

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

FINANCIAL REPORT

June 30, 2017

CONTENTS

Page

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3a
Basic Financial Statements	
Exhibit 1 Statement of Net Position	4
Exhibit 2 Statement of Activities.....	5
Exhibit 3 Balance Sheet – Governmental Funds.....	6
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	7
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	9
Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	10
Notes to Financial Statements.....	11

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 8 Schedule of Changes in Net Pension Liability and Related Ratios – Nonprofessional Employees.....	45
Exhibit 9 Schedule of Pension Contributions – Nonprofessional Employees.....	46
Exhibit 10 Schedule of Employer's Share of Net Pension Liability – VRS Teacher Retirement Plan.....	47
Exhibit 11 Schedule of Pension Contributions – VRS Teacher Retirement Plan	48
Notes to Required Supplementary Information.....	49

COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
Summary of Compliance Matters.....	53

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, 2017, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Report on the Financial Statements (Continued)

Auditor's Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Schools as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of the Schools' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 31, 2017

DANVILLE PUBLIC SCHOOLS
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

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, 2017. 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 \$42.4 million in revenues or 59 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$29.1 million or 41 percent of total revenues of \$71.6 million.

The school division had \$66.8 million in expenses related to governmental activities, of which only \$29.1 million of these expenses were partially offset by program specific charges for services, grants, or contributions. General revenues (primarily funds from the City of Danville and Commonwealth of Virginia) were adequate to provide for these programs.

Fund Statements

Among major funds, the general fund had \$57.6 million in revenues and \$57.4 million in expenditures and transfers out. The \$0.2 million increase in fund balance was caused by the increase in the appropriation received by the City.

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 2017?” 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.

DANVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

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 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, 2017 and 2016.

DANVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Financial Highlights (Continued)

Net Position

	2017	2016
Assets		
Current and other assets	\$ 13,665,657	\$ 11,582,514
Capital assets – net	8,231,923	7,542,384
Total assets	21,897,580	19,124,898
Deferred Outflows of Resources	8,191,530	4,596,291
Liabilities		
Current liabilities	7,307,947	6,619,071
Long-term liabilities	60,356,920	57,300,672
Total liabilities	67,664,867	63,919,743
Deferred Inflows of Resources	7,594,228	9,777,054
Net Position		
Investment in capital assets	8,231,923	7,542,384
Unrestricted	(53,401,908)	(57,517,992)
Total net position	\$ (45,169,985)	\$ (49,975,608)

Total assets represent equity in pooled cash and investments, due from other governments, prepaid items, and net capital assets. The net position of the Schools is either unrestricted or invested in capital assets (buildings, land, furniture, and equipment). The unrestricted net position shows a deficit of \$53,401,408 and \$57,517,992, for the years ended June 30, 2017 and June 30, 2016, respectively. The most significant reason for the deficit net position is the Schools' proportionate share of the State VRS Teacher Retirement Plan's net pension liability.

DANVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Financial Highlights (Continued)

Financial Analysis of the Schools as a Whole (Continued)

Changes in net position. The following shows the changes in net position for fiscal years 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Charges for services	\$ 314,926	\$ 354,615
Operating grants and contributions	28,880,675	27,040,686
General revenues		
Appropriations from the City of Danville	19,195,570	16,486,116
Commonwealth of Virginia	22,506,775	24,540,436
Investment income	205,458	165,055
Miscellaneous	511,458	411,203
Total revenues	<u>71,614,862</u>	<u>68,998,111</u>
Expenses		
General instruction	45,046,606	45,532,959
Administration, attendance, and health	4,314,586	3,942,663
Pupil transportation	2,420,628	2,284,618
Operation and maintenance	7,008,983	7,154,121
Technology	2,465,356	3,035,370
Facilities	1,289,414	1,083,185
Cafeteria	4,263,666	4,103,689
Total expenses	<u>66,809,239</u>	<u>67,136,605</u>
Change in net position	<u>\$ 4,805,623</u>	<u>\$ 1,861,506</u>

The decrease in expenditures is related to the decline in students.

