

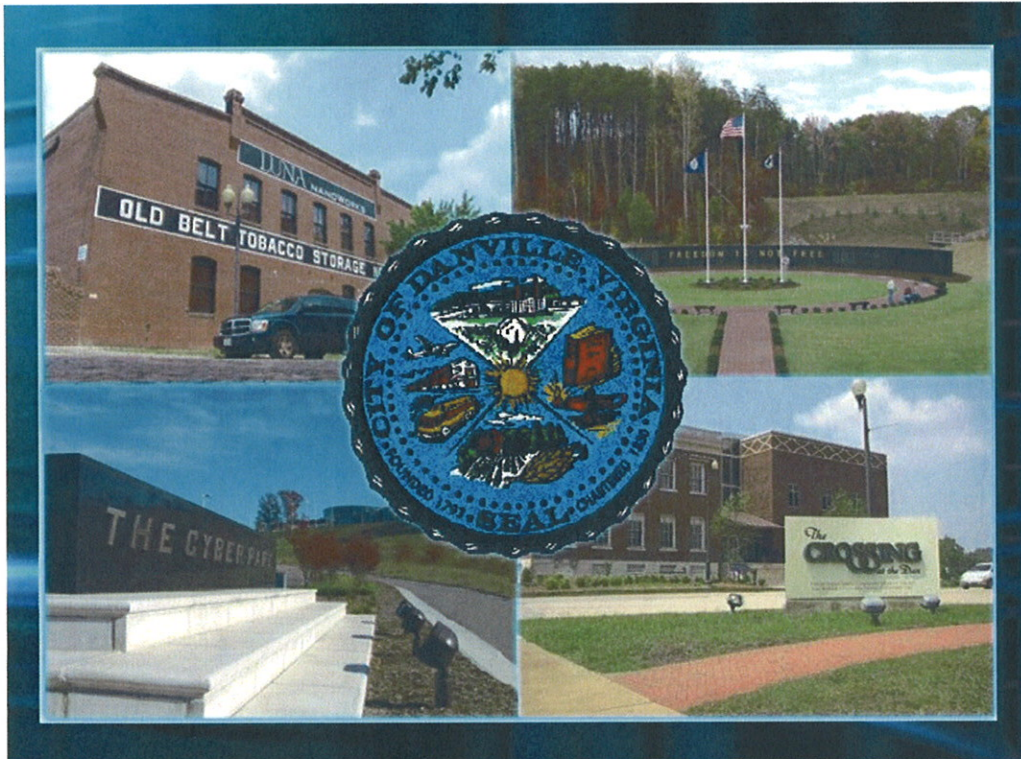
DANVILLE

VIRGINIA

CITY GOVERNMENT

COMPREHENSIVE

ANNUAL FINANCIAL REPORT



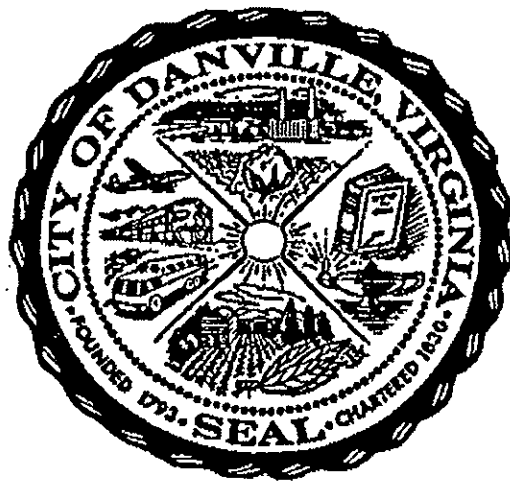
**"A WORLD CLASS
ORGANIZATION"**

**FOR THE FISCAL YEAR
JULY 1, 2007 TO JUNE 30, 2008**

CITY OF DANVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
June 30, 2008

Prepared by:

The Department of Finance



**City of Danville, Virginia
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008**

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Comprehensive Annual Financial Report
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Comprehensive Annual Financial Report
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INTRODUCTORY SECTION



City of Danville Virginia

"A World Class Organization"

November 19, 2008

To the Honorable Mayor, Members of the City Council, and the Citizens of the City of Danville:

State law requires all local governments to file, annually with the Auditor of Public Accounts, a detailed statement prepared according to the Auditor's specifications showing the amount of revenues, expenditures, and fund balances of the locality for the preceding fiscal year, accompanied by the locality's audited financial report. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City of Danville, Virginia for the fiscal year ended June 30, 2008.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City of Danville. The financial reporting entity includes all of the funds of the City, as well as all of its component units for which the City is financially accountable. Management assumes full responsibility for the completeness and reliability of all the information presented in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Danville. All disclosures necessary to enable the reader to gain an understanding of the City of Danville's financial activities have been included.

Goodman & Company, licensed certified public accountants, has audited the City of Danville's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. Tests were made of the City's internal control structure and of its compliance with applicable laws and regulations. The audit of the financial statements of the City of Danville for the fiscal year ending June 30, 2008, disclosed no material internal control weaknesses or material violations of laws and regulations.

The City of Danville is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996, U. S. Office of Management and Budget's Circular A-133, and the specifications of *Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and

regulations, and a schedule of findings and questioned cost are included in the single audit section of this report.

Governmental Accounting Standards Board Statement No. 34 requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The purpose of the transmittal letter is to complement the MD&A and should be read in conjunction with it. The City's MD&A starts on page 22 of this report.

Profile of the Government

The City of Danville was founded in 1793, chartered in 1830, and is located on the Dan River in the southern part of the state. The City covers an area of approximately 44 square miles and has a population of approximately 45,385.

The City operates under the council-manager form of government. Policymaking and legislative authority is vested in the City Council, which consist of nine members including a mayor and vice-mayor. Council members are elected at large on a nonpartisan basis to serve four-year terms. The elections are held biennially with five members being elected in one biennium and four in the next. Members of the council elect the mayor and vice-mayor from its membership. The City Council is responsible for passing ordinances, adopting the budget, appointing committee and board members, and hiring the City Manager and City Attorney. The City Manager is the chief executive and is responsible for carrying out the policies and ordinances of City Council, overseeing the day-to-day operations of the City, and appointing department heads.

The City provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. In addition to the general government activities, the City provides mass transit, water and wastewater treatment, gas, fiber network, and electric services. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government and to differentiate their financial position and results of operations and cash flows from those of the primary government, including the Danville School Board and the Industrial Development Authority.

The City of Danville's annual budget serves as the foundation for financial planning and control. The object of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Departments are required to submit requests for appropriations to the Budget Director by mid-January of each year. The Budget Director uses these requests as a starting point for developing a work budget. The Budget Director and Finance Director then present this work budget to the City Manager. Once the City Manager approves the work budget, he presents his recommended budget to the City Council by April 1st for review and deliberation. After City Council's approval, an introduction budget is prepared and presented to them by May 1st. The introduction budget contains all of the changes and amendments made by the City

Council during its budget review. It is the introduction budget that is submitted for public hearing. City Council is required to adopt a final budget by June 30th each year.

Activities of the General Fund are included in the annual appropriations budget. Project-length budgets are adopted for management control for the Enterprise and Internal Service Funds. The City Manager has the authority to transfer appropriations within funds. Inter-fund transfers and appropriations from fund balance/net assets require City Council approval. The General Fund is the only governmental fund that has a legally adopted budget; therefore, a budget-to-actual comparison is provided.

Local Economy

The year 2008 will be remembered for the collapse of the financial and housing markets and for putting the global economy into a tailspin. It was also a year that was consumed by the lengthy primary and elections process. However, it can also be remembered for the work that was done to continue to move the local economy forward. In fiscal 2008, Danville announced more than 1,100 jobs and over \$246M in new investment.

While we can be very pleased with our progress thus far, a critical area that must be addressed is workforce development and preparing potential employees for the jobs that will soon be available. The trend for the foreseeable future is for companies to continue to invest in automation. As the manufacturing process continues to become increasingly automated, the workforce will be required to keep pace. To keep Danville moving forward, new ways of developing and training our available workforce will be critical.

One example of this new automated work environment can be demonstrated by the announcement by Goodyear Tire & Rubber Company to invest more than \$200 million in new machinery for the Danville plant. This modernization is the first step by Goodyear to make the Danville plant a 21st century manufacturing facility and speaks well of Goodyear's commitment to our community.

Com.40, Ltd. has purchased an abandoned tobacco processing plant and is currently adapting it for their manufacturing process. The company, based in Poland, will produce mattresses and upholstered furniture for the world's largest retailer – IKEA. EBI, as they will be known in the United States, plans to hire over 800 employees and invest more than \$36 million in their first operation outside of Europe. Danville will also serve as the North American headquarters for EDI.

Manufacturing is not the only sector in which Danville had new investment during 2008. Advanced Vehicle Research Center (AVRC) announced that they would become the first private investor in the Cyber Park. AVRC will do automotive research in the fields of energy and safety, representing an important step forward as we work to transition the economy of Southside. AVRC will break ground for their new facility in late Fall 2008.

Joining AVRC in the Cyber Park is CBN Secure Technologies. CBN is a world leader in producing secure documents. The Cyber Park will serve the company as their American headquarters. The facility, which is currently under construction, will open in the spring of 2009.

Completing the list of announcements in 2008, Infinity Global Packaging made Danville home to their world headquarters. With operations in Hong Kong, Paris, London, and New York, to name a few, this global company will serve some of the biggest names in fashion merchandising industry from the Historic Tobacco Warehouse District.

While there are many challenges in the world's economy, the Office of Economic Development will continue to develop critical partnerships and find creative ways to bring jobs and investment to our region in 2009.

The Institute for Advanced Learning & Research (IALR) officially opened in June 2004. The IALR represents a regional collaboration of the City of Danville, Pittsylvania County, The Future of the Piedmont Foundation, Averett University, Danville Community College, and Virginia Tech. The Institute serves as a catalyst for economic and community transformation through developing the technologies, human infrastructures, and capital necessary to participate in the innovation economy. Virginia Tech is committed to developing a handful of key research areas.

The Institute for Advanced Learning and Research received a Governor's Technology Award on September 11, 2006 at the Commonwealth of Virginia Innovative Technology Symposium 2006. In its seventh year, the Governor's Technology Awards program honors outstanding achievements and recognizes innovative technology initiatives in the public sector throughout the Commonwealth of Virginia.

Virginia Governor, Timothy M. Kaine states, "The Institute is a great symbol of the vision and innovation that have been hallmarks of Virginia for 400 years. In just a few short years, the Institute has become a critical driver of the economic revitalization occurring across Southside, and its importance to this region and to the entire Commonwealth will only continue to grow." More information on the Institute and the Danville Office of Economic Development Incentive Programs can be found at www.discoverdanville.com.

Over the past four years, the City of Danville has been working on a project that will provide broadband access to every household and business in the city. The City has worked to connect 100 school and municipal buildings with fiber optic cable through its nDanville network. The network provides each location with a 155-megabits-per-second Internet connection. This was the first phase of the project. Subsequent phases include bringing fiber to businesses and residents.

Phase two expands the nDanville fiber optic network to businesses located in downtown, the Historic Tobacco Warehouse District, areas near Danville Regional Medical Center, and city industrial parks. Phase three includes bringing the network to the homes of Danville. With the resulting number of customers, an array of private Internet service providers could be attracted to the region.

Long-term Financial Planning

The City prepares a five-year Capital Improvements Plan (CIP), with the first year funding appropriated and the remaining four years for planning purposes only. Project appropriations for the coming year include: General Fund Capital Improvements of \$3,654,000; Sewer and Wastewater Capital Improvements of \$1,550,000; Water and Gas Capital Improvements of \$2,660,000; and Electric and Telecom Capital Improvements of \$14,565,765. A pay-as-you-go philosophy has been in effect since fiscal year 2001-2002 for all funds other than Electric.

A regional effort between the City of Danville and Pittsylvania County has resulted in the organization of the Danville-Pittsylvania Regional Industrial Facility Authority (Authority). The Authority is responsible for creating a 330-acre technology park, known as the Cyber Park. The park has state-of-the-art infrastructure for unparalleled reliability including a High Reliability Electrical Distribution System. The Institute for Advanced Learning and Research (IALR) and the Regional Center for Applied Technology and Training (RCATT) anchor the Cyber Park. In August 2005, the first private sector investment was made in the park by EIT Inc. Since then the Authority has constructed the Research Addition, which is being leased to the IALR for private research and development. Most recently the Authority announced that CBN Secure Technologies and Advanced Vehicle Research Center (AVRC) would invest in the park. Construction of the CBN facility is under way and AVRC plans to begin construction in late 2008.

In 2005, the Authority began developing a 1,000-acre industrial park, now called Cane Creek Centre (formerly Danville/Pittsylvania County Regional Industrial Park). Yorktowne Cabinetry became the first company to locate inside Cane Creek Centre investing \$19 million and creating 540 jobs in their 240,000-square-foot facility. Yorktowne is a manufacturer of semi-custom cabinets. Yorktowne's first cabinet manufactured at the Cane Creek facility came off the line on March 14, 2006. In October 2006, Swedwood North America announced it would invest \$281 million to locate its first U. S. manufacturing facility in Cane Creek Centre. Swedwood North America is a furniture manufacturer and a subdivision of the IKEA Group. The company plans to create 740 new jobs over the next ten years with a nearly one-million-square foot facility. Swedwood began manufacturing in early 2008.

Danville is also committed to preserving and increasing the quality of life for our citizens. The Crossing at the Dan fulfills several community needs that include the revitalization of the Tobacco Warehouse District (TWD), enhancing the community's "quality of life", and strengthening the educational system in the region.

The Crossing Project was proposed as a development "spark" that would lead to increased private investment in adjoining areas. Most recently, the private investment projects in the TWD have dramatically increased and are listed below:

- The Burton – a \$4 million adaptive use project transforming the former Davis Warehouse #6 into 28 market-rate condominiums with 12 unique designs. Prices range from \$149,000 - \$285,000. To date 17 units have been sold.

- Lindsay Lofts at the Dan – a \$2 million adaptive use project of the former Link Watson Hardware Store into 21 market-rate lofts with a retail component on the ground floor. Condo prices range from \$124,000 - \$179,000. Five units are now occupied and 3 of the commercial spaces have been leased or sold.
- Lynn St. Lofts – a \$3 million adaptive re-use project transforming a former warehouse into 37 affordable living apartments was completed in the spring of 2008. Currently 19 out of 37 units are occupied.
- Bridge Street Lofts – a mixed-use development featuring 70 apartments and 30,000 sq. ft. of commercial space. Construction to begin first quarter of 2009.
- Horizontech – a document scanning and storage company located in the former Richmond Cedar Works building – 100 new jobs announced.
- Infinity Global Packaging – a high-end luxury packaging business in the former Carrington Conference Center – 86 new jobs announced.

A community's "quality of life" indicators typically include activities such as those available at the Crossing at the Dan; i.e., trails, science centers, entertainment. The Crossing has become Danville's "hub" for entertainment and educational activities and hence, the centerpiece of the community's "quality of life" offerings.

Over 210,000 people annually visit the Crossing at the Dan Project, which includes the Danville Science Center Campus, Riverwalk Trail, Community Market, Amtrak station, Carrington Pavilion, and the Pepsi Building. This number will surely rise because of an exciting announcement made in 2008. The Danville Science Center (DSC) announced the addition of a Large Format Theater to be constructed adjacent to its newest facility in the historic Southern Railway Administration Building. This project is funded with a \$2.3 million dollar allocation from the Governor's Education Bond and matched with a \$1.2 million dollar private local foundation match. Construction is expected during fiscal 2009-10.

A significant increase in the number of pedestrians and bicyclists has resulted from the improvements that have occurred in the area, as well as through the City's new on-street bicycle lanes. These new bike lanes are improvements to the trail system that are designed to allow for additional points of access to the Crossing, which in turn will help ensure the success of the facilities and the programs and services provided.

In order to accommodate these new investments and future projects in the TWD, the City began construction of a 400-space parking area on a Brownfield site. This former junkyard is being converted through the use of the Tobacco Commission, an EPA Brownfield Grant, and City funding. The project, having a component of the south side trail system crossing it, is also being funded through existing Enhancement funds. Completion is set for winter 2008.

Adjacent to the TWD is the Downtown Historic District, which is benefiting greatly from the success and the synergy currently underway in the TWD. Highlights include:

- Four new businesses have opened, relocated, or expanded in the downtown in the previous 12 months.
- Three storefronts have been improved through the facade program resulting in \$100,000 in public/private improvements.

Combined, the Downtown and TWD have seen over \$57 million in public/private improvements and investment over the previous 48 months. Local, state, and federal incentives play a major role in the recruitment of new projects to both districts. Incentives include:

- Facade Program - A local incentive that matches dollar for dollar up to \$10,000 for façade renovations. In the previous 36 months, 35 storefronts have been improved resulting in over \$1million in public/private improvements.
- Real Estate Tax Abatement Program – A local incentive where the real estate exemption shall be equal to the increase in assessed value, resulting from rehabilitation and shall be for a period of up to 5 years for commercial buildings and 15 years for residential buildings.
- Starter Loan Program - A local program that provides assistance for renovations to a building or for equipment purchases that become a fixture to the building.
- VA Enterprise Zone Program – A state of Virginia program that provides grants for job creation and building improvements.
- Local Enterprise Zone Program – A local program used to complement and enhance the state's program. Incentives include: exemption from permit fees, job grants, Industrial Investment Grant, reimbursement of tap fees, rebates on business license fees.
- State and Federal Historic Rehabilitation Tax Credits – Tax credits for improvements made to historic structures.
- SBA Hubzone
- New Markets Tax Credits – special type of financing tool available for both the Downtown and Tobacco Warehouse Historic Districts.

The Utilities Department completed its 2007-2008 biennial rate study for the City's water, wastewater, gas, and electric utilities this year. The Danville City Council approved the following rate increase recommendations produced by the study and endorsed by the Danville Utility Commission:

Utility Rate Adjustments*
For Fiscal Years Ending June 30

	<u>2008</u>	<u>2009</u>
Electric	0.0%	3.0%
Gas	6.0%	0.0%
Wastewater	18.0%	18.0%

* Average across all rate classes

With the exception of wastewater rate increases, retail rates are beginning to stabilize following several significant rate increases over the past few years. The Utilities Department is now focusing efforts on achieving greater rate stabilization for its customers. A 20-year prepaid natural gas contract was secured with MuniGas that will provide access to discounted wholesale gas supplies over the long term. This discount was estimated to produce an annual cost savings for our Danville customers of \$1.2 million. The actual savings were \$1,676,792.80, which was passed on to our customers.

In April 2007, Danville's Utility Department renewed its gas supply contract with British Petroleum. The Utility Department regained control of its gas storage assets under the new agreement and is using them to hold natural gas purchased at discounted summer prices for City use or resale to the wholesale market during winter months. This is expected to produce combined cost savings and revenue totaling \$852,000.

The City started receiving its electric power from American Municipal Power – Ohio (AMP-Ohio) on July 1, 2006. Danville is now the second largest of the 122-member agency. The City is participating in three new AMP-Ohio power generation projects and will eventually own a share in each. Through shared ownership in these AMP-Ohio facilities, the City hopes to increase its current 15-megawatt power generation capabilities to over 147 megawatts beginning in 2012. Access to power produced by these generation projects should allow the City to extend savings of at least 10 percent to retail customers compared to rates that would have been charged if the power were purchased on the wholesale market. The city continues to look for additional generation opportunities to help reduce our exposure to the volatile energy market.

In FY 2008, the city began the process to award the contract for the operation of the Wastewater Treat Plant. For the past ten years American Water Services, Inc has been in contract with the City. The selected operations contractor will participate in the construction to retrofit the plant. The retro will help to stabilize wastewater rates, and enable the plant to function more efficiently with flows reduced due to significant industrial customer losses.

Originally designed and constructed to accommodate 24 millions gallons per day, the Northside Wastewater Treatment Plant is now processing one quarter of that amount. Modifications to the plant will preserve its processing capacity for the future while allowing it to operate cost-effectively at current flow rates.

Cash Management Policies and Practices

Cash temporarily idle during the year (for all funds except the Employees' Retirement System and unexpended bond funds) is invested in U.S. Agency obligations, an interest bearing account with American National Bank, and the Local Government Investment Pool, a pool administered by the State Treasurer. The maturities of the investments range from one day to five years. Unexpended bond funds are invested utilizing the State Non-Arbitrage Program administered by the State Treasurer.

Risk Management

The City of Danville utilizes an Internal Service Insurance Fund to provide for payment of premiums, cost of self-insured claims, and accumulation of resource funds for catastrophic losses and future claims. The fund balance of the Insurance Fund at June 30, 2008, was \$4,386,718.

The City of Danville has coverage in force for the more significant risk areas with the exception of workers' compensation. The workers' compensation outstanding liability at June 30, 2008, was \$3,498,200. This is an increase of \$434,200 from June 30, 2007. The primary reason for this increase in liability relates to two individuals, with long-term claims, who are expected to require further, ongoing treatment. The City's general liability, automobile, public officials' liability, and law enforcement liability are provided through participation in the Virginia Municipal Liability Pool.

Pension and other Post Employment Benefits

The City of Danville participates in two public employee retirement systems, the Employees' Retirement System of the City of Danville (ERS) and the Virginia Retirement System (VRS). The City makes all contributions to both plans.

ERS acts as an administrator of a single, employee-defined benefit pension plan. The ERS's Board of Trustees, based on actuarial estimates of future plan benefits to be paid, provides the contribution requirements for consideration by City Council. The majority of City employees are covered by ERS. Constitutional employees of the City and employees of the Danville School Board are covered by VRS.

Additional information concerning both retirement plans can be found in Note 11 of the Notes to the Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Danville for its Comprehensive Annual Financial Report (CAFR), for the fiscal year ended June 30, 2007. This was the twenty-second consecutive year the City of Danville has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

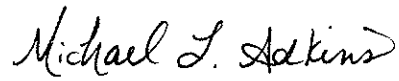
A Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirement, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The timely preparation for this Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for their assistance and contributions in the preparation of this report. Credit must also be given to the leadership of the governing City Council and their support for maintaining sound financial management.

Respectfully submitted,


M. Lyle Lacy
Interim City Manager


Barbara A. Dameron
Director of Finance


Michael L. Adkins
Deputy Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Danville
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

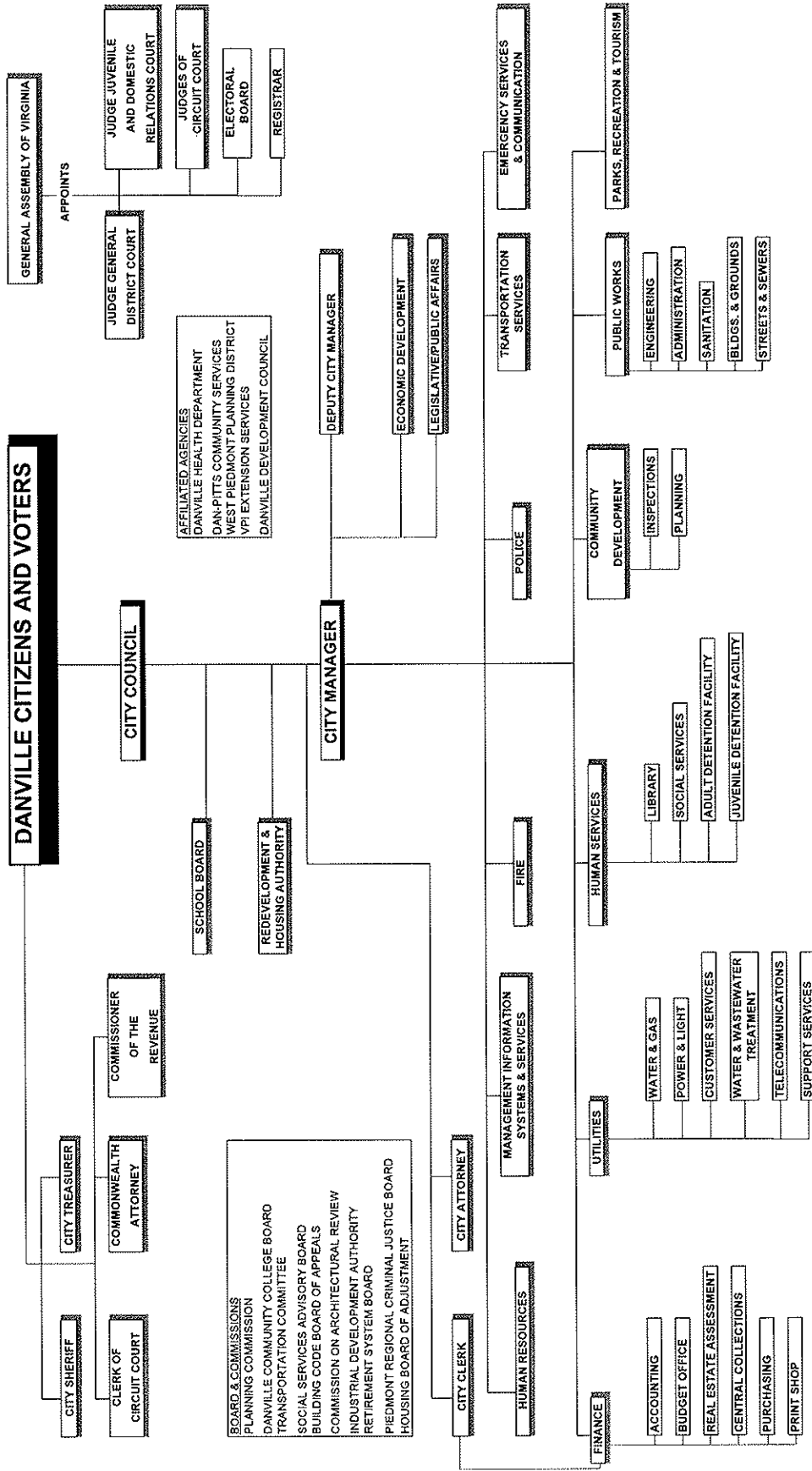


Charles S. Cox

President

Jeffrey R. Ennis

Executive Director



CITY OF DANVILLE
OFFICIAL DIRECTORY
CITY COUNCIL

Sherman M. Saunders
Mayor
Ruby B. Archie
E. Stokes Daniels, Jr.
T. David Luther

Peter A. Castiglione, Jr.
Vice-Mayor
Gary P. Miller
John C. Hamlin
T. Wayne Oakes

Adam J. Tomer

LEGISLATIVE STAFF

W. Clarke Whitfield, Jr.
Annette Y. Crane

City Attorney
City Clerk

ADMINISTRATIVE OFFICIALS

Jerry L. Gwaltney
M. Lyle Lacy, III
Joseph C. King
Cynthia L. Thomasson
Jeremy A. Stratton
Marc D. Adelman
Barbara A. Dameron
Richard Drazenovich
Gwendolyn M. Edwards
Gerald L. Fischer
Inez R. Pollock
David R. Eagle
Philip A. Broadfoot
Andrea W. Haley
Douglas R. Young
William O. Sgrinia

City Manager
Deputy City Manager
Assistant City Manager for Utilities
Budget Director
Director of Economic Development
Director of Transportation Services
Director of Finance
Director of Public Works
Director of Human Services
Director of Community Development
Director of Information Technology
Fire Chief
Chief of Police
Director of Human Resources
Director of Emergency Services
Director of Parks, Recreation, and Tourism

CONSTITUTIONAL OFFICERS

James E. Dooley
William H. Fuller, III
Gerald A. Gibson
James M. Gillie
Richard L. Turner

City Sheriff
Commonwealth Attorney
Clerk of Circuit Court
Commissioner of the Revenue
Interim City Treasurer

SCHOOL OFFICIALS

SCHOOL BOARD

George M. Wilson
Chairman

Malcom W. Huckabee

Edward C. Polhamus

Rebecca L. Bolton
Vice Chairman

O. Renee' Hughes

Alonzo L. Jones

R. Helm Dobbins

ADMINISTRATIVE OFFICIALS

Dr. Sue B. Davis

Dr. Kathy J. Osborne

Carrie H. Merricks

Dr. Juliet C. Jennings

Andrew W. Tyrrell

Superintendent

Assistant Superintendent for
Administrative Services

Clerk of School Board

Assistant Superintendent for Human
Resource Services

Assistant Superintendent for
Instruction

EMPLOYEES' RETIREMENT SYSTEM OFFICIALS

BOARD OF TRUSTEES

City Employee Members

Carolyn B. Evans
Chairman

Kenneth D. Fitzgerald

David H. Patterson

Citizen Members

James A. Motley
Retired, American National Bank

Edward B. Baucom
Retired, Danville Regional Medical Center

E. Linwood Wright, III
Retired, Dan River, Inc.

EX-OFFICIO MEMBERS

T. Wayne Oakes
Mayor Designee

Jerry L. Gwaltney
City Manager

Barbara A. Dameron
Director of Finance



FINANCIAL SECTION

Report of Independent Auditors

The Honorable Mayor and Members of the City Council
City of Danville, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Danville, Virginia* as of and for the year ended June 30, 2008, which collectively comprise the *City of Danville, Virginia's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Danville, Virginia's* management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Danville, Virginia* as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008 on our consideration of the *City of Danville, Virginia's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

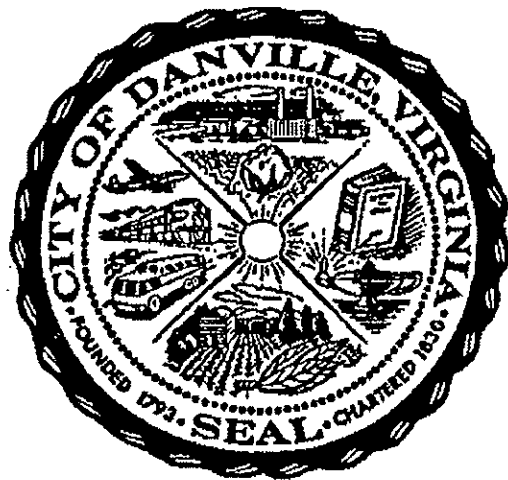
Management's Discussion and Analysis and the budgetary comparison schedules in the Financial Section of the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the *City of Danville, Virginia's* basic financial statements. The information identified as the Other Supplementary Information section, the Single Audit Section, and the Legal Debt Margin Information in the Statistical Section of the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the *City of Danville, Virginia*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections of the report are presented for the purposes of additional analysis and are not required parts of the basic financial statements of the *City of Danville, Virginia*. Such additional information, except as described in the preceding paragraph, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Goodman & Company, LLP

Danville, Virginia
December 4, 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The City of Danville, Virginia's (the "City") management presents this discussion and analysis for the purpose of: (a) assisting the reader in understanding significant financial issues, (b) providing an overview of the City's financial activity, and (c) identifying changes in the City's financial position. We encourage readers to read the transmittal letter, the basic financial statements, and the notes to the financial statements along with this discussion and analysis.

