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial calculations of the plan reflect a long-term perspective.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of any plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 11. Other Post-Employment Benefits

In addition to providing the pension benefits described above, in prior years the Schools provided a post-employment healthcare (OPEB) for retired employees and spouses. The benefit levels, employee contributions and employer contributions, were governed and could be amended by the Schools through its personnel manual. Participants were eligible for the plan when eligible to retire under the provisions of the Virginia Retirement System. At retirement, retirees and their spouses were permitted to stay in a medical plan offered by the School System until age 65 or until they became eligible for Medicare. The retirees and their spouses were required to pay the full cost of the premium with no portion being paid by the Schools.

The School Board has terminated the OPEB Plan effective October 2014. All retirees, current and future, were required to leave the plan at the termination date. Therefore no amounts were recorded at June 30, 2014 as an obligation.

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.

(Continued)

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 is bound to observe constraints imposed upon the use of the resources as presented below:

	General	Special Grants	Textbooks	Cafeteria	Capital Projects
Fund Balances:					
Nonspendable:					
Prepaids	$ 2,426,811	$ 1,217	$ -	$ -	$ -
Inventory	-	-	-	26,577	-
Assigned:					
Instructional services:					
General instruction	140,223	46,386	1,318,282	-	-
Support services:					
Administration, attendance, and health	717,177	-	-	-	-
Pupil transportation	4,064	-	-	-	-
Operations and maintenance	213,488	-	-	-	-
Operation of noninstructional services:					
Technology	385,745	-	-	-	-
Facilities	21,709	-	-	-	4,007
Cafeteria	-	-	-	2,153,470	-
Unassigned	1,343,476	-	-	-	-
Total fund balances	$ 5,252,693	$ 47,603	$ 1,318,282	$ 2,180,047	$ 4,007

Note 15. Restatement of Fund Balance and Net Position

The following is a summary of the restatement of opening fund balance and net position:

	Textbooks	Governmental Activities	Disclosed Total Pension Liability
Fund balance/net position/liability, June 30, 2013 as previously stated	$ 2,177,759	$ 22,750,596	$ 5,502,797
To report textbooks as an expenditure when purchased	(847,301)	(847,301)	-
To adjust certain capital assets to agree to detail schedules	-	(8,596,829)	-
To record sales taxes attributable to prior years	-	468,114	-
To report retirement benefits as a pension liability	-	-	4,998,048
Net restatement of fund balance/net position/disclosed amount	(847,301)	(8,976,016)	4,998,048
Fund balance/net position/liability, June 30, 2013, as restated	$ 1,330,458	$ 13,774,580	$ 10,500,845

Note 16. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* 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 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. This Statement will be effective for the year ending June 30, 2015.

Note 16. New Accounting Standards (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with *GASB Statement No. 34*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

Management has not fully evaluated the effect of adopting these statements, but the adoption of GASB Statement No. 68 will result in substantial pension liabilities being recorded on the Statement of Net Position.

REQUIRED
SUPPLEMENTARY INFORMATION

EXHIBIT 8

DANVILLE PUBLIC SCHOOLS

SCHEDULE OF PENSION FUNDING PROGRESS
June 30, 2014

Virginia Retirement System – Nonprofessional Employees:

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll	UAAL as Percentage of Covered Payroll (c/e)
	(a)	(b)	(c)	(d)	(e)	(f)
Virginia Retirement System – Nonprofessional Employees:						
June 30, 2013	$ 5,941,759	$ 7,214,282	$ 1,272,523	82.36%	$ 1,948,731	65.30%
June 30, 2012	$ 5,702,375	$ 7,199,779	$ 1,497,404	79.20%	$ 1,809,238	82.76%
June 30, 2011	$ 5,700,193	$ 6,918,158	$ 1,217,965	82.39%	$ 1,842,908	66.09%
Danville Public Schools – Entering Retirement In Phases:						
June 30, 2014	$ -	$ 9,633,580	$ 9,633,580	- %	$ 20,429,573	47.16%

(Previous actuarial valuations were not performed)

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the accompanying financial statements of the governmental activities and each major fund of Danville Public Schools (the "Schools"), a component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements, and have issued our report thereon dated December 8, 2014.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 14-02 that we consider to be a material weakness.**

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Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. **We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 14-01 that we consider to be a significant deficiency.**

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*.**

Danville Public Schools Response to Findings

The Schools' responses to the findings identified in our audits are described in the accompanying schedule of findings and responses. The Schools' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 8, 2014

DANVILLE PUBLIC SCHOOLS

SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

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	

DANVILLE PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

A. FINDINGS – FINANCIAL STATEMENT AUDIT

14-01: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties in such a way that no one employee will have access to both physical assets and the related accounting records, or to all phases of a transaction. Segregation of duties has not been fully established in certain functions related to payroll, cash collections, and journal entries.

Recommendation:

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

Management's Response:

Management recognizes the significant challenges of having a small finance staff in achieving perfect internal control. However, where possible and practical, additional processes have been implemented for 2014-2015 in the areas of journal entries, payroll, and cash collections for facility rental contracts.

14-02: Audit Adjustments (Material Weakness)

Condition:

We proposed several adjustments, including prior period restatements, which were material in amount and would thus indicate a material weakness in internal control. Most of these entries, except textbooks, did not affect the governmental fund statements, and were likely one-time adjustments due to a significant change in approach. The amounts and disclosures restated related to the accounting for textbooks, capital assets, sales taxes receivable, and retirement benefits.

Recommendation:

Management should maintain supporting schedules where appropriate and consult appropriate specialists for matters such as retirement benefits.

Management's Response:

In each area that required prior period restatements, management had previously relied on the expertise and advice of prior auditing firms, which they considered to be "appropriate specialists".

B. FINDINGS – COMMONWEALTH OF VIRGINIA

None.