The increase in appropriations from the City of Danville was due to the QZAB Bonds issued to support the Precision Machining Program and an increase in general operating appropriation.

DANVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Financial Highlights (Continued)

Financial Analysis of the Schools as a Whole (Continued)

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. For the years ended June 30, 2017 and 2016, the total cost of services and the net cost of services are listed as follows:

Governmental Activities		
June 30, 2017		
	Total Cost of Services	Net Expense
General instruction	\$ 45,046,606	\$ 22,350,373
Administration, attendance, and health	4,314,586	3,980,960
Pupil transportation	2,420,628	2,420,628
Operations and maintenance	7,008,983	7,008,983
Technology	2,465,356	2,124,142
Facilities	1,289,414	1,289,414
Cafeteria	4,263,666	4,818
Total expenses	\$ 66,809,239	\$ 39,179,318

Governmental Activities		
June 30, 2016		
	Total Cost of Services	Net Expense
General instruction	\$ 45,532,959	\$ 22,941,436
Administration, attendance, and health	3,942,663	3,642,948
Pupil transportation	2,284,618	2,284,618
Operations and maintenance	7,154,121	7,154,121
Technology	3,035,370	2,695,911
Facilities	1,083,185	1,083,185
Cafeteria	4,103,689	(60,915)
Total expenses	\$ 67,136,605	\$ 39,741,304

The cost of all governmental activities this year was \$66.8 million. The amount that the citizens of Danville paid for these activities through City taxes was \$19.2 million.

DANVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Financial Highlights (Continued)

Danville Public Schools Funds

Information about the Schools' major funds starts on page 6. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$71.6 million and expenditures of \$70.8 million. The net change in total fund balances was approximately \$0.8 million.

General Fund Budgetary Highlights

The Schools' budget is prepared in accordance with Virginia School Laws. During the course of fiscal year 2017, the General Fund transferred \$169,249 for support of the Textbooks Fund.

For the General Fund, revenue was \$57.7 million, approximately \$5.6 million below the original budget estimate but this amount was reappropriated for designated future expenditures for specific projects. This revenue will be received in fiscal year 2018.

Reappropriations Fund Budgetary Change

Carryover appropriations are designated throughout the year for board approved projects. During fiscal year 2017, the projects approved by the Board consisted of the Precision Machining at George Washington High School, roof replacements at two schools, division professional development, division facility study, and replacement of six school buses.

Capital Assets

At the end of fiscal year 2017, the Schools had \$8.2 million invested in land, construction in progress, 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	
	2017	2016
Land	\$ 2,176,690	\$ 2,176,690
Construction in progress	1,273,253	-
Buildings	2,184,850	2,911,715
Furniture and equipment	2,597,130	2,453,979
Totals	\$ 8,231,923	\$ 7,542,384

DANVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2017

Financial Highlights (Continued)

Long-term Debt

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

Factors Influencing Future Budgets

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

These indicators were taken into account when adopting the General Fund budget for fiscal year 2018. The Board approved a General Fund budget of \$62.5 million for fiscal year 2018.

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. Stanley Jones, P.O. Box 9600, Danville, VA 24540 or e-mail at sbjones@mail.dps.k12.va.us.

BASIC FINANCIAL STATEMENTS

DANVILLE PUBLIC SCHOOLS
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,274,655
Investments (Note 3)	836,573
Due from other governments (Note 4)	3,638,741
Due from primary government	7,143,593
Other receivables (Note 8)	652,462
Inventories	38,130
Prepaid expenses	81,503
Capital assets: (Note 6)	
Non-depreciable	3,449,943
Depreciable, net	4,781,980
Total assets	21,897,580
DEFERRED OUTFLOWS OF RESOURCES	
Net difference between projected and actual investment earnings on pension plan investments (Notes 9 and 10)	3,515,215
Pension contributions subsequent to measurement date (Notes 9 and 10)	4,676,315
Total deferred outflows of resources	8,191,530
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	1,041,539
Accrued salaries and payroll taxes	3,295,263
Self-insurance (Note 8)	1,462,773
Unearned grants	20,801
Long-term liabilities:	
Net pension liability (Notes 9 and 10)	58,177,852
Due within one year (Notes 7 and 11)	1,487,571
Due in more than one year (Notes 7 and 11)	2,179,068
Total liabilities	67,664,867
DEFERRED INFLOWS OF RESOURCES	
Changes in pension proportion and related differences (Note 10)	5,309,000
Difference between expected and actual experience (Notes 9 and 10)	2,285,228
Total deferred inflows of resources	7,594,228
NET POSITION	
Investment in capital assets	8,231,923
Unrestricted	(53,401,908)
Total net position	\$ (45,169,985)