Financial Highlights

Government-wide Financial Statements

- At the close of the fiscal year, the assets of the City exceeded its liabilities by \$340,875,967 (total net assets - government-wide). Of this amount, \$82,668,896 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Net assets of the City's business-type activities as of June 30, 2008 were \$252,568,445, an increase of \$16,896,522 from net assets of \$235,671,923 reported at June 30, 2007. Net assets of \$32,524,963 are reported as unrestricted, a \$2,108,737 decrease from unrestricted net assets reported at June 30, 2007.
- As of June 30, 2008, the City's governmental activities for government-wide statements reported net assets of \$88,307,522, an increase of \$2,244,670 over the beginning net assets of \$86,062,852. Net assets of \$50,143,933 at June 30, 2008, are reported as unrestricted and available to meet the government's obligations to citizens and creditors.

Fund Financial Statements

- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$44,617,189, an increase of \$1,941,679 in comparison to the fund balance reported at June 30, 2007 of \$42,675,510. Sixty-two percent of the total fund balance at June 30, 2008, \$27,822,977, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was \$27,812,317, or thirty percent of total fund expenditures.

Fund statements utilize the current financial resource measurement focus and modified accrual basis of accounting, which focuses on transactions and events that effect the financial resources available for current spending during the period and reflect near-term inflows or outflows of cash. Government-wide statements use the economic resource measurement and accrual basis of accounting, which focuses on transactions and events that effect the fund's total economic resources; i.e., increase or decrease in net assets during the period regardless of the timing of the related cash inflows or outflows. Fund statements do not include capital or other long-term assets that are not available to finance current period expenditures nor do they include long-term liabilities that will not use current resources. These items must be added (assets) or deducted (liabilities) to/from the fund balances of governmental funds to obtain the

net assets of the governmental activities for government-wide reporting. In addition, the assets and liabilities of internal service funds are included in the governmental activities in the statement of activities, and the combined governmental fund balances from the fund financial statements must be adjusted accordingly. All of these factors add another \$43,690,333 to the combined balances of governmental funds when converting to net assets of governmental activities. The reconciliation presented on pages 43 and 45 of this report offer summarized details of the conversion from governmental fund statements to government-wide statements for governmental activities.

The combined fund balances of the governmental funds report an unreserved fund balance of \$27,822,977 and a reserved fund balance of \$16,794,212. Government-wide net assets for governmental activities report total restricted assets of \$8,229,657 and unrestricted net assets of \$50,143,933. The conversion from the unreserved fund balance to unrestricted net assets can be shown as follows:

Unreserved fund balance (fund statement)	\$ 27,822,977
Deferred revenue for fund statements no longer deferred for government-wide	14,048,251
Internal Service Funds noncapital assets merged into governmental activities for government-wide statements	4,033,092
Workers' compensation, accrued interest, and other compensated absences	(4,952,465)
Encumbrances not restricted externally	5,561,975
Group Health, and OPEB related funds, restricted only for fund statements	<u>3,630,103</u>
Unrestricted net assets – per government-wide governmental activities	<u><u>\$ 50,143,933</u></u>

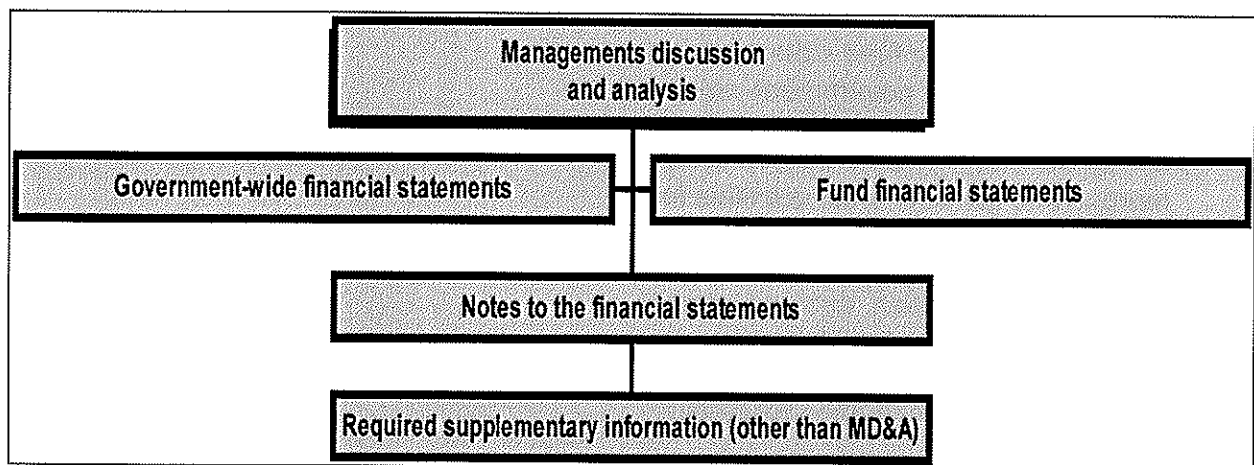
The conversion from reserved fund balance to restricted net assets can be shown as follows:

Reserved fund balance (fund statement)	\$ 16,794,212
Reserved for OPEB Liability	(250,000)
Group Health funds, restricted for fund statements	(2,752,580)
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(5,561,975)</u>
Restricted net assets - governmental activities	<u><u>\$ 8,229,657</u></u>

The Statement of Net Assets - Enterprise Funds does not require a conversion to the Statement of Net Assets Government-wide reporting of Business-type Activities because enterprise funds already use the economic resource measurement focus and the accrual basis of accounting. From a management-reporting viewpoint, there are significant differences in the reporting of fund balance. These differences in reporting the composition of fund balance between the government-wide statements for business-type activities and the fund statements for enterprise funds are discussed in the Business-type Activities section of the Government-wide financial analysis discussion.

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (a) management's discussion and analysis (MD&A), (b) government-wide financial statements, (c) fund financial statements, and (d) notes to the basic financial statements.



Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances using the accrual basis of accounting, similar to the accounting found in private sector businesses. Government-wide financial reporting consists of two statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets

The Statement of Net Assets presents information on all the City's assets and liabilities. The difference between assets and liabilities is reported as net assets. Net assets are presented in three categories: invested in capital assets – net of related debt, restricted, and unrestricted. Over time, the increases or decreases in the City's net assets can be an indicator as to whether the financial position of the City is improving or deteriorating. To accurately use changes in net assets as an indicator of the City's overall health, the underlying factors contributing to the increase or decrease must be analyzed, as well as other nonfinancial factors (such as changes in the property tax base and the condition of infrastructure and other fixed assets).

The Statement of Activities

The Statement of Activities presents information showing how the net assets changed during the year. As mentioned earlier, government-wide statements use the accrual basis of accounting. Therefore, changes in net assets are recognized when an underlying event occurs regardless of the timing of the related cash flow. As a result, revenues and expenses are reported in this statement for some items that will not impact cash flows until future fiscal periods.

In the Statement of Net Assets and the Statement of Activities, the City of Danville is divided into three types of activities:

Governmental Activities - Most of the City's basic services are reported here: Police, Fire, Economic Development, Recreation, Social Services, Community Development, and the General Administration. These activities are supported primarily by property taxes, other local taxes, state and federal grants, and contributions from the City's Utility Department (Wastewater, Water, Gas, Electric, and Telecommunications).

Business-Type Activities - The City has eight business-type activities: (1) Wastewater, (2) Water, (3) Gas, (4) Electric, (5) Telecommunications, (6) Transportation, (7) Sanitation, and (8) Cemetery Operations. The City charges a fee to customers to cover all or most of the cost associated with providing these services.

Component Units - The City of Danville has two component units: (1) the Danville Public School System and (2) the Industrial Development Authority. While these represent legally separate entities, the City of Danville is financially accountable for them. These component units are combined and presented in a separate column on the government-wide statements to emphasize they are legally separate from the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Danville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal requirements. The City of Danville has three types of funds:

Governmental Funds

The Governmental Funds report essentially the same functions as the governmental activities in the government-wide financial statements. The governmental fund financial statements focus on the near-term cash inflows and outflows and the amount of spendable resources available at the end of the fiscal year. This information is useful when evaluating the City's near-term financing needs. Because the focus of the fund statements is narrower than that of the government-wide statements, it is useful to compare the information presented in both the fund and the government-wide statements. A reconciliation from the fund statements to the government-wide statements is provided to facilitate this comparison.

The City of Danville maintains five individual governmental funds. Information is presented separately in the Balance Sheet-Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds for the General Fund, the Community Development Fund, and the Capital Projects Fund. These funds are considered major funds. The Special Revenue Fund and the Cemetery Maintenance Fund are considered nonmajor funds. The data for these two funds are combined in a single column for the Balance Sheet-Governmental Fund and the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Fund.

Proprietary Funds

The City of Danville maintains two types of proprietary funds: (a) utility enterprise funds and (b) internal services funds. Utility funds are used to report the same functions as the business-type activities in the government-wide financial statements. Wastewater, Water, Gas, and Electric are presented on the statements individually as major funds. Telecommunications, Transportation, Sanitation, and Cemetery Operations are combined as nonmajor funds. Utility funds are used to account for operations: (1) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the cost of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments on a cost reimbursement basis. The City of Danville has three internal service funds providing services to other City departments as follows:

1. Motorized Equipment – acquires and maintains all vehicles used by the various departments of the City. The Fire Department purchases and maintains large equipment independent of motorized equipment.
2. Central Services – provides office supplies and printing services for all of the City's departments.
3. Insurance – provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the government's own programs. The City of Danville maintains two fiduciary funds, a Pension Trust Fund and an Agency fund, the Veterans Memorial Fund.

The Employees' Retirement System of the City of Danville functions as an investment and administrative agent for the City's retirement plan. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

The Veterans Memorial Fund accounts for money held in trust to complete a memorial to our local veterans. This activity is also excluded from the government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to the financial statements

The notes to the financial statements are an integral part of the statements and should be read in conjunction with the basic financial statements, Management's Discussion and Analysis, and the other required supplementary information.

Government-wide Financial Analysis

City of Danville
Summary Statement of Net Assets
June 30, 2008

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 71,746,749	\$ 65,239,186	\$ 81,933,294	\$ 75,968,978	\$ 153,680,043	\$ 141,208,164
Capital Assets	64,532,484	67,956,149	228,183,827	217,237,489	292,716,311	285,193,638
Total Assets	\$ 136,279,233	\$ 133,195,335	\$ 310,117,121	\$ 293,206,467	\$ 446,396,354	\$ 426,401,802
Long-Term Liabilities Outstanding	\$ 39,113,536	\$ 43,022,051	\$ 42,988,390	\$ 45,880,807	\$ 82,101,926	\$ 88,902,858
Other Liabilities	8,858,175	4,110,432	14,560,286	11,653,737	23,418,461	15,764,169
Total Liabilities	\$ 47,971,711	\$ 47,132,483	\$ 57,548,676	\$ 57,534,544	\$ 105,520,387	\$ 104,667,027
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 29,933,932	\$ 28,858,705	\$ 189,153,872	\$ 172,325,000	\$ 219,087,804	\$ 201,183,705
Restricted for Cemetery Maintenance	2,541,972	2,504,847	-	-	2,541,972	2,504,847
Restricted for Capital Projects	4,479,245	4,931,135	30,889,610	28,713,223	35,368,855	33,644,358
Restricted for Special Programs	510,543	662,725	-	-	510,543	662,725
Restricted for Debt Service	697,897	720,613	-	-	697,897	720,613
Unrestricted	50,143,933	48,384,827	32,524,963	34,633,700	82,668,896	83,018,527
Total Net Assets	\$ 88,307,522	\$ 86,062,852	\$ 252,568,445	\$ 235,671,923	\$ 340,875,967	\$ 321,734,775

The City's combined net assets at June 30, 2008 of \$340,875,967, represents an increase of \$19,141,192 from combined net assets at June 30, 2007. Twenty-four percent of total net assets (\$82,668,896) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Sixty-four percent of total net assets is invested in capital assets (land, buildings, machinery, and equipment), less any related outstanding debt used to acquire these assets. These assets are used in providing services to the citizens; consequently, these assets are not available for future spending. Although the City of Danville's investment in capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Ten percent of total net assets is restricted for capital improvement projects. Invested in Capital Assets Net of Related Debt and restricted for Capital Projects combined represent seventy-five percent of total net assets. The remaining one percent of net assets (\$3,750,412) is restricted

for other special projects (grants), debt service, net pension assets, and the perpetual care of the municipal cemetery. The composition of fund balance at June 30, 2007 was as follows: Unrestricted net assets - 25%, Invested in Capital Assets net of related debt - 63%, Restricted for Capital Projects - 10% (Invested in Capital Assets and Restricted for Capital Projects combined - 73%), and the remaining 2% was restricted for other purposes. Despite the economic stresses locally, the City of Danville reported positive balances in all three categories of net assets for the government as a whole. Unrestricted fund balance declined, while fund balance restricted for investment in capital assets net of related debt and restricted for capital projects increased.

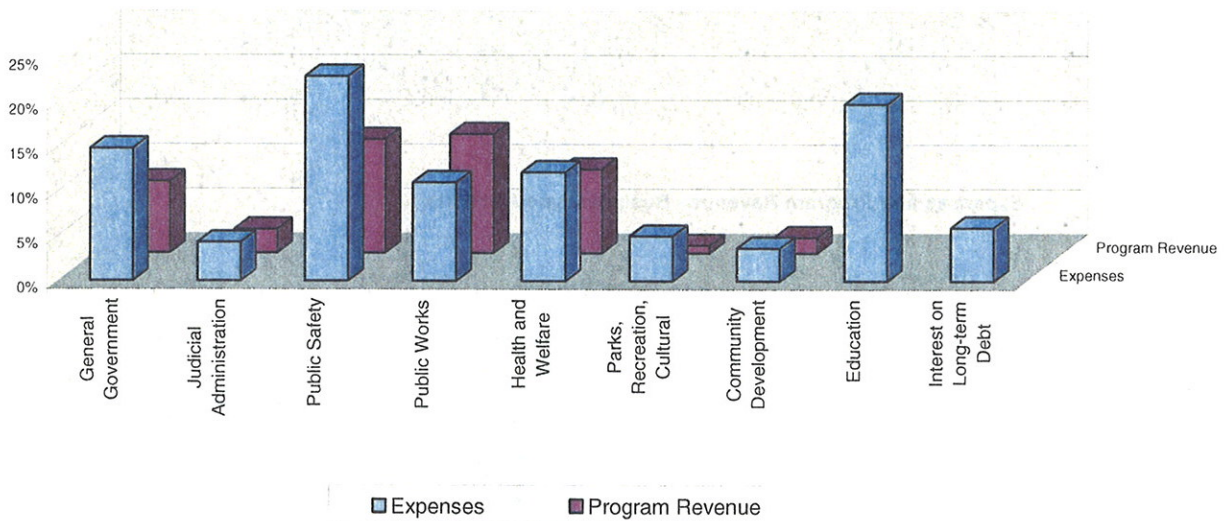
City of Danville
Changes in Net Assets
June 30, 2008

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,966,061	\$ 7,616,876	\$ 144,356,199	\$ 135,621,466	\$ 151,322,260	\$ 143,238,342
Operating Grants and Contributions	41,172,782	38,205,373	405,673	355,921	41,578,455	38,561,294
Capital Grants and Contributions	2,139,975	4,055,930	2,735,406	1,741,248	4,875,381	5,797,178
General Revenues:						
Real Estate and Personal Property	26,590,389	25,930,246	-	-	26,590,389	25,930,246
Other Taxes (See Exhibit B for detail)	21,546,035	21,971,995	-	-	21,546,035	21,971,995
Interest on Investments	1,626,835	885,861	2,610,753	3,452,939	4,237,588	4,338,800
Miscellaneous	1,235,600	1,047,591	2,240,166	1,856,551	3,475,766	2,904,142
Total Revenues	\$ 101,277,677	\$ 99,713,872	\$ 152,348,197	\$ 143,028,125	\$ 253,625,874	\$ 242,741,997
Expenses:						
General Government	\$ 16,703,620	\$ 10,978,148	\$ -	\$ -	\$ 16,703,620	\$ 10,978,148
Judicial Administration	4,853,835	5,218,767	-	-	4,853,835	5,218,767
Public Safety	25,809,136	24,929,011	-	-	25,809,136	24,929,011
Public Works	12,423,465	10,844,833	-	-	12,423,465	10,844,833
Health and Welfare	13,743,677	12,844,409	-	-	13,743,677	12,844,409
Parks, Recreation, and Culture	5,666,299	5,367,886	-	-	5,666,299	5,367,886
Community Development	4,133,310	11,796,198	-	-	4,133,310	11,796,198
Education (payment to school district)	22,343,504	16,903,673	-	-	22,343,504	16,903,673
Interest on Long Term Debt	6,732,839	1,617,511	-	-	6,732,839	1,617,511
Wastewater	-	-	6,975,203	6,561,949	6,975,203	6,561,949
Water	-	-	5,035,842	4,739,464	5,035,842	4,739,464
Gas	-	-	28,436,785	23,320,491	28,436,785	23,320,491
Electric	-	-	75,313,686	72,817,037	75,313,686	72,817,037
Transportation	-	-	1,376,803	1,159,824	1,376,803	1,159,824
Telecommunication	-	-	548,667	506,775	548,667	506,775
Sanitation	-	-	3,468,038	3,356,786	3,468,038	3,356,786
Cemetery Operations	-	-	919,973	813,462	919,973	813,462
Total Expenses	\$ 112,409,685	\$ 100,500,436	\$ 122,074,997	\$ 113,275,788	\$ 234,484,682	\$ 213,776,224
Subtotal Revenue over Expenses	\$ (11,132,008)	\$ (786,564)	\$ 30,273,200	\$ 29,752,337	\$ 19,141,192	\$ 28,965,773
Transfers	13,376,678	12,783,444	(13,376,678)	(12,783,444)	-	-
Increase in Net Assets	2,244,670	11,996,880	16,896,522	16,968,893	19,141,192	28,965,773
Beginning Net Assets	86,062,852	74,065,972	235,671,923	218,703,030	321,734,775	292,769,002
Ending Net Assets	\$ 88,307,522	\$ 86,062,852	\$ 252,568,445	\$ 235,671,923	\$ 340,875,967	\$ 321,734,775

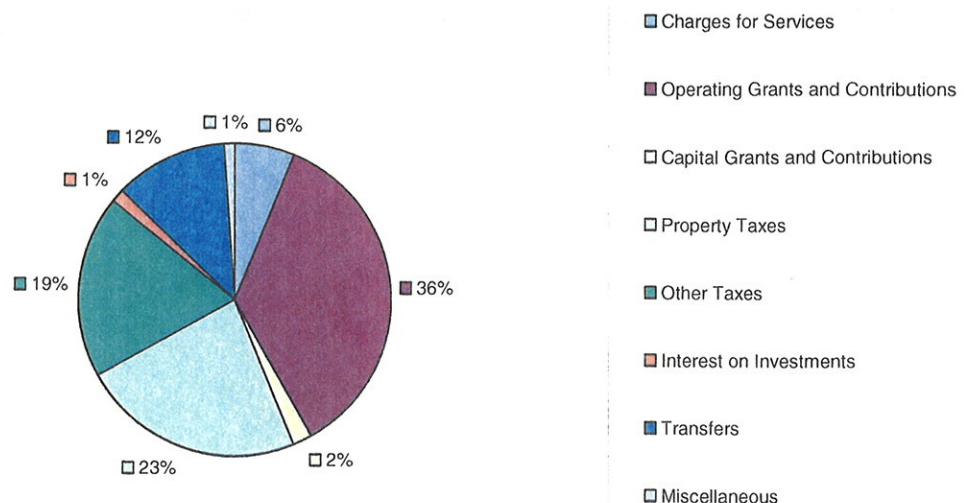
Governmental Activities

Governmental activities increased the City of Danville's net assets by \$2,244,670. Revenues (including transfers) from governmental activities totaled \$114,654,355, with Property Taxes 23%, Other Taxes 19%, Operating Grants and Contributions 36%, and Transfers 12%, representing 90% of the City's revenues. Expenses for governmental activities totaled \$112,409,685, of which 45% was supported from program revenues and the remaining 55% from general revenues. Expenses for Public Safety 23%, Education 20%, Health & Welfare 12%, General Government 15%, Public Works 11%, and Interest on Long-Term Debt 6% make up 87% of the total governmental expenses.

Expenses and Program Revenue - Governmental Activities



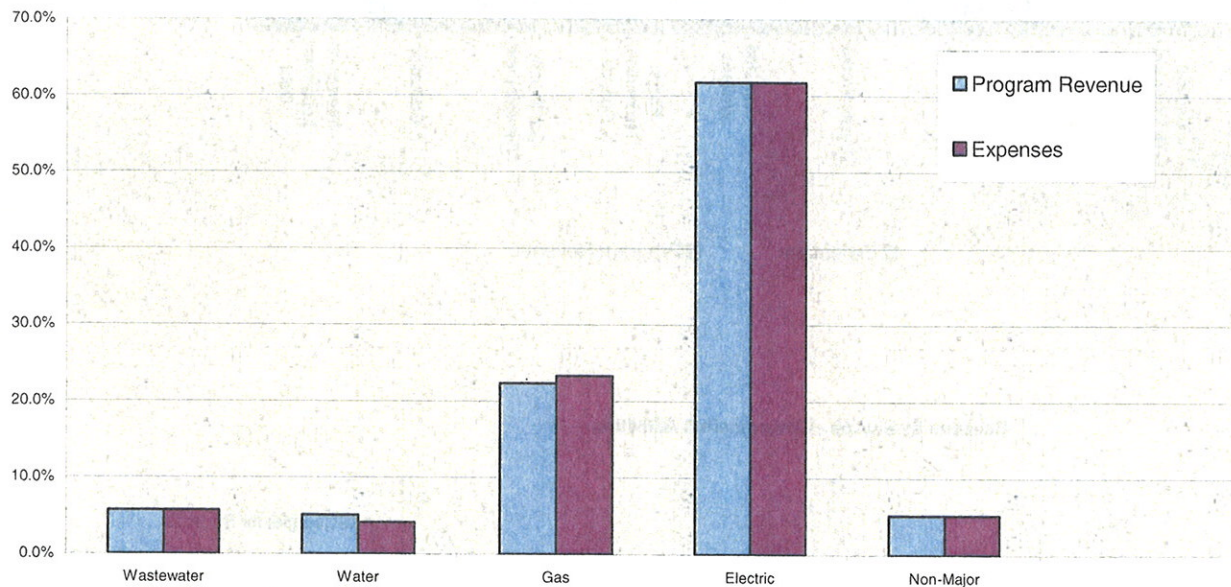
Revenue by Source - Governmental Activities



Business-type Activities

Business-type activities increased the City's net assets by \$16,896,522 compared to last year's increase in net assets of \$16,968,893. At June 30, 2008, total net assets were \$252,568,445 of which \$30,889,610 was restricted for capital improvement projects and \$32,524,963 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). Revenues for business-type activities were \$152,348,197 of which 97% was from Charges for Services. For further examination of the enterprise funds, please refer to the Enterprise Funds section of the Financial Analysis of the Fund Financial Statements found on page 31.

Expenses and Program Revenue - Business-type Activities



Financial Analysis of the Fund Financial Statements

Governmental Funds

Governmental funds reported a combined ending fund balance of \$44,617,189, an increase of \$1,941,679 when compared with the combined fund balance at June 30, 2007 of \$42,675,510. The fund balance in the Capital Projects Fund, also known as Construction In Progress (CIP), decreased \$451,890. Of the \$7,289,867 expended in the CIP fund, \$3,855,168 was expended in economic development. Funds of \$866,850 were expended for street and bridge construction at Coleman Marketplace and \$2,567,849 was expended for improvements to various public buildings, facilities, and equipment.

Sixty-two percent (\$27,822,977) of the combined governmental funds balance is unreserved fund balance, which is available for spending at the government's discretion. The remaining thirty-eight percent (\$16,794,212) of combined fund balance is reserved and not available for new spending, because it has already been committed to encumbrances (\$5,562,734); perpetual care of the municipal cemetery (\$2,541,972); debt service (\$697,897); prepaid expenses (\$289,236); health insurance and other post-retirement benefits (\$3,002,580); and specific projects (\$4,699,793).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2008 of \$36,381,044. This is an increase of \$2,406,646 compared to last year's fund balance of \$33,974,398. The General Fund reported an unreserved fund balance of \$27,812,317, an increase of \$1,080,378 from the June 30, 2007 unreserved fund balance of \$26,731,939. The ability of the General Fund to generate cash on demand can be calculated by comparing both the unreserved fund balance and total fund balance to total funds expended. Unreserved fund balance represents 30% of total General Fund expenditures while total fund balance represents 39% of total fund expenditures. When transfers out of \$7,038,645 are added to expenditures, then unreserved fund balance is 28% percent of expenditures and transfers out. The following table represents General Fund support shown as transfers out:

Support of CIP Projects	\$5,842,300
Support of Grants	940,701
Support of Cemetery	133,851
Support of Transportation	121,793
	<hr/>
	\$7,038,645

The increase in fund balance of \$2,406,646 resulted from \$8,468,523 unexpended budgeted expenditures and \$1,694,067 unanticipated revenue; offset by an overage of \$1,531 in transfers out; prior year encumbrance carryforwards of \$4,854,162; and \$2,900,251 in supplemental appropriations from fund balance.

Some key factors of unexpended appropriations are as follows:

- City Support of Public Schools had an unexpended balance of \$2,947,576. The unencumbered portion of this amount is reserved as a carryforward for fiscal 2009.

- Non-departmental spending was under budget by \$410,902 primarily related to the City's cost of health benefits for employees.
- Public Safety expenditures were under budget by \$1,451,260. This was mainly due to expenditures being less than anticipated for regular salaries, overtime pay, and part-time pay, in the public safety divisions of Juvenile Detention, Adult Detention, and E-911 because of vacancies. There were also considerable savings on food supplies in Juvenile Detention due to the use of USDA funding. A decrease in worker's compensation claims in the Fire Department also created significant savings.
- Public Works spending was also under budget by \$2,024,988. This savings was realized through various repairs and maintenance jobs performed throughout the fiscal year on streets, bridges, and sidewalks.