DANVILLE PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instructional services:					
General instruction	\$ 45,046,606	\$ 55,502	\$ 22,506,775	\$ 133,956	\$ (22,350,373)
Support services:					
Administration, attendance, and health	4,314,586	-	333,626	-	(3,980,960)
Pupil transportation	2,420,628	-	-	-	(2,420,628)
Operations and maintenance	7,008,983	-	-	-	(7,008,983)
Noninstructional services:					
Technology	2,465,356	-	341,214	-	(2,124,142)
Facilities	1,289,414	-	-	-	(1,289,414)
Cafeteria	4,263,666	259,424	3,999,424	-	(4,818)
Total governmental activities	\$ 66,809,239	\$ 314,926	\$ 27,181,039	\$ 133,956	(39,179,318)
General revenues:					
Appropriation from the City of Danville					19,195,570
Noncategorical state aid					24,072,455
Investment income					205,458
Miscellaneous					511,458
Total general revenues					43,984,941
Change in net position					4,805,623
Net position – beginning					(49,975,608)
Net position – ending					\$ (45,169,985)

DANVILLE PUBLIC SCHOOLS

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2017

	General	Special Grants	Textbooks	Cafeteria	Capital Projects	Total
ASSETS						
Cash and cash equivalents	\$ 5,452	\$ 1,120	\$ -	\$ 1,268,083	\$ -	\$ 1,274,655
Investments	-	123,541	421,192	291,840	-	836,573
Due from other funds	-	-	2,112,488	692,565	1,479	2,806,532
Due from other governments	1,521,082	2,105,596	-	12,063	-	3,638,741
Due from primary government	6,664,911	-	-	-	478,682	7,143,593
Other receivables	652,055	-	-	407	-	652,462
Inventories	-	-	-	38,130	-	38,130
Prepaid expenses	81,381	122	-	-	-	81,503
Total assets	<u>\$ 8,924,881</u>	<u>\$ 2,230,379</u>	<u>\$ 2,533,680</u>	<u>\$ 2,303,088</u>	<u>\$ 480,161</u>	<u>\$ 16,472,189</u>
LIABILITIES						
Accounts payable and other liabilities	\$ 460,320	\$ 61,042	\$ 1,783	\$ 39,712	\$ 478,682	\$ 1,041,539
Accrued salaries and payroll taxes	2,931,673	276,676	755	86,159	-	3,295,263
Self-insurance	1,462,773	-	-	-	-	1,462,773
Due to other funds (Note 5)	983,734	1,822,798	-	-	-	2,806,532
Unearned grants	-	20,801	-	-	-	20,801
Total liabilities	<u>5,838,500</u>	<u>2,181,317</u>	<u>2,538</u>	<u>125,871</u>	<u>478,682</u>	<u>8,626,908</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	653,308	-	-	-	-	653,308
FUND BALANCES						
Nonspendable	81,381	122	-	38,130	-	119,633
Assigned	3,480,930	48,940	2,531,142	2,139,087	1,479	8,201,578
Unassigned	(1,129,238)	-	-	-	-	(1,129,238)
Total fund balances	<u>2,433,073</u>	<u>49,062</u>	<u>2,531,142</u>	<u>2,177,217</u>	<u>1,479</u>	<u>7,191,973</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,924,881</u>	<u>\$ 2,230,379</u>	<u>\$ 2,533,680</u>	<u>\$ 2,303,088</u>	<u>\$ 480,161</u>	<u>\$ 16,472,189</u>

DANVILLE PUBLIC SCHOOLS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2017**