Some key factors of unanticipated revenue are as follows:

- General Property Tax collections were \$309,332 over budget. The primary components of this variance exist in the following areas:

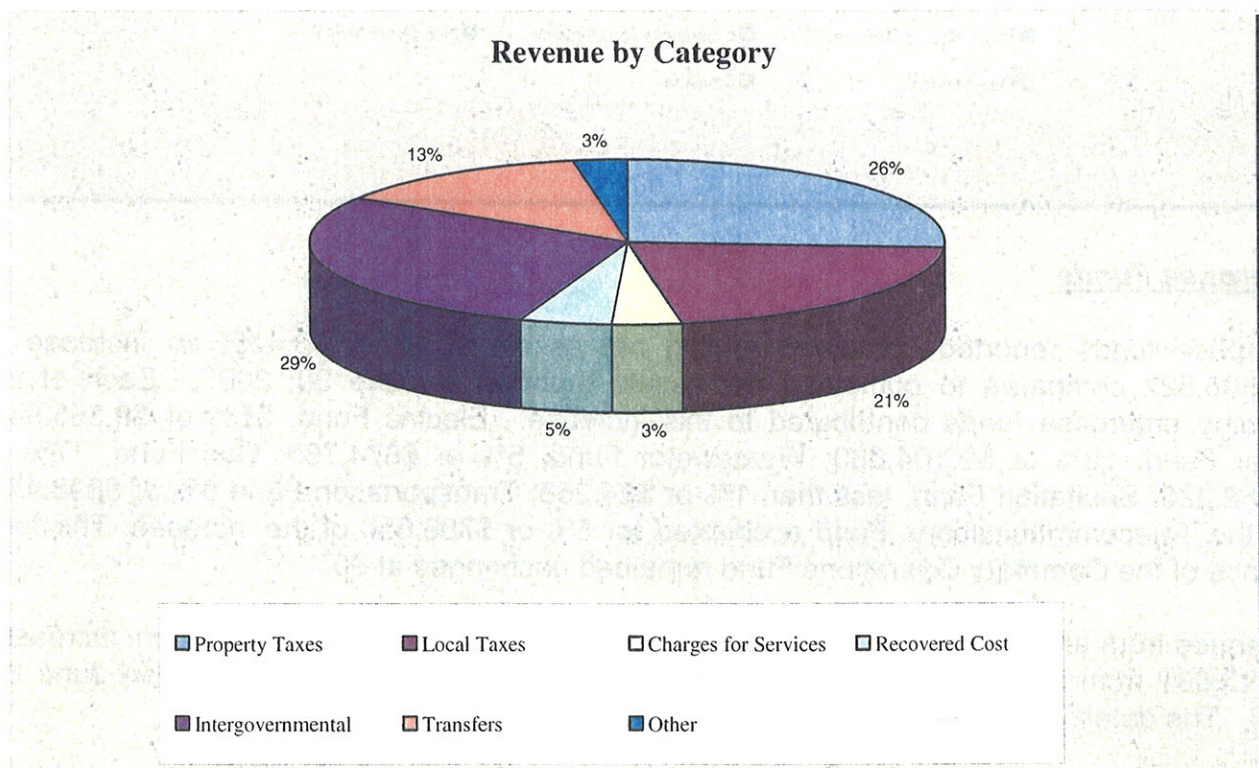
Real Estate	\$ 969,809
Personal Property	\$ (896,282)
Public Service	\$ (2,974)
Penalties & Interest	\$ 238,779

- Real Estate realized additional revenues due to increased efforts in collecting delinquent taxes. This is also reflected in increased collections of penalty and interest. Collections of personal property are less than budget because of the deferment of Personal Property Tax Relief Act (PPTRA) revenue.
- Other Local Taxes were over the estimated budget of \$20,970,780 by \$575,255. This is primarily due to increases in sales tax and prepared meals tax. Local Sales Taxes were collected at 105% of budget, Business Licenses were collected at 102% of budget, Hotel Taxes were at 109% of budget, and Prepared Meals Tax collections also surpassed estimates at 104% of budget. Areas contributing to the budget variance include:

Motor Vehicle License	\$ 157,044
Prepared Meals Tax	\$ 188,226
Recordation Tax	\$ (113,371)
Local Sales Tax	\$ 371,419
Consumer Utility Taxes	\$ (105,464)

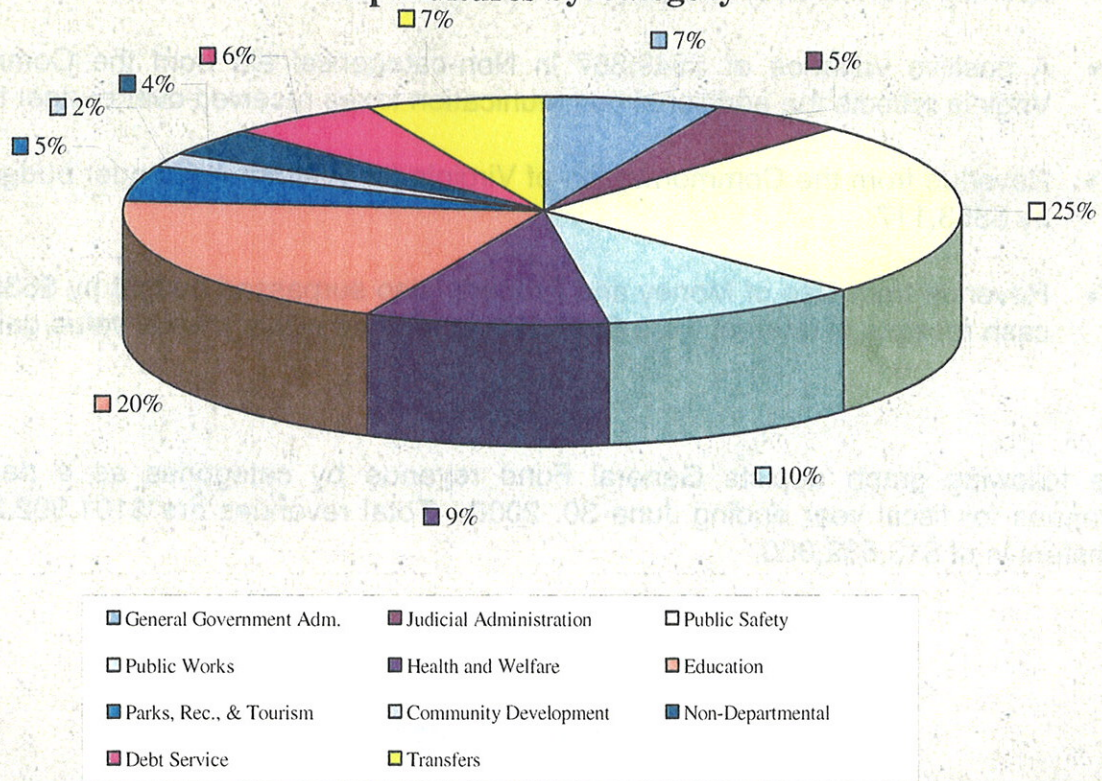
- The additional collections of Business Licenses, Local Sales Tax, and Prepared Meals Tax are indicative of the additional retail stores, restaurants, and other businesses opening over the past year or two.
- A positive variance of \$549,367 in Non-categorical aid from the Commonwealth of Virginia reflects the additional communication taxes received over budget this year.
- Revenue from the Commonwealth of Virginia for Welfare was under budgeted amounts by \$353,117.
- Revenue from Use of Money and Property also surpassed budget by \$635,920. Actual cash receipts of interest were \$617,171, combined with a market value gain of \$18,749.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2008. Total revenues are \$101,902,253, including transfers in of \$13,632,000.



The next graph shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2008. Total expenditures are \$99,495,607, including transfers out of \$7,038,645.

Expenditures by Category



Enterprise Funds

Enterprise funds reported combined ending net assets of \$252,568,445; an increase of \$16,896,522 compared to combined net assets reported at June 30, 2007. Each of the following enterprise funds contributed to this increase: Electric Fund, 55% or \$9,355,942; Water Fund, 12% or \$2,104,080; Wastewater Fund, 5% or \$874,788; Gas Fund, 17% or \$2,852,320; Sanitation Fund, less than 1% or \$24,268; Transportation Fund 5% or \$898,474; and the Telecommunications Fund accounted for 5% or \$786,650 of the increase. The fund balance of the Cemetery Operations Fund remained unchanged at \$0.

Revenues from all sources combined, including contributed capital and transfers in, increased \$9,012,661 from fiscal year ended June 30, 2007 compared to fiscal year ended June 30, 2008. The details of this net increase in revenue result from the following:

Charges for Services	\$ 8,720,215
Capital Contributions	\$ 880,799
Federal and State Grants	\$ 149,720
Interest Income	\$ (977,935)
Recoveries & Gain on Sale of Fixed Asset	\$ 53,224
Sales/Jobbing/Rental/Transfers/Inkind	\$ 186,638

Charges for Services increased in the Gas Fund \$6,659,475 reflecting a 6% rate increase, as well as increased consumption. Wastewater rates were also increased by 18% for fiscal 2008, but industrial consumption decreased. The resulting increase in wastewater charges for services was \$557,301. The rate increases were adopted in response to declining consumption and ongoing fixed operating costs. Charges for Services increased in Electric by \$1,271,479 as a result of higher consumption. The Water Fund remained fairly constant with an increase of \$130,160 and Non-major Funds (Transportation, Sanitation, Cemetery, and Telecommunication) were fairly stable with an increase of \$101,800.

The increase in Capital Contributions reflects contributions from developers for infrastructure related to economic development. The decrease in interest income resulted from the falling interest rates that were experienced during the fiscal year. Operating income for all enterprise funds combined remained constant with the prior year, decrease by \$20,314.

The Utilities contributed \$13,632,000 in transfers to the General Fund for fiscal year ending June 30, 2008. Enterprise Funds' net assets of \$252,568,445 include \$32,524,963 unrestricted, \$30,889,610 restricted for incomplete projects, and \$189,153,872 invested in capital assets, net of related debt.

General Budgetary Highlights

City of Danville General Fund Budget Year Ended June 30, 2008			
	Original Budget	Amended Budget	Actual
Revenues, Transfers, and Other Financial Sources			
Taxes	\$47,217,780	\$47,217,780	\$48,102,367
Intergovernmental	28,115,883	28,552,416	28,835,180
Other	24,292,528	24,437,990	24,964,706
Total	99,626,191	100,208,186	101,902,253
Expenditures, Transfers, and Other Financial Uses			
Expenditures	95,601,619	100,925,485	92,456,962
Transfers and other	4,024,572	7,037,114	7,038,645
Total	99,626,191	107,962,599	99,495,607
Change in Fund Balance	\$ -	\$ (7,754,413)	\$ 2,406,646

Differences between the City's original operating budget for expenditures and transfers and the final amended budget resulted from carryforwards and prior year encumbrances of \$4,854,162 and additional appropriations totaling \$3,482,246. \$581,995 of the additional appropriations had matching revenues and \$2,900,250 was appropriated from fund balance, represented as follows:

Appropriations with matching revenue:

Police – Forfeited Funds	\$ 41,097
Child Daycare, Welfare & Foster Care Grants	\$ 7,864
Fire Grants and Donations	\$ 17,100
Juvenile Detention – Electronic Monitoring	\$ 118,827
Safe and Stable Families Grant	\$ 37,811
Hazardous Material Response	\$ 1,886
Project Lifesaver	\$ 13,086
Enterprise Zone Grants	\$ 344,325

Appropriations from fund balance:

Economic Development Incentives	\$ 2,844,000
Trail Development	\$ 56,250

Revenues exceeded budget primarily because of the increases in tax revenue from additional businesses, interest income, and higher than expected revenue from the Virginia Telecommunications Tax. The positive budget variance in expenditures resulted primarily from a decrease in health insurance costs, decreased spending in Public Safety and Public Works, and decreased transfers to the Danville City School System. The school funds have been encumbered and will be transferred during fiscal 2009 as needed.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$292,716,311 (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. For further analysis of capital assets, please refer to note 5 in the notes to the financial statements.

Major capital asset events during the current fiscal year included the following:

- Implementation of financial software continued during fiscal year 2008, with the addition of Phase II projects including utility billing and collection. Current year expenditures amounted to \$834,692.
- Economic development incentives totaling \$3,855,168 were granted to Nestle, Inc., Com40, Inc., and North American Properties, the developer of Coleman Marketplace.

Expenditures for infrastructure at Coleman Marketplace totaled \$2,532,447 at June 30, 2008. Coleman Marketplace is home to some of Danville's newest retailers such as Home Depot, Target, Dick's Sporting Goods, and Old Navy.

- Improvements in the amount of \$1,307,553 were made to the infrastructure at Cain Creek Centre during the fiscal year.

City of Danville Capital Assets (net of depreciation) June 30, 2008			
	Governmental Activities	Business-type Activities	Total
Land	\$ 7,705,752	\$ 1,325,057	\$ 9,030,809
Building & Improvements	20,898,838	175,162,336	196,061,174
Machinery & Equipment	1,689,445	24,814,534	26,503,979
Infrastructure	9,696,995	-	9,696,995
Construction in Progress	7,257,633	26,881,900	34,139,533
Subtotal	47,248,663	228,183,827	275,432,490
Assets Transferred from School Board	17,283,821	-	17,283,821
Total	\$ 64,532,484	\$ 228,183,827	\$ 292,716,311

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation and revenue bonded debt of \$63,862,433, capital lease revenue bonded debt of \$9,394,097, and notes payable of \$3,200,000 for a total of \$76,456,530.

City of Danville's Outstanding Debt Bonds and Related Loans						
	Governmental Activities		Business-type Activities		Total	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
General Obligation Bonds	\$ 24,819,277	\$ 28,488,093	\$ 33,909,608	\$ 38,073,432	\$ 58,728,885	\$ 66,561,525
Revenue Bonds	-	-	5,133,548	5,708,574	5,133,548	5,708,574
Capital Lease Revenue Bonds	9,394,097	10,230,058	-	-	9,394,097	10,230,058
Notes Payable	200,000	400,000	3,000,000	1,060,000	3,200,000	1,460,000
Total	\$ 34,413,374	\$ 39,118,151	\$ 42,043,156	\$ 44,842,006	\$ 76,456,530	\$ 83,960,157

Notes payable is comprised an inter-fund loan between Electric, Gas, and Wastewater and Section 108 loans. The inter-fund loan balance was \$3,000,000 at June 30, 2008. The Section 108 loan was solely for the development of the Riverview Industrial Park and is being repaid with Community Development Block Grant Entitlement money. The lease-revenue bonds cover three items: (1) addition and renovation to the courts and jail, (2) expansion of the juvenile detention home, and (3) renovation of the Social Services building, which houses the Social Services departments.

During the 2007-2008 fiscal year, the City made principal payments of \$9,443,627. No new debt issues occurred in the governmental or enterprise funds; however bond issues are

anticipated for the 2008-09 fiscal year in the enterprise funds. No refunding occurred in fiscal year 2008.

At the time of the City's last bond rating review, we received an "A3" rating from Moody's for general obligation and revenue bond debt. The City of Danville's debt management policy states total general obligation net debt will not exceed 7.5% of the assessed valuation of the real property in the City of Danville, which is less than the 10% debt limit required by the Commonwealth of Virginia's Constitution. At June 30, 2008, net debt for the City of Danville was 2.11%.

Additional information on the City of Danville's long-term debt can be found in note 7 of the notes to the financial statements.

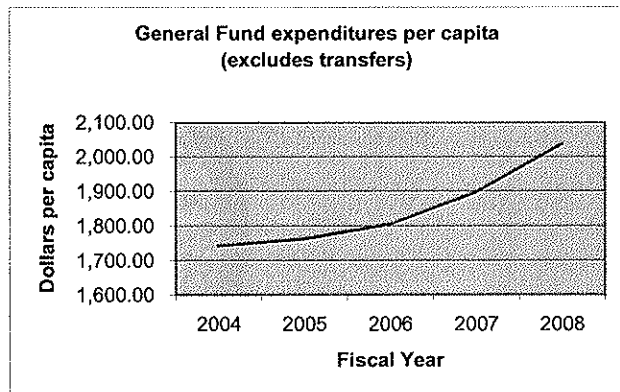
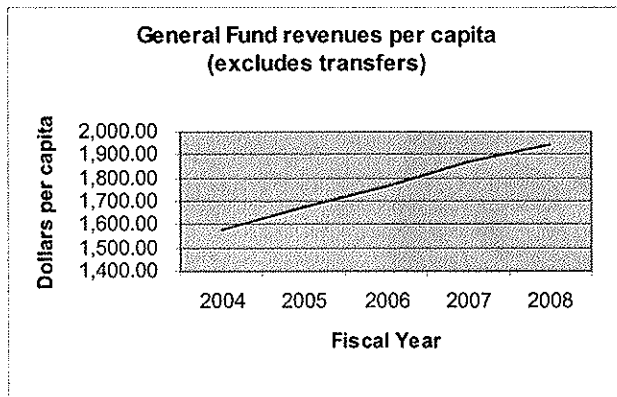
Economic Factors and Next Year's Budget and Rates

- As of September 30, 2008, the average unemployment rate for the City of Danville was 7.9 percent, which is an increase from a rate of 6.6 percent at September 30, 2007. This compares to the Commonwealth's average unemployment rate of 4.2 percent and the national average rate of 6.0 percent.
- In recent years, Danville witnessed the return of double-digit unemployment and experienced numerous permanent layoffs primarily related to closings at Dan River, Inc., DIMON, and Diebold. Danville has been rebuilding itself with essential steps towards biotechnology; air and land-based robotics research, nanotechnology, aerospace, engineering, and advanced polymers research. The goal of the City of Danville is to shift from a traditional agricultural and textile-dependent economy to a knowledge-based economy. Danville has also positioned itself to become a retail hub for the surrounding area with the construction and opening of Coleman Marketplace. Retail stores such as Target, Old Navy, Dick's Sporting Goods, and Home Depot have opened their doors during fiscal year 2008. Continued successes in the City's economic development efforts are hoped to eventually bring Danville's unemployment more in line with that of the Commonwealth.
- Danville continues to make excellent strides in its fight against unemployment. Since March 2004, the City of Danville has announced 18 new projects and 10 expansions and 1 acquisition. This unprecedented activity accounts for nearly 6,000 jobs announced and more than half a billion dollars in new investment. In fiscal year 2008, efforts continued with announcements of 1,100 new jobs and an investment of \$246 million in Danville.
- During fiscal year 2007-2008, management's goal is to stabilize utility rates for electric services charged to its consumers. Utility rates have increased over the past several years in response to dramatic increases in purchased power costs for gas and electricity and the falling demand for water and wastewater services resulting from loss of industry. The real estate tax rate was decreased from \$0.77 to \$0.73 per \$100 for fiscal 2008-2009. Rates for electricity and wastewater services increased 3% and 18%, respectively.

- Danville has an estimated population of 45,385, based on the 2000 census. Per capita income is \$26,008 for Danville and \$39,540 for the Commonwealth of Virginia.
- Danville is located in the southern region of the United States. According to the consumer price index, Danville and the southern region have a lower cost of living compared to other regions in the United States.

Primary revenue sources for the City's General Fund are property taxes, sales taxes, business and occupational licenses, meals taxes, state revenues, and contributions from the City's Utility Departments. In establishing the budget, historical and trend data are analyzed. In addition to analyzing historical data, economic indicators and the impact the economy will have on the historical data is taken into consideration. Throughout the year, management monitors revenues and economic indicators to determine if they are on target with the analysis used to develop the budget.

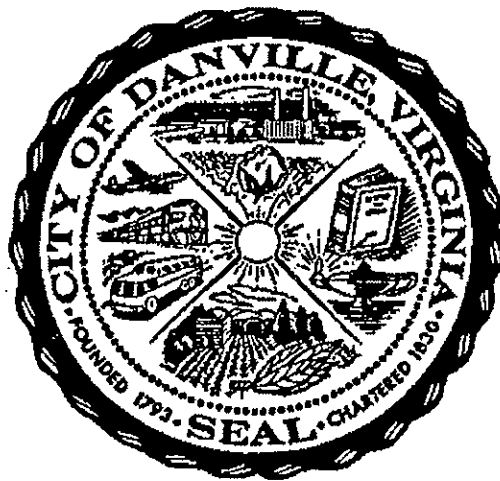
Other Financial Indicators



General Fund revenues and expenditures per capita have both trended upward over the last five years. Although the increase in revenue per capita is partially attributable to a declining population, there has been a 20% increase in revenues from 2004 to 2008. Expenditures have increased 14% from 2004 to 2008, demonstrating management's excellent efforts in containing costs despite ever increasing costs of goods and services. Expenditures in FY 2008 increased about \$6 million due to increased support of schools, combined with efforts to restore employee pay to competitive levels, especially in public safety areas. Danville's population has shown decreases over the past fiscal years. It is anticipated that through the economic development efforts, the City will see the population stabilize and begin to increase in the future.

Requests for Information

This financial report is designed to provide a general overview of the City of Danville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Danville, Director of Finance, 427 Patton Street, Danville, Virginia 24541.



FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
ASSETS				
Cash and investments				
Restricted expendable permanently	\$ -	\$ 25,591,830	\$ 25,591,830	\$ -
Unrestricted	46,926,109	29,415,670	76,341,779	1,650,103
Cash and investments - held by fiscal agents	918,412	14,000	932,412	3,364,738
Receivables - net	17,887,234	21,751,771	39,639,005	169,259
Due from business-type activities	152,597	-	152,597	-
Due from the City	-	-	-	4,016,823
Due from other governments	4,068,229	430,255	4,498,484	2,699,339
Prepayments	322,655	-	322,655	211,679
Inventories	424,826	4,106,674	4,531,500	937,858
Hedging asset	-	238,865	238,865	-
Pension asset	1,046,687	384,229	1,430,916	-
Capital assets:	-	-	-	-
Land and Construction in Progress	14,963,385	28,206,956	43,170,341	4,695,574
Other capital assets - net	49,569,099	199,976,871	249,545,970	19,064,381
Total assets	\$ 136,279,233	\$ 310,117,121	\$ 446,396,354	\$ 36,809,754
LIABILITIES				
Accounts payable	\$ 2,444,958	\$ 11,464,437	\$ 13,909,395	\$ 326,388
Accrued salaries	141,279	-	141,279	3,468,958
Accrued payroll taxes	-	-	-	265,570
Accrued interest	438,174	457,602	895,776	-
Accrued expenses	-	-	-	13,124
Loan escrow	160,533	-	160,533	-
Due to City of Danville	-	152,597	152,597	-
Due to component unit	3,932,066	-	3,932,066	-
Due to other governments	896,643	-	896,643	-
Refundable deposits	150,358	2,311,731	2,462,089	-
Pension liability	-	42,699	42,699	-
Deferred grant revenue	-	-	-	756,096
Unearned revenue	275,000	-	275,000	-
OPEB liability	419,164	131,220	550,384	345,613
Long-term liabilities:	-	-	-	-
Due within one year	6,765,490	5,348,273	12,113,763	1,567,849
Due in more than one year	32,348,046	37,640,117	69,988,163	13,430,790
Total liabilities	\$ 47,971,711	\$ 57,548,676	\$ 105,520,387	\$ 20,174,388
NET ASSETS				
Invested in capital assets - net of related debt	\$ 29,933,932	\$ 189,153,872	\$ 219,087,804	\$ 11,904,560
Restricted for:				
Insurance payments	-	-	-	3,364,738
Cemetery maintenance	2,541,972	-	2,541,972	-
Capital projects	4,479,245	30,889,610	35,368,855	-
Special programs	510,543	-	510,543	-
Debt service	697,897	-	697,897	-
Unrestricted	50,143,933	32,524,963	82,668,896	1,366,068
Total net assets	\$ 88,307,522	\$ 252,568,445	\$ 340,875,967	\$ 16,635,366

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

CITY OF DANVILLE, VIRGINIA
STATEMENT OF ACTIVITIES

Exhibit B

Year Ended June 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government:								
Government activities:								
General government	\$ 16,703,620	\$ 5,727,677	\$ 3,444,630	\$ -	\$ (7,531,313)	\$ -	\$ (7,531,313)	\$ -
Judicial administration	4,853,835	618,268	2,379,361	-	(1,856,206)	-	(1,856,206)	-
Public safety	25,809,136	312,503	14,249,198	-	(11,247,435)	-	(11,247,435)	-
Public works	12,423,485	-	8,907,479	635,466	(2,880,520)	-	(2,880,520)	-
Health and welfare	13,743,677	-	10,779,814	-	(2,963,863)	-	(2,963,863)	-
Parks, recreation, cultural	5,666,299	224,462	732,805	-	(4,709,032)	-	(4,709,032)	-
Community development	4,133,310	83,151	387,263	1,504,509	(2,158,387)	-	(2,158,387)	-
Education	22,343,504	-	292,232	-	(22,051,272)	-	(22,051,272)	-
Interest on long-term debt	6,732,839	-	-	-	(6,732,839)	-	(6,732,839)	-
Total governmental activities	112,409,685	6,966,061	41,172,762	2,139,975	(62,130,867)	-	(62,130,867)	-
Business-type activities:								
Wastewater	6,975,203	8,362,522	-	46,543	-	1,433,862	1,433,862	-
Water	5,035,842	7,142,932	-	363,073	-	2,470,163	2,470,163	-
Gas	28,436,785	32,949,771	-	-	-	4,512,986	4,512,986	-
Electric	75,313,686	90,181,855	-	816,636	-	15,684,805	15,684,805	-
Nonmajor	6,313,481	5,719,119	405,673	1,509,154	-	1,320,465	1,320,465	-
Total business-type activities	122,074,987	144,356,198	405,673	2,735,406	-	25,422,281	25,422,281	-
Total primary government	234,484,682	151,322,260	41,578,455	4,875,381	(62,130,867)	25,422,281	(36,708,586)	-
Component Units:								
Danville Public Schools	70,367,477	1,090,520	21,489,668	2,264,965	-	-	-	(45,522,334)
Industrial Development Authority	5,940,628	910,066	4,007,115	1,000,000	-	-	-	(23,447)
Total component units	\$ 76,308,105	\$ 2,000,586	\$ 25,496,773	\$ 3,264,965	-	-	-	(45,545,781)
General Revenues - unrestricted:								
Real estate and personal property taxes					26,590,389	-	26,590,389	-
Other taxes -								
Sales and use taxes					8,071,419	-	8,071,419	-
Business license taxes					4,989,707	-	4,989,707	-
Utility taxes					964,536	-	964,536	-
Hotel and meals taxes					5,495,291	-	5,495,291	-
Recordation and bank stock taxes					948,038	-	948,038	-
Auto license and recordation taxes					1,047,044	-	1,047,044	-
Payments from City of Danville					-	-	-	19,522,251
State aid - unrestricted					-	-	-	26,402,855
Investment income					1,626,835	2,610,753	4,237,588	203,172
Miscellaneous - gifts and donations					1,235,600	2,240,166	3,475,766	317,946
Miscellaneous -					13,376,678	(13,376,678)	-	-
Transfers - net					64,375,537	(8,525,759)	55,849,778	46,446,225
Total general revenues, transfers and miscellaneous					2,244,670	16,896,522	19,141,192	900,444
Change in net assets								
Net assets - beginning of year					86,062,892	235,671,923	321,734,775	15,734,922
Net assets - end of year					\$ 86,307,522	\$ 252,568,445	\$ 340,875,967	\$ 16,635,366

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

CITY OF DANVILLE, VIRGINIA
BALANCE SHEET - GOVERNMENTAL FUNDS

Exhibit C

June 30, 2008

ASSETS

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	\$ 37,112,416	\$ -	\$ 2,919,198	\$ 2,541,972	\$ 42,573,586
Cash and investments - held by fiscal agent	853,412	5,000	-	-	858,412
Receivables - net	-	-	-	-	-
Taxes and licenses	10,427,839	-	-	-	10,427,839
Accounts	409,553	-	1,302,127	-	1,711,680
Accrued interest	809,720	-	-	-	809,720
Loans	-	4,911,453	-	22,407	4,933,860
Due from enterprise fund	152,597	-	-	-	152,597
Due from other funds	306,165	-	-	-	306,165
Due from other governments	2,005,721	323,967	601,782	1,136,759	4,068,229
Prepayments	-	289,236	-	-	289,236
Inventories	329,194	-	-	-	329,194
Total assets	\$ 52,406,617	\$ 5,529,656	\$ 4,823,107	\$ 3,701,138	\$ 66,460,518

LIABILITIES AND FUND BALANCES

LIABILITIES					
Accounts payable	\$ 1,858,780	\$ 35,790	\$ 343,862	\$ 126,209	\$ 2,364,641
Accrued salaries	141,279	-	-	-	141,279
Loan escrow held for others	-	180,533	-	-	180,533
Due to other funds	-	-	-	306,165	306,165
Due to component unit	3,932,066	-	-	-	3,932,066
Due to other governments	393,167	71,869	-	-	465,036
Refundable deposits	150,358	-	-	-	150,358
Deferred revenue	9,549,923	4,750,921	-	22,407	14,323,251
Total liabilities	16,025,573	5,019,113	343,862	454,781	21,843,329

FUND BALANCES

Reserved for:					
Encumbrances	2,128,315	9,335	2,730,359	893,725	5,562,734
Cemetery maintenance	-	-	-	2,541,972	2,541,972
Health insurance	2,752,580	-	-	-	2,752,580
OPEB	250,000	-	-	-	250,000
Debt service	697,897	-	-	-	697,897
Specific projects	2,738,935	211,972	1,748,886	-	4,699,793
Prepayments	-	289,236	-	-	289,236
Unreserved:					
General fund	27,812,317	-	-	-	27,812,317
Special grants fund	-	-	-	10,660	10,660
Total fund balances	36,381,044	510,543	4,479,245	3,246,357	44,617,189
Total liabilities and fund balances	\$ 52,406,617	\$ 5,529,656	\$ 4,823,107	\$ 3,701,138	\$ 66,460,518

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

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets****June 30, 2008**

Total fund balances - governmental funds	\$	44,617,189
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Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Capital assets - primary government	\$ 62,182,952	
Capital assets - internal services	<u>2,349,532</u>	
		64,532,484

Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds.

Unearned revenue	\$ 14,048,251	
Pension asset - governmental funds	1,019,471	
Pension asset - internal services	27,216	
Accrued interest	<u>(437,481)</u>	
		14,657,457

Internal service funds are used by management to charge the costs
of certain activities, such as insurance, printing, and communications,
to individual funds. The assets and liabilities of certain internal service
funds are included in governmental activities in the Statement of Net
Assets.

Internal services - Exhibit E	\$ 6,313,404	
Less - capital assets shown above	(2,349,532)	
Less - pension asset- shown above	(27,216)	
Add - long-term debt shown below	<u>96,436</u>	
		4,033,092

Obligations for OPEB is not due and payable in the current period
and is not recorded as a liability in the governmental funds.

(419,164)

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as liabilities
in the governmental funds.

Long-term debt - primary government	\$ (39,017,100)	
Long-term debt - internal services	<u>(96,436)</u>	
		<u>(39,113,536)</u>

Total net assets-governmental activities	\$	<u>88,307,522</u>
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The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 26,556,332	\$ -	\$ -	\$ -	\$ 26,556,332
Local taxes	2,154,035	-	-	-	2,154,035
Fines and forfeitures	560,327	-	-	-	560,327
Permits, privilege fees, and regulatory licenses	270,062	-	-	-	270,062
Revenue from use of money and property	1,874,345	46,469	92,899	-	2,013,713
Charges for services	3,562,920	-	-	-	3,562,920
Miscellaneous	117,426	296,939	230,198	370,333	1,014,896
Recovered costs	4,947,636	-	4,356	-	4,951,992
Intergovernmental	28,835,180	1,478,408	667,902	4,098,663	35,080,153
Total revenues	88,270,253	1,821,816	995,355	4,468,996	95,556,420
EXPENDITURES					
Current:					
General government	6,961,330		4,332,433	3,970	11,297,733
Judicial administration	5,297,583		-	81,690	5,379,273
Public safety	24,669,022		545,193	443,052	25,657,267
Public works	10,213,515		1,806,931	93,603	12,114,049
Health and welfare	9,443,600		-	4,231,962	13,675,562
Education	19,454,806		57,342	406,315	19,918,463
Parks, recreation, and cultural	4,986,668		153,956	10,000	5,150,624
Community development	1,796,814	1,973,998	394,012	-	4,164,824
Nondepartmental	3,952,931	-	-	-	3,952,931
Debt service:					
Principal	4,242,206	-	-	-	4,242,206
Interest	1,438,487	-	-	-	1,438,487
Total expenditures	92,456,962	1,973,998	7,289,867	5,270,592	106,991,419
Deficiency of revenues over expenditures	(4,186,709)	(152,182)	(6,294,512)	(801,596)	(11,434,999)
OTHER FINANCING SOURCES (USES)					
Transfers in	13,632,000	-	5,842,622	940,701	20,415,323
Transfers out	(7,038,645)	-	-	-	(7,038,645)
Total other financing sources (uses)	6,593,355	-	5,842,622	940,701	13,376,678
Net change in fund balances	2,406,646	(152,182)	(451,890)	139,105	1,941,679
Fund balances - beginning of year	33,974,398	662,725	4,931,135	3,107,252	42,675,510
Fund balances- end of year	\$ 36,381,044	\$ 510,543	\$ 4,479,245	\$ 3,246,357	\$ 44,617,189

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

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

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 1,941,679**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 these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.

Capital Outlay - City	\$ 1,544,060	
Depreciation - City	(3,060,855)	
Depreciation - Schools	<u>(1,923,440)</u>	
		(3,440,235)

Repayment of debt principal and other long-term assets is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal payments on long-term debt	\$ 4,545,573	
Change in reimbursement agreements	(79,456)	
Reduction of pension asset	(162,920)	
OPEB Obligation	<u>(407,107)</u>	
		3,896,090

Some expenses reported in the Statement of Activities, such as changes in compensated absences and worker's compensation do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Changes in workers' compensation	\$ (491,200)	
Changes in compensated absences	<u>(99,177)</u>	
		(590,377)

Some revenues and expenditures are not accrued in the governmental funds but are shown as liabilities in the Statement of Net Assets.

Increase in unearned revenue	\$ 696,884	
Increase in accrued interest	<u>(194,438)</u>	
		502,446

Internal service funds are used by management to charge the cost of certain activities, such as insurance and printing, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.

(64,933)**Changes in net assets of governmental activities** **\$ 2,244,670***The accompanying notes are an integral part of these financial statements.*

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

June 30, 2008

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
ASSETS							
Current assets							
Cash and investments	\$ 1,259,472	\$ 2,671,037	\$ 4,225,870	\$ 18,809,420	\$ 2,449,871	\$ 29,415,670	\$ 4,352,923
Cash and investments - held by fiscal agents	-	-	-	14,000	-	14,000	60,000
Receivables - net	1,080,481	595,909	5,287,686	14,756,699	140,996	21,751,771	4,135
Due from other governments	-	-	-	-	430,255	430,255	-
Inventories	-	293,926	1,967,132	1,705,977	139,639	4,106,674	95,632
Prepayments	-	-	-	-	-	-	33,419
Hedging asset	-	-	238,865	-	-	238,865	-
Pension asset	-	85,129	26,132	184,345	128,623	384,229	27,216
Total current assets	2,339,953	3,536,001	11,725,685	35,450,441	3,289,384	56,341,464	4,572,925
Noncurrent assets							
Restricted cash and investments	-	4,395,811	2,982,975	18,213,044	-	25,591,830	-
Capital assets:							
Land and improvements	63,945	60,477	14,847	676,555	609,232	1,325,056	-
Construction in progress	399,588	1,773,104	684,634	23,833,679	190,925	26,881,900	-
Buildings, structures, and improvements	41,930,521	40,247,684	39,161,831	143,690,705	3,443,100	268,473,841	-
Equipment	31,937,417	12,348,264	1,765,866	7,252,269	4,455,192	57,759,008	9,890,120
Less - accumulated depreciation	(28,008,684)	(21,818,055)	(14,187,572)	(59,403,837)	(2,837,630)	(126,255,978)	(7,540,588)
Total noncurrent assets - net	46,322,757	37,007,285	30,422,581	134,262,415	5,760,619	253,775,657	2,349,532
Total assets	\$ 48,662,710	\$ 40,543,286	\$ 42,148,266	\$ 169,712,856	\$ 9,050,003	\$ 310,117,121	\$ 6,922,457
LIABILITIES							
Current liabilities							
Accounts payable	\$ 314,024	\$ 75,355	\$ 3,622,071	\$ 7,213,814	\$ 239,173	\$ 11,464,437	\$ 80,317
Accrued interest	181,138	96,592	14,680	164,747	445	457,602	693
Due to primary government	-	-	-	-	152,597	152,597	-
Due to other governments	-	-	-	-	-	-	-
Refundable deposits	-	-	-	-	-	-	431,607
Pension	18,219	-	-	2,311,731	-	2,311,731	-
OPEB liability	5,100	7,419	25,502	52,859	24,480	42,699	-
Long-term liabilities - due within one year	1,983,640	1,480,584	256,251	1,499,277	40,340	131,220	12,056
Total current liabilities	2,502,121	1,659,950	3,920,504	11,242,428	583,556	19,908,559	58,591
Noncurrent liabilities							
Long-term liabilities - due in more than one year	12,890,094	6,142,664	1,227,759	17,271,242	8,019	37,539,778	25,789
Compensated absences	-	14,972	10,285	49,526	25,556	100,338	-
Total noncurrent liabilities	12,890,094	6,157,636	1,238,044	17,320,768	33,575	37,640,117	25,789
Total liabilities	15,392,215	7,817,586	5,158,548	28,563,196	617,131	57,548,676	609,059
NET ASSETS							
Invested in capital assets - net of related debt	34,449,023	25,088,049	26,122,449	97,771,404	5,722,947	189,153,872	2,250,341
Restricted for incomplete capital projects	4,544,568	4,395,811	2,982,975	18,213,044	753,212	30,889,610	-
Unrestricted	(5,723,096)	3,241,840	7,884,294	25,165,212	1,956,713	32,524,963	4,022,463
Total net assets	\$ 33,270,495	\$ 32,725,700	\$ 36,989,718	\$ 141,149,660	\$ 8,452,872	\$ 252,568,445	\$ 6,313,404

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ENTERPRISE FUNDS

Year Ended June 30, 2008

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
OPERATING REVENUES							
Charges for services	\$ 8,362,522	\$ 7,142,932	\$ 32,949,607	\$ 90,181,855	\$ 5,704,765	\$ 144,341,681	\$ 5,412,660
OPERATING EXPENSES							
Purchased services	-	-	23,777,948	60,659,705	-	84,437,653	-
Production	-	-	-	804,916	-	804,916	-
Transmission	1,986,894	1,264,154	-	1,101,588	-	4,352,634	-
Engineering	-	136,083	364,613	699,300	-	1,199,996	-
Distribution	1,596,857	643,705	967,647	6,511,726	-	9,719,935	-
Services	135,169	113,866	74,062	-	6,048,170	6,371,267	-
Depreciation	1,770,531	1,314,939	987,490	4,048,946	213,762	8,275,668	588,228
Meters/regulators	-	71,776	126,752	375,780	-	574,308	5,186,826
General and administrative	949,186	1,057,470	2,105,497	282,843	-	4,394,996	-
Total operating expenses	6,378,637	4,601,993	28,404,009	74,484,802	6,261,932	120,131,373	5,745,054
Operating income (loss)	1,983,885	2,540,939	4,545,598	15,697,053	(557,167)	24,210,308	(332,394)
NONOPERATING REVENUES (EXPENSES)							
Sales income	-	-	-	-	168,325	168,325	-
Jobbing income (loss)	111,094	237,509	119,080	643,599	(4,404)	1,106,878	-
Rental income	-	36,579	-	-	27,448	64,027	-
Recovered cost	-	-	460,142	128,100	26,011	614,253	7,885
Gain (loss) on sale of capital assets	319	(2,114)	248,120	33,882	(37,716)	242,491	96,557
Federal and state grants	-	-	-	-	861,030	861,030	-
In-kind contributions	-	-	-	-	135,712	135,712	-
Interest income	7,273	277,134	207,941	1,875,008	248,963	2,616,319	166,052
Interest expense	(596,566)	(415,740)	(72,231)	(775,726)	(30,217)	(1,690,480)	(3,033)
Total nonoperating revenues (expenses)	(477,880)	133,368	963,052	1,904,863	1,395,152	3,918,555	267,461
Income (loss) before contributions and transfers	1,506,005	2,674,307	5,508,650	17,601,916	837,985	28,128,863	(64,933)
Capital contributions	46,543	363,073	-	816,636	918,085	2,144,337	-
Transfers in	-	-	-	-	255,644	255,644	-
Transfers out	(677,760)	(933,300)	(2,656,330)	(9,062,610)	(302,322)	(13,632,322)	-
Total	(631,217)	(570,227)	(2,656,330)	(9,245,974)	871,407	(11,232,341)	-
Change in net assets	874,788	2,104,080	2,852,320	9,355,942	1,709,392	16,896,522	(64,933)
Total net assets - beginning of year	32,395,707	30,621,620	34,137,398	131,793,718	6,723,480	235,671,923	6,378,337
Total net assets - end of year	\$ 33,270,495	\$ 32,725,700	\$ 36,989,718	\$ 141,149,660	\$ 8,432,872	\$ 252,568,445	\$ 6,313,404

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

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

Year Ended June 30, 2008

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
Cash flows from operating activities							
Received from customers	\$ 8,234,575	\$ 7,479,419	\$ 30,289,265	\$ 88,310,871	\$ 5,574,078	\$ 139,868,208	\$ 5,411,327
Payments to suppliers for goods and services	(5,074,746)	(2,168,410)	(23,846,885)	(64,631,897)	(2,569,316)	(98,291,254)	(4,070,491)
Payments to employees for services	(489,989)	(1,362,571)	(1,074,579)	(4,721,551)	(2,769,923)	(10,418,613)	(739,930)
Payments to internal service funds for goods and services	(170,481)	(4,957)	(1,485)	(17,210)	(406,777)	(600,910)	(46,941)
Nonoperating revenue	-	274,089	579,221	114,699	216,905	1,184,914	7,885
Net cash from operating activities	2,499,359	4,217,570	5,925,537	19,054,912	44,967	31,742,345	561,850
Cash flows from noncapital financing activities							
Transfers from other funds	-	-	-	-	248,225	248,225	-
Transfers to other funds	(677,760)	(933,300)	(2,656,330)	(9,062,610)	(302,322)	(13,632,322)	-
Operating grants received	110,571	-	(1,313,000)	-	769,802	(432,627)	-
Net cash from noncapital financing activities	(567,189)	(933,300)	(3,969,330)	(9,062,610)	715,705	(13,816,724)	-
Cash flows from capital and related financing activities							
Acquisition of capital assets	(1,224,455)	(1,069,525)	(1,402,576)	(13,879,684)	(1,739,911)	(19,316,151)	(604,797)
Principal payments on long-term debt	(1,976,615)	(1,483,627)	(213,660)	(1,340,811)	(1,083,771)	(6,098,484)	(36,974)
Proceeds on long-term debt	3,000,000	-	-	-	-	3,000,000	-
Interest payments on long-term debt	(595,753)	(441,388)	252,777	(788,428)	(30,554)	(1,603,346)	(3,556)
Proceeds from sale of capital assets	319	8,420	(76,208)	62,182	12,939	7,652	96,557
Contributed capital	46,543	363,073	-	816,636	-	1,226,252	-
Net cash from capital and related financing activities	(749,951)	(2,623,047)	(1,439,667)	(15,130,105)	(2,841,297)	(22,784,077)	(548,770)
Cash flows from investing activities							
Interest on investments	7,179	273,130	205,142	1,873,235	245,869	2,604,555	163,667
Net activity in investment securities	70,084	91,327	(218,178)	62,821	4,521	10,575	3,862
Net cash from investing activities	77,263	364,457	(13,036)	1,936,056	250,390	2,615,130	167,529
Net increase in cash and investments	1,259,472	1,025,680	503,504	(3,201,747)	(1,830,235)	(2,243,326)	180,609
Cash and investments - beginning of year	-	6,041,168	6,705,340	40,238,211	3,354,602	56,339,321	4,231,914
Cash and investments - end of year	\$ 1,259,472	\$ 7,066,848	\$ 7,208,844	\$ 37,036,464	\$ 1,524,367	\$ 54,095,995	\$ 4,412,523

(Continued on next page)

CITY OF DANVILLE, VIRGINIA

Exhibit G
(Continued)

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

Year Ended June 30, 2007

	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	Governmental Internal Service Funds
Reconciliation of operating income (loss) to net cash from operating activities							
Operating income (loss)	\$ 1,988,985	\$ 2,548,358	\$ 4,571,100	\$ 15,749,912	\$ (516,827)	\$ 24,341,528	\$ (320,336)
Adjustments:							
Depreciation charged to operations	1,710,531	1,314,939	987,490	4,048,947	213,762	8,275,669	588,228
In-kind contributions	-	-	-	-	135,712	135,712	-
Change in noncash employee benefits charged to operations	1,959	1,948	(17,233)	14,197	31,961	32,832	5,876
Nonoperating revenue	-	274,089	579,222	771,699	216,905	1,841,915	7,885
Changes in assets and liabilities:							
Receivables	(127,947)	336,487	(2,680,342)	(2,548,501)	(130,684)	(5,150,987)	(1,334)
Reserve for uncollectibles	400	(1,500)	11,500	5,500	-	15,900	-
Inventories	-	53,013	394,448	510,731	(69,912)	888,280	5,371
Accounts payable	(1,074,569)	(309,764)	2,079,352	481,910	75,300	1,252,229	276,160
Due to primary government	-	-	-	-	88,750	88,750	-
Refundable deposits	-	-	-	20,517	-	20,517	-
Net cash from operating activities	\$ 2,499,359	\$ 4,217,570	\$ 5,925,537	\$ 19,054,912	\$ 44,967	\$ 31,742,345	\$ 561,850
Supplemental disclosure of noncash investing, capital, and financing activities							
Increase in fair value of investments	\$ (65,750)	\$ 40,053	\$ 6,338	\$ 239,059	\$ (70,533)	\$ 149,167	\$ 22,230

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

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Pension	Agency
	Employees'	Veterans
	Retirement Plan	Memorial Fund
ASSETS		
Cash	\$ 3,716	\$ 690
Accrued interest and dividends	251,056	-
Investments - at fair value:		
Common stocks	106,365,686	-
Corporate bonds	35,457,697	-
Foreign stocks	37,407,460	-
U.S. government obligations	5,147,428	-
Other investments	12,678,486	-
Total investments	197,056,757	-
Total assets	197,311,529	690
LIABILITIES		
Accounts payable	215,857	-
NET ASSETS		
Held in trust	\$ 197,095,672	\$ 690

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	Employees' Retirement Plan
ADDITIONS	
Contributions:	
Employer	\$ 3,902,716
Total contributions	3,902,716
Investment earnings:	
Net decrease in fair value of investments	(14,893,662)
Interest	1,685,601
Dividends	2,389,219
Total investment income	(10,818,842)
Less - investment expenses	(1,044,383)
Net investment income	(11,863,225)
Total additions (deductions)	(7,960,509)
DEDUCTIONS	
Benefits paid to participants	8,250,601
Refunds of contributions	59,566
Administrative expenses	117,956
Total deductions	8,428,123
Change in net assets	(16,388,632)
Net assets held in trust for pension benefits - beginning of year	213,484,304
Net assets held in trust for pension benefits - end of year	\$ 197,095,672

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

STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2008

	Danville Public Schools	Industrial Development Authority	Total
ASSETS			
Cash and investments	\$ 1,326,048	\$ 324,055	\$ 1,650,103
Cash and investments - held by fiscal agents	3,364,738	-	3,364,738
Receivables - net	23,295	145,964	169,259
Due from City of Danville	4,016,823	-	4,016,823
Due from other governments	2,699,339	-	2,699,339
Prepayments	152,101	59,578	211,679
Inventories	937,858	-	937,858
Capital assets:			
Land and construction in progress	3,972,629	722,945	4,695,574
Other capital assets - net	6,949,630	12,114,751	19,064,381
Total assets	\$ 23,442,461	\$ 13,367,293	\$ 36,809,754
LIABILITIES			
Accounts payable	\$ 291,416	\$ 34,972	\$ 326,388
Accrued salaries	3,468,958	-	3,468,958
Accrued payroll taxes	265,570	-	265,570
Accrued expenses	-	13,124	13,124
Deferred grant revenue	756,096	-	756,096
OPEB liability	345,613	-	345,613
Long-term liabilities:			
Due within one year	1,304,109	263,740	1,567,849
Due in more than one year	3,297,483	10,133,307	13,430,790
Total liabilities	9,729,245	10,445,143	20,174,388
NET ASSETS			
Invested in capital assets - net of related debt	10,922,259	982,301	11,904,560
Restricted for:			
Insurance payments	3,364,738	-	3,364,738
Unrestricted	(573,781)	1,939,849	1,366,068
Total net assets	\$ 13,713,216	\$ 2,922,150	\$ 16,635,366

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

CITY OF DANVILLE, VIRGINIA

Exhibit K

STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2008		Net (Expense) Revenue and Changes in Net Assets				
	Expense	Program Revenues			Totals	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Danville Public Schools	Industrial Development Authority
DANVILLE PUBLIC SCHOOLS Education	\$ 70,367,477	\$ 1,090,520	\$ 21,489,658	\$ 2,264,965	\$ (45,522,334)	\$ -
INDUSTRIAL DEVELOPMENT AUTHORITY Economic Development	5,940,628	910,066	4,007,115	1,000,000	-	(23,447)
Total component units	\$ 76,308,105	\$ 2,000,586	\$ 25,496,773	\$ 3,264,965	(45,522,334)	(23,447)
					(45,545,781)	
General revenues:						
City of Danville					19,522,251	
State aid - unrestricted					26,402,856	
Investment income					193,157	
Miscellaneous					294,646	
Total general revenues					46,412,910	
Change in net assets					890,576	
Net assets - beginning of year					12,822,640	
Net assets - end of year					13,713,216	
					2,922,150	
					\$ 16,635,366	

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



NOTES TO THE FINANCIAL STATEMENTS

CITY OF DANVILLE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

1. Organization and Nature of Operations

Reporting Entity

The **City of Danville** (City), located in southwest Virginia at the North Carolina border, was founded in 1793 and chartered in 1830. The City covers an area of approximately 44 square miles and has a population of approximately 45,900.

The City is governed under the City Manager-Council form of government. The City engages in a comprehensive range of municipal services, including general government administration, public safety and administration of justice, education, health, welfare, housing and human service programs, transportation and environmental services, planning, community development and recreation, cultural, library, and historic activities.

2. Summary of Significant Accounting Policies

The financial statements of the City of Danville, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The City follows GASB Statement No. 14 (GASB 14), *The Reporting Entity*, which establishes standards for defining and reporting on the financial reporting entity including participation in joint ventures, jointly governed organizations and financial statements of component units when they are in a governmental financial reporting entity.

The City follows GASB Statement No. 34 (GASB 34), *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. The City also follows GASB Statement No. 37 (GASB 37), *Reporting Model Omnibus*. This standard clarified and modified certain requirements of GASB 34 in regards to the Management Discussion and Analysis, capital assets, and the determination of governmental or enterprise funds to be reported as a major fund. GASB Statement No. 34 adds the following components to the financial statements:

- 1. Management's Discussion and Analysis** – A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- 2. Government-wide financial statements** – These include the financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Activities.
- 3. Statement of Net Assets** – The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of

"using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Invested in capital assets, net of related debt is comprised of capital assets less long-term debt related to these assets. Compensated absence liabilities are not a part of this calculation. Restricted assets are defined as assets restricted from or by parties outside the City. Unrestricted is defined as the remaining assets available for unrestricted use by the City.

4. **Statement of Activities** - The Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).
5. **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of the state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations, therefore data from these units would be combined with data of the primary government. The City has no component units that meet the requirements for blending. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30, fiscal year-end.

B. Government-wide and Fund Accounting Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund accounting financial statements. While the reporting model before GASB 34, emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund accounting financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are: (a) presented on a consolidated basis by column, and (b) reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities is reported using the economic resources measurement focus and the accrual basis of accounting which reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related charges for services, operating and capital grants, and contributions. The charges for services must be directly associated with the function (public safety, public works, health and welfare, etc.) or be a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are

presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund based financial statements with the governmental column of the government-wide presentation.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and agency). Since by definition these assets are being held for the benefit of a third-party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category), and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed.

a. General Fund

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and investment income. A significant part of the General Fund's revenues is transferred to other funds and component units, principally to finance the operations of the City of Danville's Public Schools.

b. Community Development

The Community Development Fund accounts for all financial resources used for the growth of the City through state, federal, and local grants and donations. This fund is accounted for as a major governmental fund for reporting purposes by the City.

c. Capital Projects Fund

The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by enterprise or nonexpendable trust funds. The Capital Projects Fund is considered a major governmental fund for reporting purposes.

d. Special Revenue Fund

The Special Revenue Fund accounts for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The Special Revenue Fund is considered a nonmajor governmental fund for reporting purposes.

e. Cemetery Maintenance Fund

The Cemetery Maintenance Fund accounts for the financial resources used for the maintenance of the City's cemetery. All funds are generated by the sale of perpetual care contracts, and only the interest is used for the benefit of the primary government. This fund is accounted for as a permanent (nonmajor) fund for governmental reporting purposes.

f. Internal Service Fund

The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Fund is included in governmental activities for government-wide reporting purposes. The excess revenue or expenses for the fund are allocated to the appropriate functional activity. Major internal service funds are used to account for the activities of the City's motor pool, central printing, and insurance.

2. Enterprise Funds

Enterprise Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through enterprise funds. The measurement focus is on determination of net income, financial position, and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Enterprise Funds and Other Governmental Entities That Use Enterprise Fund Accounting*, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for Enterprise funds.

Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City defines operating revenues and expenses as those generated by the principal ongoing operation of the enterprise fund. Nonoperating revenues and expenses are those activities not generated by the ongoing activities of the fund such as interest income and expense, gain or loss on sale of capital assets and miscellaneous recoveries and rebates.

The City's major Enterprise Funds are used to account for wastewater, water, gas, and electricity.

3. Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The only major fiduciary fund of the City is used to account for the City's Employee Retirement System activity. For accounting measurement purposes, the Pension Trust Fund is accounted for in essentially the same manner as enterprise funds. The Pension Trust Fund accounts for the assets of the City's pension plan. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. The only agency fund is the Veteran's Memorial Fund which is managed by the City for the benefit of the local memorial and funded by private donations. Fiduciary funds are not included in the government-wide financial statements.

Discretely Presented Component Units

Danville Public Schools (DPS) are organized as an independently governed school system for operating the public schools of the City. Board members are appointed by City Council by authority of the City Charter. Danville Public Schools are financially dependent on appropriations by the City Council for current operations, and any surplus funds are returned to the City annually. In addition, major capital improvements are financed by long-term debt issued by the City. In accordance with requirements of the Auditor of Public Accounts of the Commonwealth of Virginia, Danville Public Schools are considered to be a major component unit of the City.

The Industrial Development Authority (IDA) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City Council pursuant to provisions of the *Industrial Revenue Bond Act of the Code of Virginia (1950)* as amended. Seven directors appointed by the City Council of Danville govern the IDA. The City provides the majority of the IDA's funding. The IDA

operates as a component unit solely for the purpose of economic development for the City of Danville. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

These financial statements are shown on Exhibits J and K.

Complete financial statements for each of the component units may be obtained at the entity's offices:
Danville Public Schools
P.O. Box 9600
Danville, Virginia 24543

Industrial Development Authority of Danville
P.O. Box 3300
Danville, Virginia 24543

D. Danville's Jointly Governed Organizations

City Council, in conjunction with the Board of Supervisors of Pittsylvania County, Virginia (County), established Danville-Pittsylvania Community Services (DPCS) in 1972 to implement the provisions of Chapter 10 of Title 37.1 of the *Code of Virginia* (1950), as amended. The primary function of DPCS is the establishment and operation of mental health, mental retardation, and substance abuse programs within the jurisdictional limits of the City and County. Seven members of the fifteen-member board of directors are appointed by City Council, and the County's Board of Supervisors appoints the remaining eight members. The Board of Directors approves its own budget and maintains oversight of all programs. Most of the funding for DPCS comes from state and federal grants, as well as from charges for services. The City and County provide some financial assistance, but DPCS is not financially dependent on the City or the County. While not a component unit of the City or the County, DPCS is considered to be a jointly governed organization since neither the City nor the County has determinable ongoing financial interests in, or responsibilities for, DPCS. During the year ended June 30, 2008, the City provided \$163,506 in funding for Danville-Pittsylvania Community Services. In addition, state and federal grants totaling \$8,337,069 passed through the City to DPCS.

In July 1995, City Council approved an intergovernmental agreement with Pittsylvania County, Virginia, establishing the Danville-Pittsylvania Community Policy and Management Board (Board). This Board was created under the provisions of the *Virginia Comprehensive Services Act* for at-risk youth and families, establishing a Family Assessment Team to review individual needs and to make recommendations to the Board. Pittsylvania County acts as fiscal agent for the Board and provides office space and personnel. The City of Danville has agreed to reimburse the County for 50% of the operating costs as well as provide legal services. While not a component unit of the City or the County, the Board is considered to be a jointly governed organization, since neither the City nor the County has determinable ongoing financial interests in, or responsibilities for, the Board. During the year ended June 30, 2008, the City provided \$61,816 in funding for the Danville-Pittsylvania Community Policy and Management Board.

In 2001, the Danville-Pittsylvania Regional Industrial Facility Authority (Facility Authority) was created by ordinance of the Board of Supervisors of Pittsylvania County, Virginia, and the City Council of Danville, Virginia, to promote and further the purposes of the Virginia Regional Industrial Facilities Act, Chapter 64, Title 15.2 of the *Code of Virginia* (1950), as amended (Facility Act). The Facility Authority is an entity jointly owned by the City of Danville and Pittsylvania and is a political subdivision of the Commonwealth. The Facility Authority is empowered, among other things, to borrow money to pay the costs of real estate and all improvements located in industrial parks intended to be occupied by manufacturing, warehousing, distribution, office or other commercial enterprise. In addition, the Facility Authority is authorized under the Facility Act to issue revenue bonds to finance facilities for such enterprises and to refund such bonds. The Facility Authority has no taxing power.

Commitments/Subsequent Events

The Facility Authority has the following commitments at June 30, 2008:

- Approximately \$6 million in outstanding engineering, construction and consulting contracts, of which \$500 thousand had not been expended.
- Agreed to lease the Research Addition to the Institute for Advanced Learning and Research "IALR" for five years. The lease will automatically renew for up to two five-year terms unless either party gives the other notice of its intention not to renew at least 6 months prior to the expiration of the current term. Throughout the initial term the lease provides that the IALR will pay the Authority \$10 per year per square foot occupied. After the initial term the rent will be calculated as set forth in the lease agreement.
- In June 2008, the Facility Authority extended the line of credit that supports its Series 2005 Cane Creek Project Revenue Bonds. The amended letter of credit expires in June of 2011 with an option to extend the letter of credit until June of 2013. As of June 2008, the letter of credit fee is 78 basis points (0.78%) per annum of the stated amount of the letter of credit, computed on the basis of a 360-day year and payable quarterly in advance.
- In July 2008, the Facility Authority received final grant payments from the Economic Development Administration "EDA" and the Virginia Department of Transportation "VDOT" in the amount of \$299,999 and \$900,000, respectively.
- In July 2008, the Facility Authority repaid the City of Danville \$500,000 for an advanced received in fiscal year 2008.
- In September 2008, the outstanding \$6,965,000 Series 2005 Cane Creek Project Revenue Bonds were tendered. These bonds were converted to bank bonds and are now subject to the Credit and Reimbursement agreement the Authority has with Wachovia Bank. The remarketing agent will continue to try and remarket these bonds in order to convert them back to Variable Rate Revenue Bonds.

E. Basis of Accounting

The Government-wide Statement of Net Assets and Statement of Activities, all enterprise funds and pension trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets. Enterprise fund-type operating statements present increases; e.g., revenues, and decreases; e.g., expenses as changes in net assets. Long-term assets and long-term liabilities are included in the government-wide statements.

The Statement of Net Assets and Statement of Activities of the enterprise funds and fiduciary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet in the funds statements. Operating statements of these funds present increases; i.e., revenues and other financing sources and decreases; i.e., expenditures and other financing uses, as changes in fund balances.