Total Fund Balances – Governmental Funds		\$ 7,191,973
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported in the governmental funds.		8,231,923
Receivables on the Statement of Net Position that do not provide current financial resources are reported as deferred inflows of resources in the funds.		653,308
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources	\$ 8,191,530	
Deferred inflows of resources	(7,594,228)	
Net pension liability	<u>(58,177,852)</u>	(57,580,550)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Entering retirement in phases plan	(2,446,343)	
Compensated absences	<u>(1,220,296)</u>	<u>(3,666,639)</u>
Net Position – Governmental Activities		<u><u>\$ (45,169,985)</u></u>

DANVILLE PUBLIC SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2017**

	<u>General</u>	<u>Special Grants</u>	<u>Textbooks</u>	<u>Cafeteria</u>	<u>Capital Projects</u>	<u>Total</u>
REVENUES						
Charges for services	\$ 55,419	\$ -	\$ 83	\$ 259,424	\$ -	\$ 314,926
Revenue from the use of money and property	198,170	926	4,058	2,304	-	205,458
Miscellaneous	324,171	170,489	-	16,798	-	511,458
Intergovernmental:						
City of Danville	17,361,343	-	-	-	1,834,227	19,195,570
Commonwealth of Virginia	39,344,722	1,000,014	457,139	124,397	-	40,926,272
Federal government	411,739	6,169,606	-	3,875,027	-	10,456,372
Total revenues	<u>57,695,564</u>	<u>7,341,035</u>	<u>461,280</u>	<u>4,277,950</u>	<u>1,834,227</u>	<u>71,610,056</u>
EXPENDITURES						
Instructional services:						
General instruction	41,047,164	6,897,861	126,654	-	-	48,071,679
Support services:						
Administration, attendance, and health	4,424,864	76,210	-	-	-	4,501,074
Pupil transportation	2,681,416	142,790	-	-	-	2,824,206
Operations and maintenance	7,011,753	28,777	21,603	-	-	7,062,133
Noninstructional services:						
Technology	1,866,996	27,775	-	-	-	1,894,771
Facilities	315,049	8,000	-	-	1,798,975	2,122,024
Cafeteria	-	158,695	-	4,162,309	-	4,321,004
Total expenditures	<u>57,347,242</u>	<u>7,340,108</u>	<u>148,257</u>	<u>4,162,309</u>	<u>1,798,975</u>	<u>70,796,891</u>
Excess (deficiency) of revenues over expenditures	<u>348,322</u>	<u>927</u>	<u>313,023</u>	<u>115,641</u>	<u>35,252</u>	<u>813,165</u>
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 5)	-	-	169,429	-	-	169,429
Transfers out (Note 5)	<u>(169,429)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(169,429)</u>
Total other financing sources (uses)	<u>(169,429)</u>	<u>-</u>	<u>169,429</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>178,893</u>	<u>927</u>	<u>482,452</u>	<u>115,641</u>	<u>35,252</u>	<u>813,165</u>
FUND BALANCES – beginning	<u>2,254,180</u>	<u>48,135</u>	<u>2,048,690</u>	<u>2,061,576</u>	<u>(33,773)</u>	<u>6,378,808</u>
FUND BALANCES – ending	<u>\$ 2,433,073</u>	<u>\$ 49,062</u>	<u>\$ 2,531,142</u>	<u>\$ 2,177,217</u>	<u>\$ 1,479</u>	<u>\$ 7,191,973</u>

DANVILLE PUBLIC SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017**

Net Change in Fund Balances – Total Governmental Funds		\$	813,165
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation \$(1,765,369) exceeds capital outlays \$(2,469,464).			704,095
The net effect of transactions involving capital assets (loss on disposition of assets) that do not provide or use current financial resources and are not reported as revenue or expenditures in the governmental funds.			(14,556)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.			4,806
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities the cost of pension benefits earned net of employee contributions is reported as pension expense.			
Employer pension contributions	\$	4,676,315	
Pension expense		(3,187,928)	
		1,488,387	1,488,387
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		8,074	
Entering retirement in phases plan		1,801,652	
		1,809,726	1,809,726
Change in Net Position – Governmental Activities		\$	4,805,623