The fund financial statements of the General, Special Revenue, Capital Projects, and nonmajor governmental funds are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable

and available. With respect to real and personal property tax revenues and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end, but which are not available, are deferred. Investment income is recorded as earned. Federal and state reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

F. Encumbrances

Encumbrance accounting, the recording of purchase orders, contracts, and other monetary commitments in order to reserve an applicable portion of an appropriation, is used as an extension of formal budgetary control in the General, Capital Projects Funds, and Community Development Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year. These encumbrances are subject to reappropriation by Council ordinance of the succeeding fiscal year.

G. Cash and Investments

Cash resources of the individual funds, excluding cash held with fiscal agents in the General Fund, Special Revenue Fund, Capital Projects Fund, Enterprise Funds, and Fiduciary Funds, are combined to form a pool of cash and investments to maximize earnings. Investments in the pool consist of obligations of the federal government and are recorded at fair value. Income from pooled investments is allocated only when contractually or legally required. All investment earnings are allocated to the various funds based on their equity in the investment pool.

For purposes of the statement of cash flows, the Enterprise Funds consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

The fair value of investments is based on quoted market prices; no investments are valued at cost. All investments in external investment pools are reported at fair value.

H. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

General Fund allowance:

Fines and forfeitures receivable	\$ 2,938,845
Taxes receivable	774,029
Miscellaneous reserves	213,663
	<u>\$ 3,926,537</u>

Enterprise Fund allowance:

Consumer receivables	
Wastewater	\$ 4,300
Water	2,100
Gas	16,300
Electric	53,500
	<u>\$ 76,200</u>

The component units' customer accounts receivable are considered fully collectible, and; therefore, an allowance for uncollectible accounts is not applicable to those receivables.

I. Inventories of Supplies, Prepayments and Other Assets

1. Primary Government

Inventories in the General Fund consist of expendable supplies held for consumption. The costs are recorded as expenditures under the purchase method. Purchases of noninventory

items are recorded as expenditures under the consumption method, resulting in prepaid expenditures. Prepaid expenditures in reimbursable grants are offset by deferred revenue until expenditures are recognized. Inventories in the General Fund are costed on the first-in, first-out basis, and Enterprise Funds are costed by the moving-average cost method.

2. Component Units

Inventories for Danville Public Schools are comprised of food, supplies, and textbooks held for consumption. Quantities on hand at year-end are recorded at cost on the balance sheet with an offsetting reservation of fund balance, which indicates they do not constitute expendable available financial resources. The cost of textbooks is determined by current replacement cost adjusted for estimated wear and tear.

J. Capital Assets

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Depreciation is recorded on general capital assets on a government-wide basis. Capital outlays of the Enterprise Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. The capitalization threshold for capitalizing capital assets is \$5,000, and the infrastructure capitalization threshold is \$100,000. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. The City does not capitalize historical treasures or works of art. The City maintains many items and buildings of historical significance. The City does not require that the proceeds from the sale of historical treasures or works of art be used to acquire other items for the collection.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives of capital assets are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts, and any resulting gain or loss is included in current year's operations.

K. Compensated Absences and Other Employee Benefits

Expenditures for compensated absences and self-insured group hospitalization and workers' compensation in governmental funds are recorded when the obligations are paid. The current portions are not recorded as liabilities in governmental funds since these will not be liquidated with expendable available financial resources. Compensated absences are reported in governmental funds only if they have matured. The amounts reported are the unused reimbursable compensated absences still outstanding following an employee's resignation or retirement. In enterprise funds, both the expenses and the liabilities are recorded as the benefits are earned. All liabilities, current and long-term, are recorded in the Government-wide Statement of Net Assets.

1. Vacation Pay

The City's policy regarding vacation pay allows for the unlimited accumulation of unused benefits. Unused vacation pay is paid upon termination of employment. The Danville Public Schools allows for the accumulation of vacation pay that may be used by employees when retiring early, but is not paid at termination.

2. Sick Pay

Accumulated sick leave benefits earned but unpaid at the end of the fiscal year are recorded as a liability at the balance sheet date. Accumulated sick leave is paid to employees upon retirement from employment at a rate of \$1.50 per hour up to a maximum of 960 hours (\$1,440

per employee). Up to one year of unused sick leave may be applied to total service years upon retirement.

3. Group Hospitalization

All permanent employees of the City, including elected officials and their staff, are eligible to participate in the City's group insurance program. The City contributes 70% of the premium for active participating employees. The City is self-insured for group hospitalization with the exception of \$125,000 stop loss coverage.

4. Workers' Compensation

The City is self-insured for all workers' compensation claims. There were no significant claims incurred but not reported as of June 30, 2008. Liabilities are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

5. Other Postemployment Benefits

All permanent employees of the City are eligible to continue their hospitalization and group life insurance into retirement. The City contributes 20% of the premium for retirees.

Danville Public Schools allow employees who participate in the Supplemental Retirement Plan to continue coverage under the School Board's health insurance program. The retirees pay the entire premium. Retirees who qualify to receive Virginia Retirement System (VRS) retirement benefits may continue in the VRS group life insurance program. The VRS does not charge a premium for this coverage.

L. Deferred Revenue

Included in deferred revenue in the Governmental Funds Balance Sheet is \$8,579,688 of property taxes not collected within forty-five days of year-end.

M. Long-Term Debt

For governmental fund types, bond premiums or discounts as well as issuance costs are recognized during the current period. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For enterprise fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which is not materially different from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed in the year of issue.

N. Fund Balance

Reservations of fund balance represent amounts that can not be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Enterprise Funds' contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

1. Reservations of Fund Balance

Except for those required to comply with accounting standards, all reservations and designations of General Fund balance reflect City Council action in the context of adoption of the City's budget.

2. Encumbrances

These fund balances have been reserved for goods and services encumbered, or ordered, before the end of the fiscal year, for which delivery of goods and services have not been made prior to the close of the fiscal year.

3. Approved Capital Projects

These balances are reserved for capital projects that City Council has already approved.

4. Debt Service

This balance has been reserved for the accumulation of resources for the payment of general long-term debt principal.

3. Deposits and Investments

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (Act), Section 2.1-359 et. seq of the *Code of Virginia* (1950), as amended, or covered by federal depository insurance.

A. Deposits

Primary Government

At year-end, the carrying value of the City's deposits with banks was \$5,535,945, and the bank balances were \$5,455,582. The entire bank balance was covered by federal deposit insurance or collateralized in accordance with the Act.

Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

However, all qualified banks' public deposits are considered 100% "insured" (per GASB Statement 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank was to fail, all collateral in the pool would be used to cover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro-rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2008, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Component Units

The carrying value of deposits for Danville Public Schools was \$519,739 and the bank balance was \$1,669,338. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Act at June 30, 2008. Cash held by physical agents of \$3,364,738 is comprised of \$3,036,559 in the self-insurance fund for health coverage by the carrier and \$328,179 in the escrow account of the workman's compensation carrier.

At year-end, the IDA's deposits with banks were \$324,055. Of the bank balance, \$173,490 was covered by federal depository insurance, and \$150,565 was collateralized in accordance with the Act.

B. Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, mutual fund shares of the Virginia State Non-Arbitrage Program (SNAP), commercial paper rated A-1 by Standard and Poor's Corporation or

P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The fair value of the investment in the LGIP is equal to the value of the pool shares. The Auditor of Public Accounts is the oversight body for the LGIP. During the fiscal year, the City had investments in obligations of the United States and LGIP.

A designated portfolio manager managed the investments in U.S. Treasuries during fiscal year 2006. The City has a contract with the manager which requires that, at the time funds are invested, the certificates are to be held in the City's name in the trust department of the City's independent third-party safekeeping custodian, Wachovia Bank, N.A.

The City maintains one pension plan. The Pension Trust Fund investments are handled by independent portfolio managers. Investment restrictions for the pension trust focus on investment mix and limiting the percentage of the total portfolio that may be invested in a given instrument.

The City is subject to interest rate, credit and custodial risk as described below:

Interest Rate Risk

As a means of limiting the City's exposure to fair value losses arising from interest rates the City's investment policy has limited its investments to maturities of no more than 18 months.

Credit Risk

In accordance with state statutes, the current investment policy of the City authorizes investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, the Virginia Local Government Investment Pool (LGIP), and Virginia's State Non-Arbitrage Pool (SNAP). The City's current investment policy limits investments to obligations of the United States and agencies thereof, commercial paper, LGIP and SNAP. During the fiscal year, the City made investments in each of these categories. The investments of the City's pension plan, are handled by The Northern Trust Company, a company with an AA- rating by Standard & Poor's rating agency. The investments for the plan are directed by the board of employees and are invested in various securities and equities in guaranteed investment accounts. The City has directed Northern Trust Company to invest the Plan's funds. The Commonwealth of Virginia manages the investments of the Virginia Retirement System (VRS).

The City's rated debt Investments as of June 30, 2008 were in LGIP and SNAP and were rated AAA by Standard and Poor's. The City's pension fund investments were rated by Standard and Poor's also and are included in the chart below.

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A designated portfolio manager placed the City's pension plan investments. The City has a contract with the portfolio manager which requires that, at the time funds are invested, investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account.

As of June 30, 2008, the City had the following investments and maturities:

Investment Maturities

	Fair Value	Less than 1 year	1 -5 years	Long-term
U.S. Treasuries	\$ 51,900,575	\$ 5,500,000	\$ 46,400,575	\$ -
LGIP	29,665,433	-	-	-
SNAP	1,097,641	-	1,097,641	-
Total investments	82,663,649	5,500,000	47,498,216	-
Pension Trust Fund	197,056,758	-	-	197,056,758
Total	279,720,407	\$ 5,500,000	\$ 47,498,216	\$ 197,056,758

**Reconciliation to Total Cash
and Investments:**

Add:	
Cash on hand and in banks	19,269,960
Cash with fiscal agents	932,412

Total deposits and investments: \$ 299,922,779

Component Unit

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

Credit Risk - DPS's current investment policy limits investments to the LGIP. Standard & Poor has assigned a rating of AAA to this pool.

Investments held by DPS at June 30, 2008 were as follows:

Investment	Fair Value
LGIP	\$ 805,259

The following is a reconciliation of total deposits and investments to the government-wide financial statements at June 30, 2008.

Governmental Activities:

	Governmental Activities	Fiduciary Assets	Total
Cash and investments	\$ 46,926,109	\$ 3,716	\$ 46,929,825
Cash and investments with fiscal agents	918,412	197,056,758	197,975,170
Total primary government	47,844,521	197,060,474	244,904,995

Business-Type Activities

Cash and investments	55,007,500	-	55,007,500
Cash held by fiscal agents	14,000	-	14,000
	55,021,500	-	55,021,500

Component Units

Cash and investments	1,650,103	-	1,650,103
Cash held by fiscal agents	3,364,738	-	3,364,738
Total component units	5,014,841	-	5,014,841
Total cash and investments	\$ 107,880,862	\$ 197,060,474	\$ 304,941,336

Reserved cash and investments. Equity in pooled cash and investments was reserved for the following purposes:

	Reserved for Incomplete Projects	Reserved for Other Purposes	Total Reserved Cash
General fund:			
Encumbrances	\$ -	\$ 2,129,315	\$ 2,129,315
Health Insurance	-	2,752,580	2,752,580
OPEB	-	250,000	250,000
Debt service	-	697,897	697,897
Specific projects	-	2,738,935	2,738,935
	\$ -	\$ 8,568,727	\$ 8,568,727
Enterprise funds:			
Wastewater	4,544,568	-	4,544,568
Water	4,395,811	-	4,395,811
Gas	2,982,975	-	2,982,975
Electric	18,213,044	-	18,213,044
Nonmajor	753,212	-	753,212
	\$ 30,889,610	\$ -	\$ 30,889,610

4. Receivables

Receivables in the fund financial statements at June 30, 2008 consist of the following:

Governmental Funds

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total	Business-type Activities
Receivables:						
Taxes	\$ 14,354,376	\$ -	\$ -	\$ -	\$ 14,354,376	\$ -
Accounts	409,553	-	1,302,127	-	1,711,680	18,797,971
Interest	809,720	-	-	-	809,720	30,000
Loans	-	4,911,453	-	22,407	4,933,860	3,000,000
Due from Enterprise Fund	152,597	-	-	-	152,597	-
Intergovernmental	2,005,721	323,967	601,782	1,136,759	4,068,229	430,255
Gross receivables	17,731,967	5,235,420	1,903,909	1,159,166	26,030,462	22,258,226
Less - Allowances for uncollectible accounts	(3,926,537)	-	-	-	(3,926,537)	(76,200)
Receivables - net	\$ 13,805,430	\$ 5,235,420	\$ 1,903,909	\$ 1,159,166	\$ 22,103,925	\$ 22,182,026

Total receivables for the governmental funds of \$22,103,925 shown in the chart above plus the receivables in the Internal Service Funds of \$4,135 equal to the total of receivables - net and due from other governments shown on Exhibit A.

Component Units

	Danville Public Schools	Industrial Development Authority	Total
Receivable			
Due from other Governments	\$ 2,699,339	\$ -	\$ 2,699,339
Due from City	4,016,823	-	4,016,823
Other	23,295	145,964	169,259
Total receivables	\$ 6,739,457	\$ 145,964	\$ 6,885,421

Property Taxes

The City levies real estate taxes on all real property on a fiscal year basis, at a rate enacted by the City Council on the assessed value of property (except public utility property) as determined by the Director of Real Estate Assessments of the City of Danville. The Commonwealth assesses public utility property. Neither the City nor the Commonwealth of Virginia imposes a limitation on the tax rate. All property is assessed at 100 percent of fair market value and reassessed each year as of July 1. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property incomplete as of July 1, but completed during the year. Any taxes paid after the due date are subject to a 10% penalty.

Real estate taxes are billed in equal semi-annual installments due December 5 and June 5. Liens are placed on the property on the date real estate taxes are delinquent, and interest at the rate of 10% per annum is added to the delinquent tax and penalty, and must be satisfied prior to the sale or transfer of the property. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The tax rate during 2008 and 2007 was \$0.77 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles are based on 100 percent of fair market value of the property as of January 1, of each year. For a vehicle, the tax may be prorated for the length of time the vehicle has situs in the City. Personal property taxes do not create a lien on property; however, City vehicle decals, which are required by law for all vehicles garaged in the City, may not be issued to any individual having outstanding personal property taxes. Interest at the rate of 10% per annum is added to the delinquent tax and penalty. The taxes receivable balance at June 30, 2008 includes amounts not yet received from the January 1, 2008 levy due June 5, 2008.

These taxes are included as deferred revenue in the fund financial statements since these taxes are not considered to be available to liquidate liabilities of the current period. The tax rate during 2008 and 2006 was \$3.00 for motor vehicles and tangible property and \$1.50 for machinery and tools per \$100 of assessed value. In addition, any uncollected amounts from prior year levies are incorporated in the taxes receivable balance. Under the provisions of the Personal Property Tax Relief Act of 1998, the City received 70% percent of most taxpayers' assessments in FY 2008 for the state's share of the local personal property tax payment with the remainder collected by the City.

5. Capital Assets

The table below is a summary of the changes in capital assets for the fiscal year ended June 30, 2008.

Governmental Activities

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 6,736,072	\$ 969,680	\$ -	\$ 7,705,752
Construction in progress	7,651,608	5,660,122	(6,054,097)	7,257,633
Total capital assets not being depreciated	14,387,680	6,629,802	(6,054,097)	14,963,385
Other capital assets:				
Buildings	32,333,722	-	-	32,333,722
Infrastructure	27,207,442	-	-	27,207,442
Furniture and other equipment	16,097,688	1,088,941	(104,016)	17,082,613
Total other capital assets	75,638,852	1,088,941	(104,016)	76,623,777
Less- accumulated depreciation for:				
Buildings	(10,716,069)	(718,815)	-	(11,434,884)
Infrastructure	(16,043,588)	(1,466,859)	-	(17,510,447)
Furniture and other equipment	(14,517,987)	(972,640)	97,459	(15,393,168)
Total accumulated depreciation	(41,277,644)	(3,158,314)	97,459	(44,338,499)
Total capital assets- depreciated	34,361,208	(2,069,373)	(6,557)	32,285,278
	48,748,888	4,560,429	(6,060,654)	47,248,663
Assets transferred from Danville School Board	77,837,094	-	-	77,837,094
Less- accumulated depreciation	(58,629,833)	(1,923,440)	-	(60,553,273)
	19,207,261	(1,923,440)	-	17,283,821
Total capital assets – net	\$ 67,956,149	\$ 2,636,989	\$ (6,060,654)	\$ 64,532,484

Depreciation was charged to government functions as follows:

General government administration	\$ 1,414,421
Judicial administration	90,083
Public safety	883,195
Public works	246,735
Health and welfare	212,181
Parks, recreation, and cultural	161,561
Community development	150,138
Total	\$ 3,158,314

Depreciation on the assets transferred by the Danville Public Schools was \$1,923,440. This expense is reflected in the education expense on the Statement of Activities.

Component Unit - Danville Public Schools

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets not being depreciated:				
Land and land improvements	\$ 3,717,970	\$ 254,659	\$ -	\$ 3,972,629
Other capital assets				
Buildings	65,337,165	236,410	-	65,573,575
Furniture and other equipment	21,527,590	170,730	-	21,698,320
Total other capital assets	86,864,755	407,140	-	87,271,895
Less -				
Total accumulated depreciation	(51,043,220)	(515,577)	-	(51,558,797)
Capital assets – net	39,539,505	146,222	-	39,685,727
Assets transferred to the City of Danville to match long-term debt	(28,763,468)	-	-	(28,763,468)
Total	\$ 10,776,037	\$ 146,222	\$ -	\$ 10,922,259

Property, plant, and equipment are stated at cost, less an allowance for accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated lives of the assets as follows:

Buildings	45 years
Equipment	3 – 25 years
Infrastructure	25 – 35 years

Capital outlays are reported as expenditures in the governmental funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements is summarized as follows:

Component Unit - Industrial Development Authority

	Balance June 30, 2007	Balance June 30, 2008
Property held for lease:		
Land	\$ 620,615	\$ 620,615
Building	11,865,813	11,865,813
Less – accumulated depreciation	(912,252)	(1,209,410)
	<u>11,574,176</u>	<u>11,277,018</u>
Property held for sale:		
Land and building	1,445,449	1,458,348
Construction in progress	<u>102,330</u>	<u>102,330</u>
Total	<u>\$ 13,121,955</u>	<u>\$ 12,837,696</u>

The IDA has five year operating leases with Essel ProPack America, LLC (Essel ProPack) and TelVista, Inc. Monthly payments are based on an amount equal to the IDA's debt service on each building. Each lease also has up to four (4) five (5) year renewal periods.

Further, Essel ProPack and TelVista each retain an option to purchase their leased property during the term of the lease, including any extensions, thereof, for the remaining principal balance owed by the IDA on the related loan on each property.

The IDA also leases a building in the City's historic district to Luna Technologies for \$1 per year.

Future estimated minimum rental payments due under the leases at June 30, 2008 follows:

Year Ending June 30,	Amount
2009	\$ 866,770
2010	866,770
2011	866,770
2012	866,770
2013	866,770
	<u>\$ 4,333,850</u>

Land Held for Sale

Land held for sale is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased or at estimated fair value at the date of gift, if donated. Costs of property improvements are capitalized.

Enterprise Funds

The following is a summary of changes in capital assets for business-type activities for the year ended June 30, 2008:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Business-type activities:				
Land	\$ 1,294,270	\$ 30,787	\$ -	\$ 1,325,057
Construction in progress	31,040,269	17,767,165	(21,925,534)	26,881,900
Total capital assets not being depreciated	32,334,539	17,797,952	(21,925,534)	28,206,957
Buildings	250,304,392	20,812,488	-	271,116,880
Equipment	53,219,931	1,896,038	-	55,115,969
Less- accumulated depreciation for:				
Buildings	(90,152,243)	(5,802,301)	-	(95,954,544)
Equipment	(28,469,130)	(1,832,305)	-	(30,301,435)
Total accumulated depreciation	(118,621,373)	(7,634,606)	-	(126,255,979)
Other capital assets – net	184,902,950	15,073,920	-	199,976,870
Total capital assets – net	\$ 217,237,489	\$ 32,871,872	\$ (21,925,534)	\$ 228,183,827

Governmental Funds

Capital outlay – Primary government	\$ 7,503,722	
Capital outlay – Internal services	215,021	
Capital Outlay – City – not capitalized	(6,060,654)	
		\$ 1,658,089
Depreciation expense - City	(2,570,086)	
Depreciation expense – Internal services	(588,228)	
Depreciation expense - Schools	(1,923,440)	
		\$ (5,081,754)
		\$ (3,423,665)

6. Commitments and Contingencies

A. Litigation

The City is contingently liable with respect to lawsuits and other claims, which arise, in the ordinary course of its operations. It is the opinion of City management and the City Attorney that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material to the financial position of the City.

B. Federally Assisted Grant Programs

The City and the DPS participate in a number of federally assisted grant programs. Although the City and the DPS have been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, City and DPS's management believes such disallowances, if any, will not be significant.

C. Contracts

The City has several construction and similar contracts in progress at June 30, 2008. The incomplete unbilled portion of these contracts represents financial commitments that have not been recorded in the financial statements, since they were not liabilities at June 30, 2008.

	<u>City of Danville</u>
Contracts	\$ 4,234,676
Less: paid or recorded as liabilities	<u>(3,926,335)</u>
	<u>\$ 308,341</u>

D. Contingent Liabilities

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The City maintains an insurance fund to account for insurance transactions. The City is self-insured for all workers' compensation claims, comprehensive and collision for vehicles which cost less than \$100,000, property damage up to a deductible of \$10,000, and employee liability to the extent that it is not covered by another policy (see the schedule of insurance coverage in the statistical section of this Comprehensive Annual Financial Report). Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Current market rates are used to discount claim liabilities.

The fleet insurance and commercial general liability insurance is provided under a pooled agreement with the Virginia Municipal Liability Pool (Pool), a public entity risk pool. The Pool has paid policy dividends on a regular basis. If the Pool should be in a deficit condition, it may levy an additional pro-rata assessment to members of the Pool, which may not exceed twice the members' annual contributions. The pool agreement does not address the question of member liability in case of a deficit condition. Claims have not exceeded coverage in any of the previous three years, and there were no reductions in coverage from the previous year.

Component Unit

Worker's compensation

Danville Public Schools is a member of the School System of Virginia Self-Insurance Association (Association), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act for any, and all, member employers. The Association has operated at a profit and has declared dividends on a regular basis since Danville Public Schools entered the pool in 1982. Danville Public Schools has elected to have the Association hold its dividends in escrow as a reserve against possible future claims. At June 30, 2008 the cumulative amount of dividends held in escrow by the Association for the Danville Public Schools amounted to \$328,179.

Self-Insurance Coverage

In October 2005, **DPS** entered into an agreement with Anthem Blue Cross Shield to administer a self-insurance plan for employee medical and pharmacy insurance. **DPS'** s contingent liability is limited to an annual stop loss amount of \$90,000 per participant. The escrow balance (\$3,036,559) is the balance of premiums paid net of claims received by Anthem (\$3,470,819) and the estimated claims incurred but not paid as of for the same period (\$434,260) for the period ended June 30, 2008.

E. Reimbursable Agreements

At June 30, 2008, the City had outstanding agreements representing reimbursements to developers for streets, sewers, and utility facilities. These agreements totaled \$1,149,699 with \$823,861 having qualified for reimbursement within terms of the agreements. The remaining balances will be accrued upon qualification.

F. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to retain risks of losses in those areas where it believes it is more economical to manage its risks internally and account for any claims settlement in the General Fund. Exceptions to the self-insurance program are made when insurance coverage is available and when premiums are cost effective. The City is covered by property/casualty insurance policies on real and personal property (except vehicles) and the following liability insurance policies as of June 30, 2008: public entity and public officials excess liability, medical and dental malpractice liability, voting booths, special events, vacant buildings, volunteer liability, nonowned aircraft liability, and commercial crime. The City maintains a blanket surety bond on all City workers who handle funds and excess amounts of insurance on key officials. There were no material reductions in insurance coverage from coverage in the prior fiscal year nor did settlements exceed coverage for any of the past three fiscal years.

The following Constitutional Officers and City employees are covered by surety bonds issued by Lumberman's Mutual Casualty Co. in the amounts shown as of June 30, 2008:

Treasurer	\$	500,000
Commissioner of Revenue	\$	3,000
Clerk of Circuit Court	\$	103,000
Sheriff	\$	30,000

G. Self-Insurance

The noncurrent portion of unpaid workers' compensation claims amounted to approximately \$3,353,550 and the amount expected to be paid within one year amounted to \$144,650 as of June 30, 2008, and is reflected in the government-wide statements. Liabilities are reported when it is probable that losses have occurred, and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Liabilities are determined using a combination of actual claims experience and actuarially determined amounts and include incremental claims, adjustment expense, and estimated recoveries. An independent contractor processes the public liability claims and the City records a provision and liability in the entity-wide statements and General Fund (current portion only) for an estimate of incurred but not reported claims.

Changes in the estimated claims payable for workers' compensation are as follows for the years ended June 30:

	FY 2008	FY 2007
Estimated claims payable at beginning of period	\$ 3,064,000	\$ 3,241,000
Current fiscal year claims, changes in estimates, and payouts	1,112,200	81,000
Claim payments	(678,000)	(258,000)
Estimated claims payable at end of period	<u>\$ 3,498,200</u>	<u>\$ 3,064,000</u>

7. Long-Term Debt

A. Bonds Payable

The following schedule represents all bonds payable in the Government and Enterprise funds, for the year ended June 30, 2008.

Description	Original Issue	Annual Amount	Interest Rate	Maturity	Outstanding June 30, 2008
General Obligations and Section 10 Bonds					
School Series 1991B	\$ 2,688,260	\$ 92,300 – 174,163	4.85 – 6.60 %	7/15/11	\$ 662,293
School Series 2001B	6,512,513	\$ 296,369 – 371,160	3.10 – 5.10 %	7/15/21	4,711,994
School Series 2001B	5,210,006	\$ 237,088 – 296,928	3.10 – 5.10 %	7/15/21	3,769,598
School Series 2001B – Loan	2,500,000	\$ 125,000	3.10 – 5.10 %	7/15/21	1,750,000
General Improvements 96-97	6,550,000	\$ 325,000 – 330,000	4.875 – 5.50 %	3/1/17	325,000
General Improvements & Refunding 97-98	19,035,000	\$ 775,000 – 1,630,000	4.25 – 5.00 %	4/1/18	7,235,000
General Improvements 98-99	4,100,000	\$ 205,000	3.75 – 5.00 %	3/1/19	2,255,000
General Improvements 01-02	16,960,000	\$ 130,000 – 1,645,000	2.32 – 5.00 %	8/1/14	12,655,000
General Improvements 2003A	9,675,000	\$ 1,040,000	2.00 – 3.00 %	8/1/09	2,800,000
General Improvements 2003B	5,595,000	\$ 450,000 – 665,000	3.00 – 4.00 %	2/1/14	3,600,000
General Improvements 2004A	8,220,000	\$ 125,000 – 1,000,000	2.00 – 4.00 %	5/1/17	5,920,000
General Improvements 2005	8,800,000	\$ 290,000 – 640,000	3.70 – 4.25 %	12/1/25	8,210,000
General Improvements 2007	5,000,000	\$ 165,000 – 360,000	3.625 – 3.90 %	3/1/27	4,835,000
	<u>100,845,779</u>				<u>58,728,885</u>
Revenue Bonds					
Utility Revenue 93 – 94	2,900,000	\$ 46,104 – 207,971	4.50 %	6/1/14	1,148,862
Utility Revenue 94 – 95	300,000	\$ 12,829 – 19,148	4.50 %	6/1/14	110,746
Utility Revenue 96 – 97	7,300,000	\$ 223,940 – 365,000	4.50 %	2/1/19	3,873,940
	<u>\$ 10,500,000</u>				<u>5,133,548</u>
Total Outstanding Bonds					<u>\$ 63,862,433</u>

Debt service on the preceding **Bonds** in future years is as follows:

General Obligation and Section 10 Bonds:

Principal:

Fiscal Year Ending June 30,	Governmental	Enterprise	Total
2009	\$ 3,748,692	\$ 4,244,512	\$ 7,993,204
2010	3,466,169	3,993,882	7,460,051
2011	3,011,769	3,600,127	6,611,896
2012	2,834,224	3,240,177	6,074,401
2013	2,476,196	2,875,910	5,352,106
2014 – 2018	6,129,633	8,607,500	14,737,133
2019 – 2023	3,152,594	4,162,500	7,315,094
2024 - 2028	-	3,185,000	3,185,000
	<u>\$ 24,819,277</u>	<u>\$ 33,909,608</u>	<u>\$ 58,728,885</u>

Interest:

Fiscal Year Ending June 30,	Governmental	Enterprise	Total
2009	\$ 1,063,468	\$ 1,348,095	\$ 2,411,563
2010	917,264	1,189,268	2,106,532
2011	777,656	1,038,305	1,815,961
2012	641,153	887,406	1,528,559
2013	514,020	750,228	1,264,248
2014 – 2018	1,352,242	2,319,465	3,671,707
2019 – 2023	282,974	1,071,639	1,354,613
2024 – 2028	-	249,675	249,675
	<u>\$ 5,548,777</u>	<u>\$ 8,854,081</u>	<u>\$ 14,402,858</u>

Revenue Bonds:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 557,658	\$ 194,366	\$ 752,024
2010	564,259	173,348	737,607
2011	571,087	152,103	723,190
2012	578,148	130,624	708,772
2013	585,451	108,903	694,354
2014 – 2018	2,053,005	266,490	2,319,495
2019 – 2023	223,940	8,846	232,786
	<u>\$ 5,133,548</u>	<u>\$ 1,034,680</u>	<u>\$ 6,168,228</u>

Debt service for note payable, reimbursement agreements, and capital lease bond obligations in future years is as follows:

Note Payable:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 200,000	\$ 5,830	\$ 205,830

Reimbursement Agreements do not require interest payments:**Principal:**

Fiscal Year Ending June 30,	Governmental	Enterprise	Total
2009	\$ 190,351	\$ 140,181	\$ 330,532
2010	190,351	140,181	330,532
2011	190,351	140,181	330,532
2012	50,311	107,793	158,104
	<u>\$ 621,364</u>	<u>\$ 528,336</u>	<u>\$ 1,149,700</u>

Capital Lease Bonds:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 858,350	\$ 481,429	\$ 1,339,779
2010	883,836	438,470	1,322,306
2011	910,835	393,222	1,304,057
2012	938,233	347,073	1,285,306
2013	971,586	298,593	1,270,179
2014 – 2018	4,058,220	822,580	4,880,800
2019 – 2021	773,037	41,221	814,258
	<u>\$ 9,394,097</u>	<u>\$ 2,822,588</u>	<u>\$ 12,216,685</u>

Advance To/From other Funds:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ -	\$ -	\$ -
2010	111,252	277,248	388,500
2011	272,950	115,550	388,500
2012	283,868	104,632	388,500
2013	295,223	93,277	388,500
2014 – 2018	1,662,983	279,516	1,942,499
2019 – 2021	373,724	14,949	388,673
	<u>\$ 3,000,000</u>	<u>\$ 885,172</u>	<u>\$ 3,885,172</u>

The capital lease bonds are a variant of revenue bonds used in the capital outlay program. The revenue stream backing the bond is created from lease payments made by the occupying department to the governmental financing entity which constructs the facility. The financing authority constructs the facility, issues financing bonds, and retains title to the facility until the debt is retired.