DANVILLE PUBLIC SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 78,500	\$ 78,500	\$ 55,419	\$ (23,081)
Revenue from the use of money and property	87,500	87,500	198,170	110,670
Miscellaneous	496,782	496,782	324,171	(172,611)
Intergovernmental:				
City of Danville	21,146,917	21,146,917	17,361,343	(3,785,574)
Commonwealth of Virginia	41,334,423	41,334,423	39,344,722	(1,989,701)
Federal government	200,000	200,000	411,739	211,739
Total revenues	<u>63,344,122</u>	<u>63,344,122</u>	<u>57,695,564</u>	<u>(5,648,558)</u>
Expenditures				
Instructional services:				
General instruction	44,790,816	42,917,746	41,047,164	1,870,582
Support services:				
Administration, attendance, and health	4,523,455	4,322,433	4,424,864	(102,431)
Pupil transportation	2,873,713	3,382,627	2,681,416	701,211
Operations and maintenance	7,383,989	7,483,869	7,011,753	472,116
Noninstructional services:				
Technology	2,259,106	2,545,616	1,866,996	678,620
Facilities	151,059	194,504	315,049	(120,545)
Contingency	1,192,555	2,327,898	-	2,327,898
Total expenditures	<u>63,174,693</u>	<u>63,174,693</u>	<u>57,347,242</u>	<u>5,827,451</u>
Excess (deficiency) of revenues over expenditures	<u>169,429</u>	<u>169,429</u>	<u>348,322</u>	<u>178,893</u>
Other financing uses				
Transfers out	<u>(169,429)</u>	<u>(169,429)</u>	<u>(169,429)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,893</u>	<u>\$ 178,893</u>

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Organization and Nature of Operations

Financial reporting entity:

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

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

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

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

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

The Schools report the following major governmental funds:

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

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

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

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

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, Cafeteria, Textbook, 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 amortized cost, i.e. a stable net asset 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.

F. Inventories

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

G. Prepaid Expenses

Prepays represent costs applicable to future periods.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

H. Capital Assets

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

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

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

Buildings	40 years
Furniture and equipment	3-20 years

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

I. Compensated Absences

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

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

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for *deferred outflows of resources*. These items represent a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then. The Schools has the following items that qualifies for reporting in this category:

- Contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.
- Difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over the closed five year period.

In addition to liabilities, the statement(s) that present(s) financial position report(s) a separate section for *deferred inflows of resources*. These items represent an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The Schools has the following item(s) that qualify(ies) for reporting in this category:

- Unavailable revenue, is reported only in the governmental funds balance sheet for receivables not collected within 45 days of year end. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.
- Unearned revenue, occurs in both the fund balance sheet and government-wide Statement of Net Position. Unearned revenue occurs when grant funds have been received but a qualifying expenditures/expense has not been incurred. These amounts are deferred and recognized when the qualifying expenditure/expense is incurred.
- Changes in proportion and differences between employer contributions and proportionate share of employer contributions in the Virginia Retirement System's teacher cost sharing pool.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension liability. This difference will be recognized in pension expense over the closed five year period.

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.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

L. Pensions

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

M. Fund Balance

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

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

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

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

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

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

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

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

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

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

M. Fund Balance (Continued)

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

N. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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.

O. Budgetary Information

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

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

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

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

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3. Deposits and Investments

Deposits:

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

Investments:

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

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

Deposits and investments consist of the following:

Petty cash	\$	1,175
Deposits		1,273,480
Virginia LGIP		836,573
	\$	2,111,228
Statement of net position:		
Cash and cash equivalents	\$	1,274,655
Investments		836,573
	\$	2,111,228

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Due from other governments consists of the following:

	<u>General Fund</u>	<u>Special Grants Fund</u>	<u>Cafeteria Fund</u>	<u>Governmental Activities</u>
Commonwealth of Virginia:				
Sales tax	\$ 1,185,082	\$ -	\$ -	\$ 1,185,082
State technology grant	336,000	-	-	336,000
State operated detention home	-	238,469	-	238,469
Federal government:				
Title I – local education agencies	-	1,081,430	-	1,081,430
Title VI-B	-	331,462	-	331,462
Title II – Part A	-	248,692	-	248,692
Perkins CTE secondary program	-	73,708	-	73,708
Summer school lunch	-	-	12,063	12,063
Other	-	131,835	-	131,835
	<u>\$ 1,521,082</u>	<u>\$ 2,105,596</u>	<u>\$ 12,063</u>	<u>\$ 3,638,741</u>

The components of deferred inflows of resources are as follows:

Sales tax receivable – unavailable	<u>\$ 653,308</u>
Total unavailable/unearned revenue – governmental funds	653,308
Less deferrals for unavailability	<u>653,308</u>
Total unearned revenue – statement of net position	<u>\$ -</u>

Note 5. Interfund Transactions

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

	<u>Due From (Fund)</u>		
	<u>General Fund</u>	<u>Special Grants Fund</u>	<u>Total</u>
Due To (Fund)			
Special Grants Fund	\$ (1,822,798)	\$ 1,822,798	\$ -
Textbooks Fund	2,112,488	-	2,112,488
Cafeteria Fund	692,565	-	692,565
Capital Projects Fund	1,479	-	1,479
	<u>\$ 983,734</u>	<u>\$ 1,822,798</u>	<u>\$ 2,806,532</u>

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 5. Interfund Transactions (Continued)

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

Interfund transfers are as follows:

Transfer In Fund	Transfer Out Fund	Amount
Textbooks	General Fund	\$ 169,429

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

Note 6. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 2,176,690	\$ -	\$ -	\$ 2,176,690
Construction in progress	-	1,273,253	-	1,273,253
Total capital assets, nondepreciable	2,176,690	1,273,253	-	3,449,943
Capital assets, depreciable				
Buildings	45,400,992	413,447	-	45,814,439
Furniture and equipment	7,628,249	782,764	(217,405)	8,193,608
Total capital assets, depreciable	53,029,241	1,196,211	(217,405)	54,008,047
Less accumulated depreciation				
Buildings	42,489,277	1,140,312	-	43,629,589
Furniture and equipment	5,174,270	625,057	(202,849)	5,596,478
Total accumulated depreciation	47,663,547	1,765,369	(202,849)	49,226,067
Depreciable capital assets, net	5,365,694	(569,158)	(14,556)	4,781,980
Capital assets, net	\$ 7,542,384	\$ 704,095	\$ (14,556)	\$ 8,231,923

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

General instruction	\$	73,968
Administration, attendance, and health		2,561
Pupil transportation		162,129
Operations and maintenance		12,168
Technology		600,170
Cafeteria		60,284
Facilities		854,089
		\$ 1,765,369

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	\$ 1,228,370	\$ 562,771	\$ 570,845	\$ 1,220,296	\$ 561,336
ERIP	4,247,995	-	1,801,652	2,446,343	926,235
	\$ 5,476,365	\$ 562,771	\$ 2,372,497	\$ 3,666,639	\$ 1,487,571

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

Note 8. Risk Management

Health benefits:

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

Changes in aggregate liabilities were as follows:

	Beginning of Year	Claims and Reserves	Claim Payments	End of Year
2017	\$ 1,578,856	\$ 3,982,115	\$ 4,098,198	\$ 1,462,773
2016	1,390,943	3,823,058	3,635,145	1,578,856
2015	1,492,245	3,293,027	3,394,329	1,390,943

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017, the cumulative amount held in escrow amounted to \$615,287. The escrow is included on the Statement of Net Position with other receivables. During the current fiscal year, the Schools paid \$183,457 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 \$186,872.

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

Note 9. Defined Benefit Pension Plan – Nonprofessional Employees

Plan Description

All full-time, salaried permanent employees of the Schools, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan is as follows:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Plan Description (Continued)

Plan 1 (Continued)

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **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.
- **Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Plan Description (Continued)

Plan 1 (Continued)

- **Normal Retirement Age** – Age 65.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) 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%.
- **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
- **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - 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** for 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.