The advance to/from other funds represent a loan from the Electric fund to the Telecommunications fund used to design, construct and equip a fiber-optic municipal area network.

B. Governmental Obligation

The following table is a summary of the changes in long-term liabilities that are recorded in the Statement of Net Assets ended June 30, 2008:

Compensated absences and workers' compensation are typically paid from the General Fund.

	Balance June 30, 2007	Additions	Changes/ Reductions	Balance June 30, 2008	Due within 1 year
General obligation bonds	\$ 28,488,093	\$ -	\$ 3,668,816	\$ 24,819,277	\$ 3,748,692
Notes payable	400,000	-	200,000	200,000	200,000
Reimbursement agreements	541,908	314,821	235,365	621,364	190,351
Capital lease obligations	10,230,058	-	835,961	9,394,097	858,350
Compensated absences	1,395,607	1,649,273	1,550,096	1,494,784	1,649,273
Worker's compensation	2,529,000	491,200	-	3,020,200	118,824
Other bond related items	(562,615)	-	(126,429)	(436,186)	-
	<u>\$ 43,022,051</u>	<u>\$ 2,455,294</u>	<u>\$ 6,363,809</u>	<u>\$ 39,113,536</u>	<u>\$ 6,765,490</u>

C. Enterprise Debt

Following is a summary of the changes in long-term liabilities that are recorded in the Enterprise Funds for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Changes/ Reductions	Balance June 30, 2008	Due within 1 year
General obligation bonds	\$ 38,073,432	\$ -	\$ 4,163,824	\$ 33,909,608	\$ 4,244,512
Revenue bonds	5,708,574	-	575,026	5,133,548	557,658
Reimbursement agreements	827,971	50,575	350,210	528,336	140,181
Advance to/from other funds	1,060,000	3,000,000	1,060,000	3,000,000	-
Compensated absences	433,318	506,793	459,676	480,435	380,096
Workers' compensation	535,000	-	57,000	478,000	25,826
Bond related items	(757,488)	-	(215,951)	(541,537)	-
	\$ 45,880,807	\$ 3,557,368	\$ 6,449,785	\$ 42,988,390	\$ 5,348,273

D. General Obligation Debt Limit

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. The City of Danville has independently set a lower debt limit of 7.5% of the assessed valuation. The Legal debt margin at June 30, 2008 is computed as follows:

	Legal Debt Margin
Assessed value (as of June 30, 2008) – taxable real property, including public service corporations	\$ 2,069,156,000
Legal debt limits:	
10% of assessed value (authorized by the Commonwealth of Virginia for all cities)	\$ 206,915,600
Deduct amount of debt applicable to debt limit:	
Gross general debt*	66,561,525
Legal debt margin	\$ 140,354,075

*Debt applicable to debt limit excludes Revenue Bonds due to Section 10, Article VII of the Constitution of Virginia

E. Component Units

Following is a summary of the changes in long-term liabilities that are recorded in the Danville Public Schools for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Changes/ Reductions	Balance June 30, 2008	Due within 1 year
Early retirement plan (January 1, 2008)	\$ -	\$ 134,788	\$ (7,433)	\$ 127,355	\$ 21,851
Early retirement plan (July 1, 1997)	2,998,667	1,526,016	(1,375,733)	3,148,950	975,221
Employee benefits	1,251,371	531,595	(457,679)	1,325,287	307,037
	\$ 4,250,038	\$ 2,192,399	\$ (1,840,845)	\$ 4,601,592	\$ 1,304,109

Debt service on the preceding component unit's early retirement plans and contracts payable for future years are as follows:

Year Ending June 30,	Early Retirement July 1, 1997		Early Retirement January 1, 2008	
	Principal	Interest	Principal	Interest
2009	\$ 975,221	\$ 150,998	\$ 21,851	\$ 577
2010	772,732	149,333	20,810	1,617
2011	546,716	120,100	19,819	2,608
2012	408,655	107,482	18,876	3,552
2013	285,359	88,451	17,977	4,451
2014	160,267	60,174	28,022	9,400
	<u>\$ 3,148,950</u>	<u>\$ 676,538</u>	<u>\$ 127,355</u>	<u>\$ 22,205</u>

Following is a summary of the changes in the long-term liability that is recorded in the Industrial Development Authority for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
Deeds of trust payable	\$ 10,647,521	-	250,474	\$ 10,397,047

Debt service on the preceding component unit's deeds of trust payable for future years are as follows:

Fiscal Year Ending June 30,	Early Retirement Principal
2009	\$ 263,740
2010	291,449
2011	308,304
2012	326,174
2013	345,124
2014 – 2018	2,052,600
2019 – 2023	2,732,443
2024 – 2028	3,438,034
2029 – 2030	639,179
	<u>\$ 10,397,047</u>

8. Transfers

Funds are transferred each year from the General Fund to the Capital Projects Fund, Insurance Fund, and the Transportation Fund. The Capital Projects Fund and the Insurance Fund operate for the benefit of the City. The Transportation Fund is operated as an enterprise fund but the City has historically subsidized this fund since it is for the benefit of the citizens.

The chart below details the activities between funds of the City for the year ended June 30, 2008.

	Transfers In	Transfers Out	Net Transfers
Governmental Funds – Exhibit E			
General	\$ 13,632,000	\$ (7,038,645)	\$ 6,593,355
Capital Projects	5,842,622	-	5,842,622
Special Revenue	940,701	-	940,701
	<u>\$ 20,415,323</u>	<u>\$ (7,038,645)</u>	<u>\$ 13,376,678</u>
Enterprise Funds – Exhibit F			
Wastewater	\$ -	\$ (677,760)	\$ (677,760)
Water	-	(933,300)	(933,300)
Gas	-	(2,656,330)	(2,656,330)
Electric	-	(9,062,610)	(9,062,610)
Transportation	121,793	(322)	121,471
Telecommunications	-	(302,000)	(302,000)
Nonmajor Governmental funds	133,851	-	133,851
	<u>\$ 255,644</u>	<u>\$ (13,632,322)</u>	<u>\$ (13,376,678)</u>

Primary transfer activities include:

Transfers from the General Fund to the Capital Projects fund represents the City's budgeted pay-as-you go funding.

Transfers from the General Fund to the Special Revenue Fund represent City funds required to match grant program resources.

Transfers from the Enterprise Funds represent contributions from these funds to support the City's operations.

9. Interfund Receivables/Payables

Interfund receivables and payables of individual funds result primarily from cash disbursements made by one fund for expenditures of another. The amounts due at June 30, 2008 are as follows:

Governmental Funds

	Interfund Receivable	Interfund Payable
City of Danville:		
General fund	\$ 306,165	\$ -
Nonmajor fund:		
Special Revenue fund	-	306,165
	<u>\$ 306,165</u>	<u>\$ 306,165</u>

Component Unit

	Interfund Receivable	Interfund Payable
Danville Public Schools:		
General fund	\$ 1,317,679	\$ -
Capital projects fund	-	54,764
Special grants fund	-	181,620
Nonmajor funds:		
Textbook	-	912,565
Cafeteria	-	168,730
	<u>\$ 1,317,679</u>	<u>\$ 1,317,679</u>

The primary reason for interfund receivables and payables of the primary government due at June 30, 2008 are as follows:

Interfund receivable to the General Fund from the Special Grants Fund represent amounts expended for the localities matching portion of state and federal grants paid out of the Special Revenue fund and due from the General Fund.

The primary reason for interfund receivables and payables of the primary government due at June 30, 2008 are as follows:

Interfund payable from the General Fund to the Special Grants, Capital Projects and Textbook funds represent amounts expended for the localities matching portion of state and federal grants, capital expenditures, textbook purchases, and cafeteria operations due from the General Fund.

10. Due From Other Governments

	City of Danville	Enterprise Fund	Danville Public Schools
Commonwealth of Virginia -			
State grants	\$ 2,773,790	\$ 16,609	\$ 588,899
Social Services	576,636	-	-
	3,350,426	16,609	588,899
Local government	212,140	-	-
Federal government -			
Federal grants	505,663	413,646	2,110,440
	<u>\$ 4,068,229</u>	<u>\$ 430,255</u>	<u>\$ 2,699,339</u>

11. Retirement Plans

The City participates in two public employee retirement systems. Part I of this note details the Employees' Retirement System of the City of Danville (ERS), and Part II details the Virginia Retirement System (VRS). Disclosures concerning the Danville Public School's participation in the Virginia Retirement System is also included in Part II of this note.

The City follows Governmental Accounting Standards Board Statement No. 27 (GASB 27) – *Accounting for Pensions by State and Local Government Employers*. The Statement establishes standards for the measurement, recognition and display of pension expenditures and related liabilities, assets and note disclosures.

I. Employees' Retirement System of the City of Danville

A. *Plan Description*

The Employees' Retirement System of the City of Danville was established on January 1, 1946, and was placed under the management of a Board of Trustees for the purpose of providing retirement, disability, and death benefits for full-time permanent employees in accordance with Chapter 32 of the Danville City Code. The City makes contributions to the ERS, which acts as administrator of this single-employer defined benefit pension plan.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees Retirement System of the City of Danville, PO Box 3300, Danville, Virginia 24543.

All full-time employees of the City, excluding Danville Public Schools employees and elected officials and their employees (who are covered under the Virginia Retirement System) are eligible to participate. Upon becoming a regular, full-time employee of the City, each employee is classified as a "general employee" or as a "public safety employee" (policeman or fireman). The two employee classes have different pension benefits and early service retirement allowances. As of June 30, 2008, employee membership in the ERS was as follows:

	General Employees	Public Safety Employees	Total
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	481	164	645
Active plan participants:			
Vested	460	174	634
Nonvested	275	72	347
	735	246	981

The pension plan provides retirement, disability, and death benefits. After 5 years of creditable service, general employees who attain the age of 65 or who accumulated at least 30 years of creditable service and attain the age of 55 may retire with full benefits. Public safety employees who attain the age of 60 or who accumulated at least 30 years of creditable service and attain the age of 55 may retire with full benefits.

For general employees, the retirement allowance consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1/55th of the highest consecutive 3 years average salary, multiplied by the number of years of creditable service prior to January 1, 1956 (but not before January 1, 1946), plus 1.42% of the part of such compensation in excess of \$9,500, plus 1.82% of the part of such compensation in excess of \$9,500 multiplied by the number of years of creditable service after December 31, 1955. A general employee with at least 5 years of service may retire early after reaching the age of 55 and receive reduced benefits.

The retirement allowance for a public safety employee, if hired before October 1, 1991, consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1/50th of the final 3 years average salary multiplied by the number of years of creditable service after December 31, 1945. A public safety employee with at least 5 years of service may retire early after reaching the age of 55 and receive reduced benefits. A member with creditable service prior to January 1, 1946 receives an additional pension.

Pension provisions include disability benefits whereby a member who becomes totally and permanently incapacitated and who has completed 5 years of creditable service is eligible to receive a disability retirement allowance. The allowance begins at the time of the disability and is based on creditable service to date and a projection of creditable service assuming no disability. The allowance is offset by any workers' compensation benefits.

If, after 5 years of service, an active member should die at any time prior to retirement, an allowance shall be payable to the spouse, minor child, or parent of the member. Such retirement allowance will be continued during the lifetime of such person, or in the case of a minor child, until such time as the child dies or attains majority. The beneficiary may elect to receive the member's accumulated contributions with interest in lieu of any other benefits under the ERS.

The Board of Trustees, based on actuarial estimates of future plan benefits to be paid, establishes contributions by active members. Since March 1, 1979, the City has assumed payment for the

employees' contributions. Contributions for employees hired after September 30, 1991 are considered to be 100% City contributions. These contributions, like the City portion of pre-October 1, 1991 employees, vest after 5 years of creditable service. The contribution rate for employees hired before October 1, 1991 is currently 5% of earnable compensation for general employees and 6.5% of earnable compensation for public safety employees. The portion of contributions to the plan made by the City on behalf of these members vests immediately with the employees. The remainder of the contributions vests after 5 years of creditable service.

For the year ended June 30, 2008, the City's total payroll for all employees was \$33,680,175, and the City's total covered payroll amounted to \$35,282,649 of which \$24,965,236 was for general employees and \$10,317,413 was for public safety employees. Covered payroll refers to all compensation paid by the City to active employees covered by the ERS on which contributions to the plan are based.

B. Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the ERS are prepared on the accrual basis of accounting. Contributions from the City are recognized as revenue in the period in which the employees provide services to the City. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment income is recognized as it is earned. The net appreciation or depreciation in the fair value of investments held by the ERS is recorded as an increase or decrease in investment income based on the valuation of investments as of the date of the balance sheet.

Investments. Investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the balance sheet. The fair value of the real estate - timberland, is based on an independent appraisal.

C. Funding Policy

The contribution requirement of plan members and the City are established by the ERS' Board of Trustees, based on actuarial estimates of future plan benefits to be paid. The contribution rate for general employees is 5% of their annual covered salary and 6.5% for public safety employees. The City has paid the employee's portion of the contributions since 1979. Total contributions to the ERS for the year ended June 30, 2008 amounted to \$3,902,716 of which the City, on behalf of its employees, paid \$62,366. The contributed amounts were based on an actuarial valuation. Contributions made by the City represents 5% on behalf of its employees that were employed before October 1991, and contributions made by the City on behalf of its employees represent 5.71% of covered payroll for the year for a total of 10.71%.

D. Annual Pension Cost and Net Pension Obligation

The annual pension cost at June 30, 2008 was \$4,111,258, and the contributions made by the City were \$3,902,716. At year-end June 30, 2008, the Enterprise Funds have recorded a net pension asset of \$341,530. In accordance with GASB 27, the General Fund asset of \$1,046,687 has been recorded in the Statement of Net Assets for the governmental funds.

Three-Year Trend Information

Actuarial Date	City Supplemental		
	6/30/06	6/30/07	6/30/08
Annual Pension Cost (APC)	\$ 3,448,917	\$ 3,979,980	\$ 4,111,258
Percentage of APC Contributed	83.23%	83.12%	94.93%
Net Pension Asset	\$ 2,268,720	\$ 1,596,759	\$ 1,388,218

The annual required contribution for the current year was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a)

8% investment rate of return and (b) projected salary increases of 3% per year. Both (a) and (b) included an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008 was 30 years.

For the year ended June 30, 2008, the City had contributed more than the annual required amount. In accordance with GASB 27, the following chart below details the components of the net pension asset.

June 30, 2008	Governmental	Enterprise
Annual Required Contribution (ARC)	\$ 3,239,371	\$ 868,298
Interest on beginning Net Pension Obligation (NPO)	(105,753)	(21,988)
Adjustment to ARC	108,723	22,607
Annual Pension Cost	3,242,341	868,917
Contributions Made	(3,076,516)	(826,200)
Decrease in NPO	165,825	42,717
Net pension asset – beginning of year	1,212,512	384,247
Net pension asset - end of year	\$ 1,046,687	\$ 341,530

The net pension asset shown above for the enterprise funds is net of the liability. Wastewater has a liability of \$18,219, Cemetery Operations fund has a liability of \$19,443, Telecommunications has a liability of \$4,414, and Transportation fund has a liability of \$623 which is applied to the assets of the other enterprise funds of \$384,229 to arrive at the balance shown in the chart above.

June 30, 2007	Governmental	Enterprise
Annual Required Contribution (ARC)	\$ 3,133,047	\$ 541,833
Interest on beginning Net Pension Obligation (NPO)	(146,858)	(34,639)
Adjustment to ARC	150,912	213,258
Annual Pension Cost	3,137,101	720,452
Contributions Made	(2,622,752)	(499,220)
Decrease in NPO	514,349	221,232
Net pension asset – beginning of year	1,726,932	539,613
Net pension asset - end of year	\$ 1,212,583	\$ 318,381

For the year ended June 30, 2008, the City had contributed more than the annual required amount. In accordance with GASB 27, the chart below details the components of the net pension asset.

E. Schedule of Funding Progress:

Actuarial Valuation Date	6/30/06	6/30/07	6/30/08
Actuarial Value of assets (a)	\$ 161,037,271	\$ 173,932,043	\$ 184,158,579
Actuarial Accrued Liability (AAL) – Entry Age (b)	\$ 168,009,349	\$ 181,112,835	\$ 193,054,077
Unfunded (Overfunded) (AAL) (UAAL) (b-a)	\$ 6,972,078	\$ 7,180,792	\$ 8,895,498
Funded Ratio (a/b)	95.85%	96.04%	95.39%
Covered Payroll (c)	\$ 34,010,220	\$ 35,282,649	\$ 38,837,884
UAAL as a Percentage of Covered Payroll ((b-a)/c)	20.49%	20.35%	22.90%

II. Virginia Retirement System**A. Plan Description**

The City of Danville contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer public employee retirement system that acts as common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. There are three separate groups of employees covered under the plan. The first includes "constitutional employees" of the City, which are all employees of the offices of the Sheriff, Commonwealth's Attorney, Clerk of Court, Treasurer, and the Commissioner of Revenue. In addition, professional and nonprofessional employees of the Danville Public Schools are covered by the VRS.

Professional employees participate in a VRS statewide teacher cost sharing pool, and nonprofessional employees participate as a separate group.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained from their website at <http://www.varetire.org/pdf/2007AnnuRept.pdf> or writing to the system at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Employees are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The City and the Danville Public Schools have assumed this 5% member contribution. If an employee leaves covered employment, the accumulated member contributions plus interest earned may be refunded to the employee. The City and the Danville Public Schools are required to contribute the remaining amounts necessary to fund the system using the actuarial basis specified by the VRS Board of Trustees. The Danville Public Schools contribution rate for the fiscal year ended June 30, 2008 was 15.30% (10.30% plus 5% for employees' portion) of annual covered payroll for professional employees and 14.19% (9.19% and 5% for employees' portion) for nonprofessional employees. The City's contribution rate was 12.89% (7.89% plus 5% for employees' portion).

C. Annual Required Contribution

For June 30, 2008, the Danville Public School's annual contribution of \$274,786 for nonprofessional and 5,441,917 for professional employees, and the City's annual contribution of \$591,147 were equal to the required and actual contributions. The contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included, (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.50% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments.

	Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City Employees	2008	\$ 591,147	100%	\$ -
	2007	\$ 562,979	100%	\$ -
	2006	\$ 445,986	100%	\$ -
School Board	2008	\$ 274,786	100%	\$ -
Nonprofessional	2007	\$ 256,587	100%	\$ -
	2006	\$ 112,489	100%	\$ -

Both (a) and (b) included an inflation component of 2.5%. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Danville Public Schools participates in the VRS teacher cost-sharing pool for professional employees.

Schedule of Funding Progress

The following information is from the most recent actuarial valuation (June 30, 2007).

Actuarial Valuation Date	6/30/07	6/30/06	6/30/05
Actuarial Value of assets (a)	\$ 16,301,462	\$ 14,307,636	\$ 13,338,437
Actuarial Accrued Liability (AAL) – Entry Age (b)	\$ 16,853,288	\$ 15,534,778	\$ 14,363,643
Unfunded (Overfunded) (AAL) (UAAL) (b-a)	\$ 551,826	\$ 1,227,142	\$ 1,025,206
Funded Ratio (a/b)	96.73%	92.10%	92.86%
Covered Payroll (c)	\$ 4,482,616	\$ 4,109,575	\$ 3,818,209
UAAL as a Percentage of Covered Payroll ((b-a)/c)	12.31%	29.86%	26.85%

Notes to Schedules of Employer Contributions and Funding Progress

	School Board June 30, 2007	City June 30, 2007
Valuation date	Entry Age Normal	Entry Age Normal
Actuarial cost method	Level percent, open	Level percent, open
Amortization method	2.50%	2.50%
Payroll growth method	20 years	20 years
Remaining amortization period	Modified Market	Modified Market
Asset valuation method		
Actuarial assumptions:		
Investment of return*	7.50%	7.50%
Projected salary increase*	3.75% - 5.60%	3.75% - 5.60%
Cost of living adjustments	2.50%	2.50%

*Includes inflation of 2.50%

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations. Additional information from the June 30, 2007, actuarial valuation is above.

Deferred Compensation Plan

The City has a deferred compensation plan for all employees who request participation in the International City Managers Association Retirement Corporation (ICMA-RC) deferred compensation plan. The plan was created in accordance with Internal Revenue Code Section (IRC) 457. Amounts deferred under the plan are remitted on a monthly basis directly to the ICMA-RC, which acts as administrator and fiduciary agent of the plan. Prior to fiscal 1998, the assets of the plan, until paid or made available to the participants, remained the property of the City and were considered agency funds. Due to tax legislation, the City has amended the plan to comply with the requirements of subsection (g) of IRC Section 457. As a result of this change, the assets of the plan are no longer considered to be assets of the City. Since a fiduciary relationship no longer exists between the City and the plan, the plan's assets are no longer considered agency funds of the City.

12. Postretirement Benefits Other Than Pensions

The City adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The Statement establishes standards for reporting the liability for non-pension postemployment benefits, chiefly the health care premiums for retirees. Disclosures concerning participation are outlined as follows:

A. Plan Provisions

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

B. Funding Policy

It is our understanding that City does not intend to establish a trust to pre-fund this liability. The exhibit below shows the anticipated growth in the Net OPEB Obligation based on contributions to the benefit plan on a pay-as-you-go basis. We have used the fresh start method of amortization for the unfunded actuarial accrued liability each year for this estimate. The data have been projected into the future based on the current active population remaining constant. Also, the estimated employer contributions are based on estimated pay-as-you-go benefit plan costs (retiree claims minus retiree contributions paid premiums) made during the year on behalf of the retired employees of the City.

C. Plan Descriptions

Eligibility

Currently covered full-time active employees who qualify for retirement after attaining age 55 with at least 5 years service are eligible to receive postretirement health care and death benefits.

Employees with 5 years of service who qualify for a disability retirement are also eligible to receive postretirement health care and death benefits. Disabled retirees pay the same contribution rates for medical and life insurance coverage as nondisabled retirees.

Spouses are eligible for medical and prescription coverage only.

Health Care Benefits Covered:

All Retirees Under Age 65:

The postretirement health care plan is a self-funded plan administered by Anthem Blue Cross and Blue Shield. Spouses under age 65 are eligible for coverage in this plan. GASB No. 45 does not require governments to fund their OPEB plans. All results shown within this report assume that this plan will be funded.

Medicare Eligible Retirees:

Retirees and spouses are eligible to participate in a self-funded post-65 Medicare Carve-Out plan. Since retirees pay the true full cost of benefits, the employer has no liability; the post 65 plan is not valued in this report.

Postretirement Death Benefits:

Retirees can choose either \$5,000 or \$10,000 as a postretirement death benefit. Retirees contribute towards the cost of this benefit at \$2.15 per month or \$4.30 per month respectively. This rate reflects 100% of the blended (active & retiree) cost.

Retirees may choose or decline medical and death benefits independent of each other.

Membership at June 30, 2008, membership consisted of:

	7/01/2008
Number of Costed Employees	
1. Active Employees	1,000
2. Retirees eligible for benefits	278
3. Covered spouses of retirees and beneficiaries	142
4. Retirees with life insurance only	129
5. Total employees	1,549

D. Annual OPEB Costs and Net OPEB Obligation

The net OPEB obligation as of June 30, 2008 was calculated as follows:

Annual Required Contribution	\$	550,384
Interest on Net OPEB Obligation		-
Adjustments to Annual Required Contribution		-
Annual OPEB Cost		550,384
Contributions Made		-
Increase in Net OPEB Obligation		550,384
Net OPEB Obligation, Beginning of Year		-
Net OPEB Obligation, End of Year	\$	550,384

*This adjustment is made to avoid overstating the net OPEB obligation at the end of the year by the portion of the Annual Required Contribution which is attributable to previously unpaid Annual Required Contributions.

E. Actuarial Methods and Assumptions

Valuation Methods

The Projected Unit Credit Method is used to calculate all of the expense amounts that are included in this report and the funded status of the Plan. The calculations are performed in accordance with the methodology set forth in GASB No. 45. Generally, the method is intended to match revenues with expenses and attributes an equal amount of an employee's projected benefit to each year from date of plan entry to the date that he is first eligible to retire with full benefits.

Valuation of Assets

The calculations in this report assume that the City will contribute an amount equal to or greater than the Annual Required Contribution to a trust fund and that these assets will be restricted for the sole purpose of providing postretirement medical and death benefits going forward. The beginning asset value used as of July 1, 2007 for purposes of this report is \$0.

Employees Included In the Calculations

All active employees who will meet the plan's eligibility requirements on or before the ultimate assumed retirement age are included in the calculations. Retirees, spouses and spouse survivors who are entitled to a benefit under the provisions of the plan are also included.

Although we believe these to be accurate and complete as of the valuation date, employee data supplied to us by the Employer has not been audited by us.

Actuarial Assumptions

In the June 30, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 10% reduced by 1.0% each year to arrive at an ultimate healthcare cost trend rate of 5.0%. Both rates include a 7.5% inflation assumption. The actuarial accrued liability was \$4,875,297. The plan's unfunded actuarial accrued liability is being amortized using the fresh start method. The remaining amortization period at June 20, 2008 was 30 years.

F. Schedule of Funding Progress

Actuarial Valuation Date June 30,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age Normal	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
2008	\$ -	\$ 4,875,297	\$ - %	4,875,297	\$ -	-

(The city implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008. Information for prior years is not available.)

G. Schedule of Employee Contributions

Year Ended December 31,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2008	\$ -	\$ 550,384	\$ - %

13. Hedges

The City utilizes natural gas hedging to benefit its citizens. Hedging provides a locked-in price for gas, helping to stabilize rates. Hedging also ensures that if prices should spike due to unforeseen circumstances, at least a portion of our load is protected. During the year ended June 30, 2008, the City purchased contracts totaling \$3,162,000, which was included in the blended cost of gas. The contract value was \$2,000 above the market value of \$3,160,000.

Additionally, gas valued at \$1,731,689 was injected into the City's storage facilities during May and June, and was intended to be withdrawn at a discount to market during the 2008-09 winter. Effective with the renewal of the energy management contract November 1, 2008, BP will take ownership of the stored gas, and the savings to Danville will now be reflected through reduced demand fees and not as a discount to commodity as was the case last winter. The overall savings effected by implementation of the new contract, is expected to be greater than the savings under the previous contract.

14. Impact of Subsequent Stock Market Declines (Unaudited)

Subsequent to June 30, 2008, significant declines in fair value occurred in worldwide securities markets. As of October 31, 2008, the fair values of debt and equity securities owned by the City had a immaterial decline. As of October 31, 2008, the fair value of debt and equity securities owned by the ERS declined by approximately \$ 44.4 million or 24%, from \$184,378,271 million as of June 30, 2008. Fair value estimates for securities are currently volatile, difficult to predict and subject to material changes that could affect the ERS financial condition and results of operations in the near term.