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Plan Description (Continued)

Plan 1 (Continued)

- **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.

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **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** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For 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** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Plan Description (Continued)

Plan 2 (Continued)

- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
 - **Eligibility** – Same as Plan 1.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. 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 political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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 Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **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 (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. 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.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Calculating the Benefit –**
 - **Defined Benefit Component:** See definition under Plan 1.
 - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
- **Normal Retirement Age –**
 - **Defined Benefit Component:** Same as Plan 2.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
 - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
 - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component** – Same as Plan 2.
 - **Defined Contribution Component** – Not Applicable.
 - **Eligibility** – Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.
- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** –
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
 - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
 - **Defined Contribution Component** – Not Applicable.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	34
Inactive members:	
Vested inactive members	6
Non-vested inactive members	15
Inactive members active elsewhere in VRS	8
Total inactive members	29
Active members	56
Total covered employees	119

Contributions

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

The Schools' contractually required contribution rate for the year ended June 30, 2017 was 4.51% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Schools' were \$79,607 and \$157,146 for the years ended June 30, 2017 and 2016, respectively.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Net Pension Liability

The Schools' net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions

The total pension liability for General Employees in the Schools' Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 14% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Long-Term Expected Rate of Return

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

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

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

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

Discount Rate

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	\$ 7,767,801	\$ 7,517,062	\$ 250,739
Changes for the year:			
Service cost	189,058	-	189,058
Interest	529,082	-	529,082
Differences between expected and actual experience	(478,030)	-	(478,030)
Contributions – employer	-	154,870	(154,870)
Contributions – employee	-	87,249	(87,249)
Net investment income	-	125,624	(125,624)
Benefit payments, including refunds of employee contributions	(418,969)	(418,969)	-
Administrative expenses	-	(4,691)	4,691
Other changes	-	(55)	55
Net changes	(178,859)	(55,972)	(122,887)
Balances at June 30, 2016	\$ 7,588,942	\$ 7,461,090	\$ 127,852

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	\$ 1,050,856	\$ 127,852	\$ (653,207)

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

For the year ended June 30, 2017, the Schools' recognized pension expense of \$(159,493). At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 404,228
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	199,215	-
Employer contributions subsequent to the measurement date	79,607	-
Total	\$ 278,822	\$ 404,228

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

The \$79,607 reported as deferred outflows of resources related to pensions resulting from the School’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2018	\$ (244,671)
2019	(152,689)
2020	113,505
2021	78,842
2022	-
Thereafter	-

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

General Information about the Teacher Cost Sharing Plan

Plan Description

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

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

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

General Information about the Teacher Cost Sharing Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the school division were \$4,596,708 and \$4,439,145 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$58,050,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was 0.4142% as compared to 0.42638% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of \$3,308,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,881,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	3,316,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	5,309,000
Employer contributions subsequent to the measurement date	4,596,708	-
Total	\$ 7,912,708	\$ 7,190,000

The \$4,596,708 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2018	\$ (2,072,000)
2019	(2,072,000)
2020	155,000
2021	369,000
2022	(254,000)
Thereafter	-

DANVILLE PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

General Information about the Teacher Cost Sharing Plan (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 44,182,326
Plan Fiduciary Net Position	<u>30,168,211</u>
Employers' Net Pension Liability (Asset)	<u>\$ 14,014,115</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.28%

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	\$ 82,751,000	\$ 58,050,000	\$ 37,703,000

DANVILLE PUBLIC SCHOOLS

**NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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

General Information about the Teacher Cost Sharing Plan (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11. Entering Retirement In Phases Plan

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

ERIP Qualifications and Benefits by Group

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

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 11. Entering Retirement In Phases Plan (Continued)

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

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

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.