* * * * *



REQUIRED SUPPLEMENTARY
INFORMATION OTHER THAN
MANAGEMENT'S DISCUSSION
& ANALYSIS

GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

GENERAL FUND REVENUES	Original Budget	Final Budget	Actual	Variance
Property taxes				
Real property taxes	\$ 15,415,000	\$ 15,415,000	\$ 16,384,809	\$ 969,809
Real and personal public service corporation property taxes	419,000	419,000	416,026	(2,974)
Personal property taxes	10,013,000	10,013,000	9,116,718	(896,282)
Penalties and interest	400,000	400,000	638,779	238,779
Total property taxes	26,247,000	26,247,000	26,556,332	309,332
Local taxes				
Local sales and use taxes	7,700,000	7,700,000	8,071,419	371,419
Business license taxes	4,900,000	4,900,000	4,979,332	79,332
Prepared meals taxes	4,850,000	4,850,000	5,038,226	188,226
Consumer utility tax	1,100,000	1,100,000	994,536	(105,464)
Franchise license taxes	10,375	10,375	10,375	-
Motor vehicle license	890,000	890,000	1,047,044	157,044
Bank stock taxes	750,000	750,000	711,409	(38,591)
Taxes on recordation and wills	350,000	350,000	236,629	(113,371)
Daily property and room rental taxes	420,405	420,405	457,065	36,660
Total local taxes	20,970,780	20,970,780	21,546,035	575,255
Fines and forfeitures	522,600	522,600	560,327	37,727
Permits, privilege fees and regulatory licenses				
Dog tags	5,000	5,000	11,102	6,102
Permits and other licenses	180,350	180,350	258,950	78,600
Total permits, privilege fees and regulatory licenses	185,350	185,350	270,052	84,702
Revenue from use of money and property				
Revenue from use of money	785,000	785,000	1,352,672	567,672
Revenue from the use of property	453,425	453,425	502,924	49,499
Market value adjustment	-	-	18,749	18,749
Total revenue from use of money and property	1,238,425	1,238,425	1,874,345	635,920
Charges for services				
Court costs	4,000	4,000	9,208	5,208
Correction and detention	3,347,772	3,466,599	3,130,189	(336,410)
Commonwealth's Attorney	160,000	160,000	153,875	(6,125)
Other protection	9,500	9,500	9,718	218
Parks and recreation	206,573	206,573	198,703	(7,870)
Library	32,000	32,000	29,260	(2,740)
Planning and community development	14,500	14,500	13,818	(682)
Lot clearing	20,000	20,000	17,649	(2,351)
Tax abatement applications	500	500	500	-
Total charges for services	3,794,845	3,913,672	3,562,920	(350,752)

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(Continued on next page)

GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
Miscellaneous	\$ 136,500	\$ 162,135	\$ 117,426	\$ (44,709)
Recovered costs	4,782,808	4,783,808	4,947,636	163,828
Intergovernmental				
<i>Revenue from the Commonwealth</i>				
Noncategorical aid	6,331,253	6,331,253	6,880,620	549,367
Shared expenditures:				
Commonwealth's Attorney	877,837	877,837	871,206	(6,631)
Sheriff	2,981,051	2,981,051	2,983,244	2,193
Commissioner of Revenue	160,602	160,602	158,028	(2,574)
Treasurer	115,801	115,801	129,294	13,493
Medical examiner	1,000	1,000	-	(1,000)
Registrar and electoral board	55,000	55,000	53,421	(1,579)
Clerk of Circuit Court	47,082	47,082	(8,230)	(55,312)
Total shared expenditures	4,238,373	4,238,373	4,186,963	(51,410)
Welfare	7,435,112	7,480,787	7,127,670	(353,117)
Other categorical aid:				
Forfeited property	-	29,284	29,284	-
Emergency services	85,013	88,563	88,563	-
E911 wireless	83,000	83,000	120,972	37,972
Fire services	117,423	119,309	129,502	10,193
Juvenile and domestic relations	1,385,076	1,385,076	1,433,675	48,599
National Guard armory	16,000	16,000	19,564	3,564
Street and highway maintenance	8,236,577	8,236,577	8,258,559	21,982
Library	184,342	184,342	182,093	(2,249)
Community development	-	344,325	344,325	-
Total other categorical aid	10,107,431	10,486,476	10,606,537	120,061
<i>Revenue from the federal government:</i>				
Payments in lieu of taxes	3,714	3,714	3,714	-
Law enforcement	-	-	4,632	4,632
Emergency services	-	-	13,231	13,231
Forfeited property	-	11,813	11,813	-
Total revenue from the federal government	3,714	15,527	33,390	17,863
Total intergovernmental	28,115,883	28,552,416	28,835,180	282,764
Total General Fund revenues	\$ 85,994,191	\$ 86,576,186	\$ 88,270,253	\$ 1,694,067

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GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

GENERAL FUND EXPENDITURES

	Original Budget	Final Budget	Actual	Variance
General Government				
Legislative				
<i>City Council</i>				
Salaries	\$ 40,000	\$ 40,000	\$ 39,167	\$ (833)
Other	54,540	54,540	50,792	(3,748)
	94,540	94,540	89,959	(4,581)
<i>Mayor</i>				
Salaries	7,000	7,000	7,000	-
Other	3,036	3,036	545	(2,491)
	10,036	10,036	7,545	(2,491)
Total legislative	104,576	104,576	97,504	(7,072)
General and financial administration				
<i>City Manager</i>				
Salaries	425,246	445,145	446,295	1,150
Other	157,682	162,025	153,373	(8,652)
	582,928	607,170	599,668	(7,502)
<i>City TV 20</i>				
Other	3,600	3,600	2,418	(1,182)
<i>Personnel</i>				
Salaries	319,475	319,475	289,762	(29,713)
Other	129,861	129,561	132,522	2,961
	449,336	449,036	422,284	(26,752)
<i>Occupational health services</i>				
Salaries	69,450	69,450	67,330	(2,120)
Other	70,432	70,432	67,571	(2,861)
	139,882	139,882	134,901	(4,981)
<i>Budget</i>				
Salaries	62,910	62,910	62,910	-
Other	32,818	27,917	16,445	(11,472)
	95,728	90,827	79,355	(11,472)
<i>City Attorney</i>				
Salaries	228,043	228,043	222,071	(5,972)
Other	80,434	80,335	90,860	10,525
	308,477	308,378	312,931	4,553
<i>Independent auditor</i>				
Other	115,000	115,000	101,892	(13,108)
<i>Public affairs</i>				
Other	91,607	91,807	95,962	4,155
	91,607	91,807	95,962	4,155
<i>Commissioner of Revenue</i>				
Salaries	390,464	390,464	372,882	(17,582)
Other	107,847	107,847	91,408	(16,439)
	498,311	498,311	464,290	(34,021)
<i>Real estate assessment</i>				
Salaries	305,339	305,339	305,339	-
Other	97,891	95,626	84,755	(10,871)
	403,230	400,965	390,094	(10,871)

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(Continued on next page)

GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
General government administration				
<i>Central collections</i>				
Salaries	388,204	444,134	444,133	(1)
Other	204,663	260,232	231,381	(28,851)
	592,867	704,366	675,514	(28,852)
<i>Treasurer</i>				
Salaries	170,891	170,891	159,596	(11,295)
Other	53,691	53,691	43,154	(10,537)
	224,582	224,582	202,750	(21,832)
<i>Finance and accounting</i>				
Salaries	727,563	687,379	678,822	(8,557)
Other	167,149	162,806	154,357	(8,449)
	894,712	850,185	833,179	(17,006)
<i>Purchasing</i>				
Salaries	167,412	167,412	167,412	-
Other	50,079	53,737	52,433	(1,304)
	217,491	221,149	219,845	(1,304)
<i>Management information systems</i>				
Salaries	1,143,236	1,113,236	1,097,733	(15,503)
Other	1,247,045	1,260,266	1,059,919	(200,347)
	2,390,281	2,373,502	2,157,652	(215,850)
Total general and financial administration	7,008,032	7,078,760	6,692,735	(386,025)
Board of Elections				
<i>Elections</i>				
Salaries	57,500	95,045	48,247	(46,798)
Other	29,720	29,836	25,078	(4,758)
	87,220	124,881	73,325	(51,556)
<i>Registrar</i>				
Salaries	75,302	76,372	76,367	(5)
Other	28,129	28,129	21,399	(6,730)
	103,431	104,501	97,766	(6,735)
Total Board of Elections	190,651	229,382	171,091	(58,291)
Total General Government	7,303,259	7,412,718	6,961,330	(451,388)
Judicial Administration				
Courts				
<i>Circuit Court</i>				
Salaries	106,167	106,167	100,618	(5,549)
Other	78,702	83,534	81,527	(2,007)
	184,869	189,701	182,145	(7,556)

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GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
<i>General District Court</i>				
Salaries - legal services	44,000	44,000	29,763	(14,237)
Other	19,084	19,084	15,368	(3,716)
	63,084	63,084	45,131	(17,953)
<i>Courts</i>				
Other	1,825	1,825	1,259	(566)
<i>District Court service unit</i>				
Other	8,700	8,700	6,601	(2,099)
<i>Juvenile and Domestic Relations Court</i>				
Other	45,500	45,500	34,548	(10,952)
<i>Clerk of the Circuit Court</i>				
Salaries	84,819	101,516	93,045	(8,471)
Other	115,194	120,840	155,989	35,149
	200,013	222,356	249,034	26,678
<i>City Sheriff</i>				
Salaries	2,786,939	2,785,030	2,721,424	(63,606)
Other	831,107	862,670	803,848	(58,822)
	3,618,046	3,647,700	3,525,272	(122,428)
Total courts	4,122,037	4,178,866	4,043,990	(134,876)
Commonwealth's Attorney				
Salaries	955,437	958,702	933,543	(25,159)
Other	333,566	358,261	320,050	(38,211)
Total Commonwealth's Attorney	1,289,003	1,316,963	1,253,593	(63,370)
Total judicial administration	5,411,040	5,495,829	5,297,583	(198,246)
Public Safety				
Law enforcement and traffic control				
<i>Police</i>				
Salaries	6,190,548	5,789,824	5,937,076	147,252
Other	2,278,142	2,384,599	2,260,614	(123,985)
	8,468,690	8,174,423	8,197,690	23,267
<i>Traffic control and maintenance</i>				
Salaries	344,011	362,646	340,985	(21,661)
Other	499,051	683,779	669,625	(14,154)
	843,062	1,046,425	1,010,610	(35,815)
Total law enforcement and traffic control	9,311,752	9,220,848	9,208,300	(12,548)
Fire and rescue services				
<i>Fire</i>				
Salaries	5,255,652	5,257,874	5,258,677	803
Other	1,826,995	1,897,025	1,618,755	(278,270)
	7,082,647	7,154,899	6,877,432	(277,467)

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GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
<i>Ambulance and rescue services</i>				
Other	116,329	119,879	119,879	-
Total fire and rescue services	7,198,976	7,274,778	6,997,311	(277,467)
 Correction and detention				
<i>Juvenile detention</i>				
Salaries	1,664,600	1,739,229	1,512,132	(227,097)
Other	2,123,970	2,177,709	1,742,388	(435,321)
	<u>3,788,570</u>	<u>3,916,938</u>	<u>3,254,520</u>	<u>(662,418)</u>
<i>City Jail</i>				
Salaries	30,000	31,909	31,909	-
Other	1,112,601	1,117,154	1,039,560	(77,594)
	<u>1,142,601</u>	<u>1,149,063</u>	<u>1,071,469</u>	<u>(77,594)</u>
<i>Adult detention</i>				
Salaries	1,393,291	1,414,478	1,360,288	(54,190)
Other	1,134,191	1,136,671	1,015,114	(121,557)
	<u>2,527,482</u>	<u>2,551,149</u>	<u>2,375,402</u>	<u>(175,747)</u>
Total correction and detention	7,458,653	7,617,150	6,701,391	(915,759)
 Inspections				
Salaries	405,738	405,738	358,493	(47,245)
Other	212,342	212,614	186,583	(26,031)
Total inspections	618,080	618,352	545,076	(73,276)
 Other protection				
<i>Animal control</i>				
Other	124,842	124,842	124,842	-
<i>Medical examiner</i>				
Other	1,000	1,000	800	(200)
<i>Emergency services</i>				
Salaries	94,422	97,920	97,920	-
Other	120,068	133,248	115,816	(17,432)
	<u>214,490</u>	<u>231,168</u>	<u>213,736</u>	<u>(17,432)</u>
<i>Emergency E-911</i>				
Salaries	745,942	734,444	647,738	(86,706)
Other	290,895	297,700	229,828	(67,872)
	<u>1,036,837</u>	<u>1,032,144</u>	<u>877,566</u>	<u>(154,578)</u>
Total other protection	1,377,169	1,389,154	1,216,944	(172,210)
Total public safety	25,964,630	26,120,282	24,669,022	(1,451,260)

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GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
Public Works				
Maintenance of highways, streets, bridges and sidewalks				
<i>Warehouse</i>				
Salaries	79,537	83,015	80,248	(2,767)
Other	51,762	52,750	28,298	(24,452)
	131,299	135,765	108,546	(27,219)
<i>Airport</i>				
Salaries	210,660	211,066	206,397	(4,669)
Other	264,344	265,616	250,907	(14,709)
	475,004	476,682	457,304	(19,378)
<i>Director of public works and engineering</i>				
Salaries	363,523	343,496	343,496	-
Other	164,499	178,942	167,946	(10,996)
	528,022	522,438	511,442	(10,996)
<i>Engineering</i>				
Salaries	532,041	527,456	504,187	(23,269)
Other	151,523	164,602	165,969	1,367
	683,564	692,058	670,156	(21,902)
<i>Right of way landscaping</i>				
Other	90,000	90,099	33,312	(56,787)
<i>Street maintenance</i>				
Salaries	954,437	754,660	648,471	(106,189)
Other	4,117,077	4,474,639	3,309,334	(1,165,305)
	5,071,514	5,229,299	3,957,805	(1,271,494)
<i>Storm drainage</i>				
Salaries	165,819	162,319	98,709	(63,610)
Other	170,155	186,199	165,200	(20,999)
	335,974	348,518	263,909	(84,609)
<i>Street lighting</i>				
Salaries	-	1,726	1,725	(1)
Other	935,535	959,207	958,477	(730)
	935,535	960,933	960,202	(731)
<i>Snow removal and storm damage</i>				
Drainage repair	50,000	32,762	32,706	(56)
Salaries	152,888	124,828	72,544	(52,284)
Other	263,236	235,642	143,307	(92,335)
	466,124	393,232	248,557	(144,675)
<i>Street cleaning</i>				
Salaries	196,942	199,461	168,383	(31,078)
Other	178,403	180,491	162,096	(18,395)
	375,345	379,952	330,479	(49,473)
Total maintenance of highways, streets, bridges, and sidewalks	9,092,381	9,228,976	7,541,712	(1,687,264)

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GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
Maintenance of general buildings and grounds				
<i>Maintenance of buildings and facilities</i>				
Salaries	153,286	155,845	148,182	(7,663)
Other	196,722	181,150	182,922	1,772
	350,008	336,995	331,104	(5,891)
<i>Maintenance of public grounds</i>				
Salaries	542,953	539,633	501,507	(38,126)
Other	749,189	806,680	738,416	(68,264)
	1,292,142	1,346,313	1,239,923	(106,390)
<i>Weed abatement program</i>				
Salaries	34,476	35,238	35,238	-
Other	70,402	79,380	93,424	14,044
	104,878	114,618	128,662	14,044
<i>City Beautiful</i>				
Other	10,000	10,135	5,085	(5,050)
<i>Municipal building</i>				
Salaries	214,344	214,229	184,173	(30,056)
Other	305,178	350,044	323,183	(26,861)
	519,522	564,273	507,356	(56,917)
<i>Courts and jail building</i>				
Salaries	110,784	103,784	84,645	(19,139)
Other	308,512	414,009	269,962	(144,047)
	419,296	517,793	354,607	(163,186)
<i>Financial services center</i>				
Salaries	10,682	12,127	8,693	(3,434)
Other	101,957	107,273	96,373	(10,900)
	112,639	119,400	105,066	(14,334)
Total maintenance of general buildings and grounds	2,808,485	3,009,527	2,671,803	(337,724)
Total Public Works	11,900,866	12,238,503	10,213,515	(2,024,988)
Health and Welfare				
Health				
Other	569,127	569,127	569,127	-
Mental health and mental retardation				
Other	163,506	163,506	163,506	-
Welfare and social services				
<i>Director of human services</i>				
Salaries	132,740	136,218	136,217	(1)
Other	35,979	41,693	34,313	(7,380)
	168,719	177,911	170,530	(7,381)
<i>Social services bureau</i>				
Salaries	3,284,989	3,167,059	3,055,628	(111,431)
Other	5,846,278	6,007,149	5,398,566	(608,583)
	9,131,267	9,174,208	8,454,194	(720,014)

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GENERAL FUND

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
<i>Southern Area Agency on Aging</i>				
Other	5,283	5,283	5,283	-
<i>State and local hospitalization</i>				
Other	11,000	11,000	7,948	(3,052)
<i>Child care initiative</i>				
Other	-	9,307	8,301	(1,006)
<i>Property tax relief for the elderly</i>				
Other	75,000	75,000	64,711	(10,289)
Total welfare and social services	9,391,269	9,452,709	8,710,967	(741,742)
Total Health and Welfare	10,123,902	10,185,342	9,443,600	(741,742)
Education				
Danville Community College	31,340	31,340	31,340	-
Danville School Board	18,424,857	22,371,042	19,423,466	(2,947,576)
Total Education	18,456,197	22,402,382	19,454,806	(2,947,576)
Parks, Recreation, and Cultural				
Parks and Recreation				
<i>Recreation</i>				
Salaries	1,183,566	1,202,343	1,148,923	(53,420)
Other	546,158	662,621	583,383	(79,238)
	1,729,724	1,864,964	1,732,306	(132,658)
<i>After school instructional program</i>				
Salaries	113,744	113,744	95,071	(18,673)
Other	25,530	25,530	44,166	18,636
	139,274	139,274	139,237	(37)
<i>Carrington Pavilion</i>				
Salaries	16,636	16,719	13,690	(3,029)
Other	10,731	10,954	6,668	(4,286)
	27,367	27,673	20,358	(7,315)
<i>Recreation buildings - maintenance</i>				
Salaries	89,237	89,237	53,856	(35,381)
Other	495,337	387,832	432,975	45,143
	584,574	477,069	486,831	9,762

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GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
<i>Recreation grounds - maintenance</i>				
Salaries	435,390	434,738	395,050	(39,688)
Other	654,089	659,613	646,146	(13,467)
	1,089,479	1,094,351	1,041,196	(53,155)
Total parks and recreation	3,570,418	3,603,331	3,419,928	(183,403)
Cultural enrichment				
<i>Tourism and preservation</i>				
Salaries	205,623	187,415	181,634	(5,781)
Other	354,228	305,650	252,706	(52,944)
	559,851	493,065	434,340	(58,725)
Public libraries				
Salaries	549,739	541,716	517,048	(24,668)
Other	629,032	639,049	615,352	(23,697)
Total public libraries	1,178,771	1,180,765	1,132,400	(48,365)
Total Parks, Recreation, and Cultural	5,309,040	5,277,161	4,986,668	(290,493)
Community Development				
Planning and community development				
<i>Director of community development</i>				
Salaries	178,148	178,148	178,148	-
Other	82,605	106,366	79,090	(27,276)
	260,753	284,514	257,238	(27,276)
<i>Economic development</i>				
Salaries	259,770	258,956	247,853	(11,103)
Other	275,663	453,428	422,719	(30,709)
	535,433	712,384	670,572	(41,812)
<i>Enterprise zone activities</i>				
Other	113,000	457,325	459,288	1,963
<i>Planning</i>				
Salaries	150,631	150,632	150,631	(1)
Other	59,814	59,814	56,268	(3,546)
	210,445	210,446	206,899	(3,547)
<i>Planning commission</i>				
Other	6,100	6,100	4,647	(1,453)
<i>West Piedmont Planning District</i>				
Other	27,126	27,126	26,786	(340)
<i>Zoning board</i>				
Salaries	1,365	1,365	525	(840)
Other	3,224	3,224	972	(2,252)
	4,589	4,589	1,497	(3,092)

See report of Independent auditors

(Continued on next page)

GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance
<i>Downtown</i>				
Salaries	92,065	93,141	92,590	(551)
Other	43,959	43,409	39,489	(3,920)
	136,024	136,550	132,079	(4,471)
Total planning and community development	1,293,470	1,839,034	1,759,006	(80,028)
<i>Virginia Cooperative Extension</i>				
Other	25,567	25,567	37,808	12,241
Total Community Development	1,319,037	1,864,601	1,796,814	(67,787)
Nondepartmental				
Employee benefits	4,213,300	4,216,084	3,899,386	(316,698)
Other	(71,986)	147,749	53,545	(94,204)
Total Nondepartmental	4,141,314	4,363,833	3,952,931	(410,902)
Debt Service				
Principal	4,248,843	4,248,843	4,242,206	(6,637)
Interest	1,423,491	1,423,491	1,438,487	14,996
Total debt service	5,672,334	5,672,334	5,680,693	8,359
Total General Fund Expenditures	\$ 95,601,619	\$ 101,032,985	\$ 92,456,962	\$ (8,576,023)

See report of Independent auditors

June 30, 2008

Budgets and Budgetary Accounting

Prior to April 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means to finance them. After a public hearing has been conducted to obtain taxpayer comments, the budget is legally adopted through passage of an ordinance prior to July 1, of each year.

The City Manager is authorized to transfer budgeted amounts within each fund. Transfers between funds require City Council approval.

An annual operating budget is adopted for only the General Fund. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles accepted in the United States of America on a basis consistent with the legally adopted budget as amended. Effective budgetary control is achieved for the Capital Projects Fund and Special Revenues Funds, on a project-by-project or per grant basis when funding sources become available.

Budgets are adopted for management control for the Enterprise and Internal Services Funds. The restrictions on transfer of budgeted amounts for governmental funds also apply to the Enterprise and Internal Service Funds, except in the Gas and Electric Funds. Amounts in those funds budgeted for the purchase of natural gas and electric power may be increased to the extent that actual revenues exceed the original budgeted revenue.

All appropriations lapse at year end except appropriations within the Capital Projects Fund and Special Revenue Funds, which are continued until completion of the applicable projects or grants, even when such projects or grants extend beyond one fiscal year.



OTHER SUPPLEMENTARY INFORMATION

CITY OF DANVILLE, VIRGINIA

Combining Statements

Nonmajor Governmental Funds

For the Year Ended June 30, 2008

- ❖ Special Revenue Funds - used to account for specific revenues that are legally restricted to expenditures for specified purposes.

- ❖ Cemetery Maintenance Fund - is a permanent fund used to account for funds set aside to provide for the perpetual care of City cemeteries. Only the earnings from the investments of this fund may be expended.

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2008

	Special Revenue	Cemetery Maintenance	Total
ASSETS			
Cash and investments	\$ -	\$ 2,541,972	\$ 2,541,972
Loan receivables - net	22,407	-	22,407
Due from other governments	1,136,759	-	1,136,759
Total assets	\$ 1,159,166	\$ 2,541,972	\$ 3,701,138
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 126,209	\$ -	\$ 126,209
Due to other funds	306,165	-	306,165
Deferred revenue	22,407	-	22,407
Total liabilities	454,781	-	454,781
FUND BALANCES			
Reserved for:			
Encumbrances	693,725	-	693,725
Cemetery maintenance	-	2,541,972	2,541,972
Unreserved	10,660	-	10,660
Total fund balances	704,385	2,541,972	3,246,357
Total liabilities and fund balances	\$ 1,159,166	\$ 2,541,972	\$ 3,701,138

See report of independent auditors

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2008

	Special Revenue	Cemetery Maintenance	Total
REVENUES			
Miscellaneous	\$ 333,208	\$ 37,125	\$ 370,333
Intergovernmental	4,098,663	-	4,098,663
Total revenues	4,431,871	37,125	4,468,996
EXPENDITURES			
General government	3,970	-	3,970
Judicial administration	81,690	-	81,690
Public safety	443,052	-	443,052
Public works	93,603	-	93,603
Health and welfare	4,231,962	-	4,231,962
Parks, recreation, and cultural	406,315	-	406,315
Community Development	10,000	-	10,000
Total expenditures	5,270,592	-	5,270,592
Excess (deficiency) of revenues over expenditures	(838,721)	37,125	(801,596)
OTHER FINANCING SOURCES			
Transfers in	940,701	-	940,701
Net change in fund balances	101,980	37,125	139,105
Fund balances - beginning of year	602,405	2,504,847	3,107,252
Fund balances - end of year	\$ 704,385	\$ 2,541,972	\$ 3,246,357

See report of independent auditors

CITY OF DANVILLE, VIRGINIA

Combining Statements

Nonmajor Enterprise Funds

For the Year Ended June 30, 2008

- ❖ Transportation - provides mass transit service throughout the City.
- ❖ Sanitation - provides for the collection and disposal of solid waste.
- ❖ Cemetery Operations - provides for burial services and cemetery maintenance.
- ❖ Telecommunications - provides broadband communication needs of the City and Danville Public Schools currently with plans to expand to provide access to businesses and homes.

COMBINING BALANCE SHEET-NONMAJOR ENTERPRISE FUNDS

June 30, 2008

	Transportation	Sanitation	Cemetery Operations	Telecommunications	Total
ASSETS					
Current assets					
Cash and investments	\$ -	\$ 643,461	\$ 51,399	\$ 1,755,011	\$ 2,449,871
Receivables - net	12,735	93,509	-	34,752	140,996
Due from other governments	430,255	-	-	-	430,255
Inventory	-	-	-	139,639	139,639
Pension asset	-	128,623	-	-	128,623
Total current assets	442,990	865,593	51,399	1,929,402	3,289,384
Noncurrent assets					
Capital assets:					
Land and improvements	-	509,232	-	-	509,232
Construction in progress	-	-	-	190,925	190,925
Buildings, structures, and improvements	1,841,291	1,601,809	-	-	3,443,100
Equipment	1,313,493	332,760	-	2,808,939	4,455,192
Less - accumulated depreciation	(942,208)	(1,840,393)	-	(55,229)	(2,837,830)
Total noncurrent assets - net	2,212,576	603,408	-	2,944,635	5,760,619
Total assets	2,655,566	1,469,001	51,399	4,874,037	9,050,003
LIABILITIES					
Current liabilities					
Accounts payable	14,112	87,938	4,333	132,790	239,173
Accrued interest	21	424	-	-	445
Due to primary government	152,597	-	-	-	152,597
Pension liability	623	-	19,443	4,414	24,480
OPEB liability	7,419	24,575	7,419	927	40,340
Long-term liabilities - due within one year	20,442	87,986	18,093	-	126,521
Total current liabilities	195,214	200,923	49,288	138,131	583,556
Long-term liabilities - due in more than one year	1,691	6,328	-	-	8,019
Compensated absences	5,369	18,076	2,111	-	25,556
Total noncurrent liabilities	7,060	24,404	2,111	-	33,575
Total liabilities	202,274	225,327	51,399	138,131	617,131
NET ASSETS					
Invested in capital assets - net of related debt	2,210,771	567,541	-	2,944,635	5,722,947
Restricted - capital projects	-	-	-	753,212	753,212
Unrestricted	242,521	676,133	-	1,038,059	1,956,713
Total net assets	\$ 2,453,292	\$ 1,243,674	\$ -	\$ 4,735,906	\$ 8,432,872

See report of independent auditors

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

Year Ended June 30, 2008					
	Transportation	Sanitation	Cemetery Operations	Telecommunications	Total
OPERATING REVENUES					
Charges for services	\$ 228,767	\$ 3,454,448	\$ 509,133	\$ 1,512,417	\$ 5,704,765
OPERATING EXPENSES					
Services	1,185,734	3,464,497	919,973	477,966	6,048,170
Depreciation	190,976	1,685	-	21,101	213,762
Total operating expenses	1,376,710	3,466,182	919,973	499,067	6,261,932
Operating income (loss)	(1,147,943)	(11,734)	(410,840)	1,013,350	(557,167)
NONOPERATING REVENUES (EXPENSES)					
Sales income	-	-	168,325	-	168,325
Jobbing loss	-	-	-	(4,404)	(4,404)
Rental income	20,230	7,218	-	-	27,448
Recovered cost	25,536	-	475	-	26,011
Gain on sale of assets	(37,716)	-	-	-	(37,716)
Federal and state grants	861,030	-	-	-	861,030
In-kind contributions	135,712	-	-	-	135,712
Interest income	2,163	30,640	108,189	107,971	248,963
Interest expense	(94)	(1,856)	-	(28,267)	(30,217)
Total nonoperating revenues	1,006,861	36,002	276,989	75,300	1,395,152
Income (loss) before transfers	(141,082)	24,268	(133,851)	1,088,650	837,985
Transfers					
Capital contributions	918,085	-	-	-	918,085
Transfer in from other funds	121,793	-	133,851	-	255,644
Transfer out to general fund	(322)	-	-	(302,000)	(302,322)
Total transfers	1,039,556	-	133,851	(302,000)	(46,678)
Change in net assets	898,474	24,268	-	786,650	1,709,392
Net assets - beginning of year	1,554,818	1,219,406	-	3,949,256	6,723,480
Net assets - end of year	\$ 2,453,292	\$ 1,243,674	\$ -	\$ 4,735,906	\$ 8,432,872

See report of independent auditors

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS

Year Ended June 30, 2008

	Transportation	Sanitation	Cemetery Operations	Telecommunications	Total
Cash flows from operating activities					
Received from customers	\$ 226,343	\$ 3,360,938	\$ 509,133	\$ 1,477,664	\$ 5,574,078
Payments to suppliers for goods and services	(305,940)	(1,689,896)	(280,647)	(292,833)	(2,569,316)
Payments to employees for services	(629,657)	(1,441,114)	(537,675)	(161,477)	(2,769,923)
Payments to internal service funds for goods and services	(6,299)	(312,392)	(88,086)	-	(406,777)
Nonoperating revenue	45,766	7,218	168,325	(4,404)	216,905
Net cash from operating activities	(669,787)	(75,246)	(228,950)	1,018,950	44,967
Cash flows from noncapital financing activities					
Transfers from other funds	121,793	-	126,432	-	248,225
Transfers to other funds	(322)	-	-	(302,000)	(302,322)
Operating grants received	769,802	-	-	-	769,802
Net cash from noncapital financing activities	891,273	-	126,432	(302,000)	715,705
Cash flows from capital and related financing activities					
Acquisition of capital assets	(1,153,472)	-	-	(586,439)	(1,739,911)
Principal payments on long-term debt	(1,138)	(22,633)	-	(1,060,000)	(1,083,771)
Interest payments on long-term debt	(110)	(2,177)	-	(28,267)	(30,554)
Proceeds from sale of capital assets	12,939	-	-	-	12,939
Contributed capital	918,085	-	-	-	918,085
Net cash from capital and related financing activities	(223,696)	(24,810)	-	(1,674,706)	(2,841,297)
Cash flows from investing activities -					
Interest on investments	2,164	30,197	107,100	106,408	245,869
Net activity in investment securities	46	1,347	1,564	1,564	4,521
Net cash from investing activities	2,210	31,544	108,664	107,972	250,390
Net increase in cash and investments	-	(68,512)	6,146	(849,784)	(1,830,235)
Cash and investments - beginning of year	-	711,973	37,834	2,604,795	3,354,602
Cash and investments - end of year	\$ -	\$ 643,461	\$ 43,980	\$ 1,755,011	\$ 1,524,367
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ (1,140,524)	\$ 12,841	\$ (403,421)	\$ 1,014,277	\$ (516,827)
Adjustments:					
Depreciation charged to operations	190,976	1,685	-	21,101	213,762
In-kind contributions	135,712	-	-	-	135,712
Change in noncash employee benefits charged to operations	5,310	20,520	5,274	857	31,961
Nonoperating revenue	45,766	7,218	168,325	(4,404)	216,905
Changes in assets and liabilities:					
Accounts receivable	(2,423)	(93,509)	-	(34,752)	(130,684)
Inventory	-	-	-	(69,912)	(69,912)
Accounts payable	6,646	(24,001)	872	91,783	75,300
Due to primary government	88,750	-	-	-	88,750
Net cash from operating activities	\$ (669,787)	\$ (75,246)	\$ (228,950)	\$ 1,018,950	\$ 44,967
Supplemental disclosure of noncash investing, capital, and financing activities:					
Increase (decrease) in fair value of investments	\$ -	\$ (39,896)	\$ 9,259	\$ (39,896)	\$ (70,533)

See report of independent auditors

CITY OF DANVILLE, VIRGINIA

Combining Statements

Internal Service Funds

For the Year Ended June 30, 2008

- ❖ Motorized Equipment - acquires and maintains all vehicles used by the various departments of the City.
- ❖ Central Services - provides office supplies and printing services for all departments of the City.
- ❖ Insurance - provides general insurance coverage to all City departments, including areas such as workers' compensation where the City is completely self-insured, and insurance coverage purchased from outside insurance companies.