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 14. Fund Balances

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

	<u>General Fund</u>	<u>Special Grants Fund</u>	<u>Textbooks Fund</u>	<u>Cafeteria Fund</u>	<u>Capital Projects Fund</u>
Fund Balances:					
Nonspendable:					
Prepaid expenses	\$ 81,381	\$ 122	\$ -	\$ -	\$ -
Inventories	-	-	-	38,130	-
Assigned:					
Instructional services:					
General instruction	191,714	48,940	2,531,142	-	-
Support services:					
Administration, attendance, and health	842,766	-	-	-	-
Pupil transportation	1,594,083	-	-	-	-
Operations and maintenance	819,901	-	-	-	-
Operation of noninstructional services:					
Technology	28,362	-	-	-	-
Facilities	4,104	-	-	-	1,479
Cafeteria	-	-	-	2,139,087	-
Unassigned	<u>(1,129,238)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$ 2,433,073</u>	<u>\$ 49,062</u>	<u>\$ 2,531,142</u>	<u>\$ 2,177,217</u>	<u>\$ 1,479</u>

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 15. New Accounting Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2018.

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 15. New Accounting Standards (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

DANVILLE PUBLIC SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 15. New Accounting Standards (Continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

**REQUIRED
SUPPLEMENTARY INFORMATION**

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
NONPROFESSIONAL EMPLOYEES
June 30, 2017

	Plan Year		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 189,058	\$ 186,876	\$ 212,808
Interest on total pension liability	529,082	525,413	494,905
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(478,030)	(322,695)	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(418,969)	(255,375)	(288,413)
Net change in total pension liability	(178,859)	134,219	419,300
Total pension liability – beginning	7,767,801	7,633,582	7,214,282
Total pension liability – ending	7,588,942	7,767,801	7,633,582
Plan Fiduciary Net Position			
Contributions – employer	154,870	156,811	169,720
Contributions – employee	87,249	88,856	89,035
Net investment income	125,624	330,257	986,601
Benefit payments, including refunds of employee contributions	(418,969)	(255,375)	(288,413)
Administrative expenses	(4,691)	(4,474)	(5,283)
Other	(55)	(69)	52
Net change in plan fiduciary net position	(55,972)	316,006	951,712
Plan fiduciary net position – beginning	7,517,062	7,201,056	6,249,344
Plan fiduciary net position – ending	7,461,090	7,517,062	7,201,056
Net pension liability – ending	\$ 127,852	\$ 250,739	\$ 432,526
Plan fiduciary net position as a percentage of total pension liability	98%	97%	94%
Covered employee payroll	\$ 1,788,926	\$ 2,145,082	\$ 1,778,846
Net pension liability as a percentage of covered employee payroll	7%	12%	24%

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

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

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
NONPROFESSIONAL EMPLOYEES
June 30, 2017

School Division Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Schools – Nonprofessional Employees					
2017	\$ 79,607	\$ 79,607	\$ -	\$ 1,763,226	4.51 %
2016	157,146	157,146	-	1,788,926	8.78
2015	157,999	157,999	-	2,145,082	7.37

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

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

DANVILLE PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY –
VRS TEACHER RETIREMENT PLAN
June 30, 2017

School Division Fiscal Year Ended June 30,	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	41.42 %	\$ 58,050,000	\$ 31,568,468	183.89 %	68.28 %
2016	42.64	53,666,000	32,356,641	165.86	70.68
2015	44.88	54,235,000	32,833,731	165.18	70.88

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

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

DANVILLE PUBLIC SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS –
VRS TEACHER RETIREMENT PLAN
June 30, 2017**

<u>School Division Fiscal Year Ended June 30,</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
2017	\$ 4,596,708	\$ 4,596,708	\$ -	\$ 31,339,331	14.67 %
2016	4,439,145	4,439,145	-	31,568,468	14.06
2015	4,596,302	4,596,302	-	32,356,641	14.21

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

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

DANVILLE PUBLIC SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2017

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

DANVILLE PUBLIC SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Note 2. Changes of Assumptions (Continued)

Teacher cost-sharing pool:

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

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COMPLIANCE SECTION

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

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, 2017, and the related notes to the financial statements, which collectively comprise the Schools’ basic financial statements, and have issued our report thereon dated October 31, 2017.

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 Schools’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Schools’ internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 31, 2017

DANVILLE PUBLIC SCHOOLS

SUMMARY OF COMPLIANCE MATTERS

June 30, 2017

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

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Procurement Laws

State Agency Requirements

Education

Virginia Retirement System