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2008

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
Current assets				
Cash and investments	\$ -	\$ 59,224	\$ 4,293,299	\$ 4,352,523
Cash and investments - held by fiscal agent	-	-	60,000	60,000
Receivables - net	3,734	401	-	4,135
Inventories	-	95,632	-	95,632
Prepayments	-	-	33,419	33,419
Pension asset	22,560	4,656	-	27,216
Total current assets	26,294	159,913	4,386,718	4,572,925
Noncurrent assets				
Capital assets -				
Equipment	9,643,384	246,736	-	9,890,120
Less - accumulated depreciation	(7,328,332)	(212,256)	-	(7,540,588)
Total noncurrent assets	2,315,052	34,480	-	2,349,532
Total assets	2,341,346	194,393	4,386,718	6,922,457
LIABILITIES				
Current liabilities				
Accounts payable	73,657	6,660	-	80,317
Accrued interest	693	-	-	693
Due to other governments	431,607	-	-	431,607
OPEB liability	10,201	1,855	-	12,056
Long-term liabilities - due within one year	58,591	-	-	58,591
Total current liabilities	574,749	8,515	-	583,264
Long-term liabilities - due in more than one year	22,061	3,728	-	25,789
Total liabilities	596,810	12,243	-	609,053
NET ASSETS				
Invested in capital assets -				
net of related debt	2,256,461	34,480	-	2,290,941
Unrestricted	(511,925)	147,670	4,386,718	4,022,463
Total net assets	\$ 1,744,536	\$ 182,150	\$ 4,386,718	\$ 6,313,404

See report of independent auditors

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
INTERNAL SERVICE FUNDS**

Year Ended June 30, 2008

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 2,655,414	\$ 500,296	\$ 2,256,950	\$ 5,412,660
OPERATING EXPENSES				
Operations	2,416,892	484,014	2,255,920	5,156,826
Depreciation	577,845	10,383	-	588,228
Total operating expenses	2,994,737	494,397	2,255,920	5,745,054
Operating loss	(339,323)	5,899	1,030	(332,394)
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of assets	96,557	-	-	96,557
Miscellaneous	7,885	-	-	7,885
Interest income	-	947	165,105	166,052
Interest expense	(3,033)	-	-	(3,033)
Total nonoperating revenues (expenses)	101,409	947	165,105	267,461
Income (loss) before transfers	(237,914)	6,846	166,135	(64,933)
Change in net assets	(237,914)	6,846	166,135	(64,933)
Net assets - beginning of year	1,982,450	175,304	4,220,583	6,378,337
Net assets - end of year	\$ 1,744,536	\$ 182,150	\$ 4,386,718	\$ 6,313,404

See report of independent auditors

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

Year Ended June 30, 2008

	Motorized Equipment	Central Services	Insurance	Total
Cash flows from operating activities				
Received from customers	\$ 2,651,680	\$ 502,697	\$ 2,256,950	\$ 5,411,327
Payments to suppliers for goods and services	(1,446,836)	(358,359)	(2,265,296)	(4,070,491)
Payments to employees for services	(625,431)	(114,499)	-	(739,930)
Payments to internal service funds for goods and services	(40,005)	(6,936)	-	(46,941)
Nonoperating revenue	7,885	-	-	7,885
Net cash from operating activities	547,293	22,903	(8,346)	561,850
Cash flows from capital and related financing activities				
Acquisition of capital assets	(604,797)	-	-	(604,797)
Principal payments on long-term debt	(36,974)	-	-	(36,974)
Interest payments on long-term debt	(3,556)	-	-	(3,556)
Proceeds from sale of capital assets	96,557	-	-	96,557
Net cash from capital and related financing activities	(548,770)	-	-	(548,770)
Cash flows from investing activities				
Interest on investments	-	947	162,720	163,667
Net activity in investments	1,477	-	2,385	3,862
Net cash from investing activities	1,477	947	165,105	167,529
Net increase in cash and investments	-	23,850	156,759	180,609
Cash and investments - beginning of year	-	35,374	4,196,540	4,231,914
Cash and investments - end of year	\$ -	\$ 59,224	\$ 4,353,299	\$ 4,412,523
Reconciliation of operating loss to net cash from operating activities				
Operating income (loss)	\$ (329,122)	\$ 7,756	\$ 1,030	\$ (320,336)
Adjustments:				
Depreciation charged to operations	577,845	10,383	-	588,228
Nonoperating revenue	7,885	-	-	7,885
Change in noncash employee benefits charged to operations	5,171	705	-	5,876
Changes in assets and liabilities:				
Accounts receivable	(3,734)	2,400	-	(1,334)
Inventories	-	5,371	-	5,371
Accounts payable	289,248	(3,712)	(9,376)	276,160
Net cash from operating activities	\$ 547,293	\$ 22,903	\$ (8,346)	\$ 561,850
Supplemental disclosure of noncash investing, capital and financing activities:				
Increase in fair value of investments	\$ -	\$ 1,271	\$ 20,959	\$ 22,230

See report of independent auditors.

SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2008					
Function and Activity	Land and Land Improvements	Buildings	Furniture and Equipment	Infrastructure	Total
General government administration:					
General and financial administration	\$ 367,558	\$ 62,719	\$ 125,378	\$ -	\$ 555,655
Social services building	-	150,548	6,005	-	156,553
Public safety:					
Law enforcement and traffic control	-	89,257	363,140	-	452,397
Fire and rescue services	49,218	1,010,194	951,199	-	2,010,611
Corrections and detention	-	7,892,542	19,237	-	7,911,779
Inspections and other	-	122,324	-	-	122,324
Public works:					
Airport	3,198,128	4,397,894	81,715	-	7,677,737
General	305,000	362,311	210,939	-	878,250
Maintenance of highways, bridges and sidewalks	125,000	-	-	10,994,733	11,119,733
Health and welfare	-	222,437	111,741	-	334,178
Parks, recreation and cultural	-	4,713,230	157,538	-	4,870,768
Community development	27,293	-	-	-	27,293
General property	3,633,555	219,533	20,664	-	3,873,752
	7,705,752	19,242,989	2,047,556	10,994,733	39,991,030
Construction in progress	223,788	133,052	5,768,105	1,132,688	7,257,633
	7,929,540	19,376,041	7,815,661	12,127,421	47,248,663
Capital assets from Danville School Board	3,408,072	967,614	12,908,135	-	17,283,821
	\$ 11,337,612	\$ 20,343,655	\$ 20,723,796	\$ 12,127,421	\$ 64,532,484

* All totals are net of depreciation

SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2008

Function and Activity	Balance June 30, 2006	Additions	Depreciation/ Deletions	Balance June 30, 2007
General government administration:				
General and financial administration	\$ 231,254	\$ 41,473	\$ (134,410)	\$ 138,317
Social services building	428,044	15,896	(380,499)	63,441
Public safety:				
Law enforcement and traffic control	1,214,916	211,921	(144,041)	1,282,796
Fire and rescue services	1,901,485	720,218	(177,661)	2,444,042
Corrections and detention	8,707,690	84,095	(744,082)	8,047,703
Inspections and other	116,039	983	(11,510)	105,512
Public works:				
Airport	7,412,548	-	(68,905)	7,343,643
General	933,754	39,575	(8,709)	964,620
Maintenance of highways, streets and bridges	13,687,632	-	(169,121)	13,518,511
Health and welfare	212,992	14,326	(212,181)	15,137
Parks, recreation and cultural	4,627,311	57,913	(311,699)	4,373,525
Community development	107,078	-	-	107,078
General property	1,516,537	969,680	(899,512)	1,586,705
	41,097,280	2,156,080	(3,262,330)	39,991,030
Construction in progress	7,651,608	5,660,122	(6,054,097)	7,257,633
	48,748,888	7,816,202	(9,316,427)	47,248,663
Capital assets from Danville School Board	19,207,261	-	(1,923,440)	17,283,821
	\$ 67,956,149	\$ 7,816,202	\$ (11,239,867)	\$ 64,532,484

* All totals are net of depreciation

SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY

For the Year Ended June 30, 2008

Function and Activity	Balance June 30, 2007	Additions	Depreciation/ Deletions	Balance June 30, 2008
General government administration:				
General and financial administration	\$ 231,254	\$ 41,473	\$ (134,410)	\$ 138,317
Social services building	428,044	15,896	(380,499)	63,441
Public safety:				
Law enforcement and traffic control	1,214,916	211,921	(144,041)	1,282,796
Fire and rescue services	1,901,485	720,218	(177,661)	2,444,042
Corrections and detention	8,707,690	84,095	(744,082)	8,047,703
Inspections and other	116,039	983	(11,510)	105,512
Public works:				
Airport	7,412,548	-	(68,905)	7,343,643
General	933,754	39,575	(8,709)	964,620
Maintenance of highways, streets and bridges	13,687,632	-	(169,121)	13,518,511
Health and welfare	212,992	14,326	(212,181)	15,137
Parks, recreation and cultural	4,627,311	57,913	(311,699)	4,373,525
Community development	107,078	-	-	107,078
General property	1,516,537	969,680	(899,512)	1,586,705
	41,097,280	2,156,080	(3,262,330)	39,991,030
Construction in progress	7,651,608	5,660,122	(6,054,097)	7,257,633
	48,748,888	7,816,202	(9,316,427)	47,248,663
Capital assets from Danville School Board	19,207,261	-	(1,923,440)	17,283,821
	\$ 67,956,149	\$ 7,816,202	\$ (11,239,867)	\$ 64,532,484

* All totals are net of depreciation

SCHEDULE OF CAPITAL ASSETS - BY SOURCE**June 30, 2008**

Land and land improvements	\$	7,705,752
Buildings		20,898,838
Infrastructure		9,696,995
Equipment		1,689,445
Construction in progress		<u>7,257,633</u>
	\$	<u>47,248,663</u>
Capital projects funds:		
General obligation bonds	\$	15,045,780
General appropriations		9,368,369
General fund revenues		13,175,874
Special revenue fund revenues		538,329
Federal grants		3,023,877
State grants		5,099,009
Contributions		<u>997,425</u>
		47,248,663
Danville School Board		<u>17,283,821</u>
	\$	<u>64,532,484</u>

* All totals are net of depreciation



STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Danville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	127
Revenue Capacity <i>These schedules contain information to help the reader assess the government's most significant local revenue sources, the property tax and charges for utility services.</i>	133
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	138
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within the government's financial activities take place.</i>	142
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	144

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF DANVILLE, VIRGINIA
NET ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS*

	Fiscal Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Governmental activities								
Invested in capital assets, net of related debt	\$ 14,159,109	\$ 9,219,518	\$ 14,927,384	\$ 20,589,644	\$ 21,592,954	\$ 24,811,422	\$ 28,858,705	\$ 29,933,932
Restricted	21,010,002	13,760,973	10,170,443	6,153,666	6,573,688	8,602,821	10,031,903	8,229,657
Unrestricted	39,168,249	36,949,622	38,991,299	39,360,575	38,433,286	40,651,729	47,172,244	50,143,933
Total governmental activities net assets	\$ 74,337,360	\$ 59,930,113	\$ 64,089,126	\$ 66,103,885	\$ 66,599,928	\$ 74,065,972	\$ 86,062,852	\$ 88,307,522
Business-type activities								
Invested in capital assets, net of related debt	\$ 102,319,875	\$ 112,403,637	\$ 125,436,377	\$ 141,102,057	\$ 158,570,378	\$ 162,072,054	\$ 172,325,000	\$ 189,153,872
Restricted	8,516,533	5,908,783	4,072,210	9,419,436	14,528,018	26,205,121	29,047,292	30,889,610
Unrestricted	53,735,248	56,440,907	59,009,400	48,615,924	35,172,773	30,425,855	34,299,631	32,524,963
Total business-type activities net assets	\$ 164,571,656	\$ 174,753,327	\$ 188,517,987	\$ 199,137,417	\$ 208,271,169	\$ 218,703,030	\$ 235,671,923	\$ 252,568,445
Primary government								
Invested in capital assets, net of related debt	\$ 116,478,984	\$ 121,623,155	\$ 140,363,761	\$ 161,691,701	\$ 180,163,332	\$ 186,883,476	\$ 201,183,705	\$ 219,087,804
Restricted	29,526,535	19,669,756	14,242,653	15,573,102	21,101,706	34,807,942	39,079,195	39,119,267
Unrestricted	92,903,497	93,390,529	98,000,699	87,976,499	73,606,059	71,077,584	81,471,875	82,668,896
Total primary government net assets	\$ 238,909,016	\$ 234,683,440	\$ 252,607,113	\$ 265,241,302	\$ 274,871,097	\$ 292,769,002	\$ 321,734,775	\$ 340,875,967

* Information prior to June 30, 2001 is difficult to extract due to change in software.

CITY OF DANVILLE, VIRGINIA
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS*

	Fiscal Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Expenses								
Governmental activities:								
General government	\$ 6,184,350	\$ 12,835,788	\$ 11,080,064	\$ 11,208,242	\$ 11,563,702	\$ 10,706,147	\$ 10,978,148	\$ 16,703,620
Judicial administration	4,160,634	5,339,394	5,290,396	4,232,325	4,506,834	4,803,342	5,218,767	4,853,835
Public safety	20,318,750	21,443,155	21,611,220	20,971,031	23,709,019	25,172,041	24,929,011	25,809,136
Public works	8,845,087	8,965,027	9,748,494	10,129,695	12,961,903	11,832,496	10,844,833	12,423,465
Health and welfare	8,176,523	11,312,848	11,908,642	10,589,382	10,751,310	12,285,520	12,844,409	13,743,677
Parks, recreation, cultural	4,849,461	4,870,006	4,926,303	5,621,196	5,456,588	5,009,150	5,367,886	5,666,299
Community development	3,852,704	5,130,797	5,444,251	7,893,504	7,893,276	7,392,661	11,796,198	4,133,310
Education	17,487,152	31,803,899	21,623,266	23,598,363	17,932,956	20,143,175	16,903,673	22,343,504
Interest on long-term debt	2,561,321	1,045,005	2,112,705	2,461,084	1,866,516	1,665,956	1,617,511	6,732,839
Nondepartmental	2,613,717	740,944	1,013,117	672,598	3,861,787	-	-	-
Total governmental activities expenses	79,049,699	103,486,863	94,758,458	97,377,420	100,523,891	99,010,488	100,500,436	112,409,685
Business-type activities:								
Wastewater	6,323,595	6,359,787	6,301,012	6,304,213	6,162,912	6,464,670	6,561,949	6,975,203
Water	4,402,118	4,611,032	4,355,081	4,204,395	4,545,575	4,596,119	4,739,464	5,035,842
Gas	37,997,998	25,448,813	27,037,186	22,667,165	22,305,387	31,008,668	23,320,491	28,436,785
Electric	37,196,563	37,736,028	38,815,555	40,030,479	41,008,206	61,160,771	72,817,037	75,313,686
Nonmajor	4,229,726	4,295,274	4,293,078	4,498,691	4,901,655	5,393,641	5,836,847	6,313,481
Total business-type activities expenses	90,150,000	78,450,934	80,801,912	77,694,933	78,923,735	108,625,869	113,275,788	122,074,997
Total primary government expenses	\$ 169,199,699	\$ 181,937,797	\$ 175,560,370	\$ 175,072,353	\$ 179,447,626	\$ 207,636,357	\$ 213,776,224	\$ 234,484,682
Program Revenues								
Governmental activities:								
Charges for services:	\$ -	\$ 5,109,983	\$ 4,316,677	\$ 4,853,085	\$ 5,000,863	\$ 5,103,657	\$ 5,685,591	\$ 5,727,677
General government	515,434	529,341	439,554	549,137	487,228	576,841	1,483,794	618,268
Judicial administration	3,977,864	264,842	381,372	191,826	242,548	219,838	231,309	312,503
Public safety	607,279	279,913	230,255	224,905	-	-	-	-
Public works	344,602	-	-	-	-	-	-	-
Health and welfare	116,566	160,700	171,666	220,943	213,037	202,418	210,182	224,462
Parks, recreation, cultural	200,236	-	-	-	-	-	-	83,151
Community development	-	3,155,683	-	-	-	-	-	-
Education	-	21,266,728	-	-	-	-	-	-
Operating grants and contributions	24,833,329	10,251,248	28,413,626	30,964,009	32,700,459	36,552,849	38,205,373	41,172,782
Capital grants and contributions	5,296,314	10,251,248	5,102,140	4,807,988	2,905,657	1,596,539	4,055,930	2,139,975
Total governmental activities program revenues	35,891,624	41,018,438	39,055,290	41,811,873	41,549,792	44,252,142	49,878,179	50,278,818
Business-type activities:								
Charges for services:								
Wastewater	7,654,636	7,265,020	7,009,576	6,918,502	6,069,995	7,528,176	7,805,221	8,362,522
Water	5,557,277	5,578,086	5,388,944	5,223,867	5,075,326	6,117,848	7,012,772	7,142,932
Gas	42,596,779	27,526,419	30,029,152	25,999,471	25,211,996	33,414,367	26,290,132	32,949,771
Electric	53,234,742	51,759,880	54,793,952	55,491,259	53,740,565	72,751,817	86,910,376	90,181,855
Nonmajor	3,313,400	3,289,939	3,269,499	3,208,290	3,568,492	5,433,299	5,602,965	5,719,119
Operating grants and contributions	545,237	544,799	477,774	-	299,476	500,546	355,921	405,673
Capital grants and contributions	1,767,215	385,972	56,343	1,085,942	1,074,434	3,333,743	1,741,248	2,735,406
Total business-type activities program revenues	114,669,286	96,350,115	101,025,240	97,907,331	95,030,284	129,079,796	137,718,635	147,497,278

CITY OF DANVILLE, VIRGINIA
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS*

	Fiscal Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Total primary government program revenues	\$ 150,560,910	\$ 137,368,553	\$ 140,080,530	\$ 139,719,204	\$ 136,580,076	\$ 173,331,938	\$ 187,596,814	\$ 197,776,096
Net (expense)/revenue	\$ (43,159,075)	\$ (62,468,425)	\$ (55,703,168)	\$ (55,565,547)	\$ (58,974,099)	\$ (54,758,346)	\$ (50,622,257)	\$ (62,130,867)
Governmental activities	24,519,286	17,899,181	20,223,328	20,212,398	16,106,549	20,453,927	24,442,847	25,422,281
Business-type activities	(18,638,789)	(44,569,244)	(35,479,840)	(35,353,149)	(42,867,550)	(34,304,419)	(26,179,410)	(36,708,586)
Total primary government net expense								
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	\$ 22,140,959	\$ 22,477,673	\$ 23,943,675	\$ 23,289,443	\$ 24,540,038	\$ 25,453,656	\$ 25,930,246	\$ 26,590,389
Sales taxes	6,768,919	6,569,709	6,630,318	6,767,056	6,941,295	7,326,695	7,598,276	8,071,419
Business licenses	3,360,151	3,386,808	3,536,402	3,597,621	3,777,830	4,889,518	4,572,218	4,989,707
Utility taxes	3,158,029	3,334,340	3,435,728	3,896,209	4,237,844	4,246,590	2,654,769	994,536
Hotel and meals taxes	3,655,315	3,868,262	3,784,413	4,196,327	4,334,822	4,499,854	5,165,368	5,495,291
Recordation and bank stock taxes	955,818	889,675	907,760	895,894	982,914	1,109,217	946,397	948,038
Auto license and recordation taxes	1,017,775	923,851	1,021,664	1,005,918	983,762	895,776	1,034,967	1,047,044
Investment income	2,027,052	2,875,706	1,247,279	104,591	758,666	701,529	885,861	1,626,835
Miscellaneous	528,717	797,885	3,400,681	3,297,463	3,183,697	775,157	1,047,591	1,235,600
Transfers	9,890,532	10,563,001	10,557,137	10,529,984	10,405,773	12,326,398	12,783,444	13,376,678
Total governmental activities	53,503,267	55,686,910	58,465,057	57,580,306	60,146,641	62,224,390	62,619,137	64,375,537
Business-type activities:								
Investment income	3,658,526	2,406,942	2,686,690	78,404	1,471,314	1,481,092	3,452,939	2,610,753
Miscellaneous	9,887	438,549	1,411,779	858,612	1,961,662	823,241	1,856,551	2,240,166
Transfers	(10,158,049)	(10,563,001)	(10,557,137)	(10,529,984)	(10,405,773)	(12,326,398)	(12,783,444)	(13,376,678)
Total business-type activities	(6,489,536)	(7,717,510)	(6,458,668)	(9,592,968)	(6,972,797)	(10,022,065)	(7,473,954)	(8,525,759)
Total primary government	\$ 47,013,631	\$ 47,969,400	\$ 52,006,389	\$ 47,987,338	\$ 53,173,844	\$ 52,202,325	\$ 55,145,183	\$ 55,849,778
Change in Net Assets								
Governmental activities	\$ 10,345,192	\$ (6,781,515)	\$ 2,761,889	\$ 2,014,759	\$ 1,172,542	\$ 7,486,044	\$ 11,996,880	\$ 2,244,670
Business-type activities	18,029,650	10,181,671	13,764,660	10,619,430	9,133,752	10,431,862	16,988,893	16,896,522
Total primary government	\$ 28,374,842	\$ 3,400,156	\$ 16,526,549	\$ 12,634,189	\$ 10,306,294	\$ 17,897,906	\$ 28,985,773	\$ 19,141,192

* Information prior to fiscal year ended June 30, 2001 is difficult to extract due to change in software.

CITY OF DANVILLE, VIRGINIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Other Local Taxes							Auto License & Recordation Taxes		Grand Total
	Property Taxes	Sales Taxes	Business License Taxes	Utility Taxes	Hotel & Meals Taxes	Recordation & Bank Stock Taxes		Taxes	Total	
1999	20,453,283	6,442,865	2,953,863	2,801,475	3,410,419	839,556		745,889	17,194,067	37,647,350
2000	19,965,645	6,718,384	3,189,751	2,864,775	3,660,232	799,668		911,919	18,144,729	38,110,374
2001	19,453,031	6,768,919	3,360,151	3,158,029	3,655,315	955,818		1,017,775	18,916,007	38,369,038
2002	19,346,304	6,569,709	3,386,808	3,334,340	3,868,262	889,675		923,851	18,972,645	38,318,949
2003	24,045,407	6,630,318	3,536,402	3,435,728	3,784,413	907,760		1,021,664	19,316,285	43,361,692
2004	23,289,443	6,767,056	3,597,621	3,896,209	4,196,327	895,694		1,005,918	20,358,825	43,648,268
2005	24,540,038	6,941,295	3,777,830	4,237,844	4,334,822	982,914		983,762	21,258,467	45,798,505
2006	25,453,656	7,326,695	4,889,518	4,246,590	4,499,854	1,109,217		895,778	22,967,652	48,421,308
2007	25,930,246	7,598,276	4,572,218	2,654,769	5,165,368	946,397		1,034,967	21,971,995	47,902,241
2008	26,590,389	8,071,419	4,989,707	994,536	5,495,291	948,038		1,047,044	21,546,035	48,136,424

City of Danville, Virginia
Fund Balances of Governmental Funds
Last Eight Fiscal Years*
(modified accrual basis of accounting)

	Fiscal Year							
	2001	2002	2003	2004	2005	2006	2007	2008
General Fund								
Reserved	\$ 3,454,240	\$ 2,923,331	\$ 3,042,193	\$ 2,476,902	\$ 3,851,704	\$ 5,526,954	\$ 7,242,459	\$ 8,568,727
Unreserved	19,993,053	22,305,505	21,324,394	21,001,767	20,393,893	24,843,213	26,731,939	27,812,317
Total general fund	<u>\$ 23,447,293</u>	<u>\$ 25,228,836</u>	<u>\$ 24,366,587</u>	<u>\$ 23,478,669</u>	<u>\$ 24,245,597</u>	<u>\$ 30,370,167</u>	<u>\$ 33,974,398</u>	<u>\$ 36,381,044</u>
All other governmental funds								
Reserved	\$ 21,295,791	\$ 12,976,881	\$ 11,103,280	\$ 7,145,275	\$ 6,660,002	\$ 7,337,086	\$ 8,690,452	\$ 8,225,485
Unreserved, reported in:								
Special Revenue	180,020	186,782	119,308	85,419	272,853	10,660	10,660	10,660
Cemetery Maintenance	195,060	264,603	330,505	-	-	-	-	-
Total all other governmental funds	<u>\$ 21,670,871</u>	<u>\$ 13,428,266</u>	<u>\$ 11,553,093</u>	<u>\$ 7,230,694</u>	<u>\$ 6,932,855</u>	<u>\$ 7,347,746</u>	<u>\$ 8,701,112</u>	<u>\$ 8,236,145</u>

* Information prior to June 30, 2001 is difficult to extract due to change in software.

City of Danville, Virginia
Changes in Fund Balances of Governmental Funds
Last Eight Fiscal Years*
(modified accrual basis of accounting)

	Fiscal Year							
	2001	2002	2003	2004	2005	2006	2007	2008
Revenues								
Property taxes	\$ 19,453,031	\$ 22,477,673	\$ 24,045,407	\$ 23,289,443	\$ 24,540,038	\$ 25,453,656	\$ 25,930,246	\$ 26,556,332
Local taxes	18,916,007	18,972,645	19,316,285	20,358,825	21,258,467	22,963,374	21,971,995	21,546,035
Fines and forfeitures	536,455	526,315	480,224	487,400	430,796	505,328	541,399	560,327
Permits, privilege fees, and regulatory licenses	208,934	189,514	221,100	189,405	239,617	219,668	235,358	270,052
Revenue from use of money and property	2,977,310	2,311,815	1,826,965	680,314	1,185,015	957,075	2,194,319	2,013,713
Charges for services	4,251,374	4,927,539	4,573,521	3,555,551	3,689,094	3,511,114	3,770,733	3,562,920
Miscellaneous	878,030	1,116,101	877,071	2,937,622	2,538,070	2,600,487	1,838,547	1,014,896
Recovered costs	2,585,748	3,420,537	3,688,855	4,129,121	4,032,807	4,194,578	5,173,681	4,951,992
Intergovernmental	30,437,105	30,977,287	27,803,342	28,431,487	29,972,172	28,728,127	34,136,326	35,080,153
Total revenues	80,243,994	84,819,426	82,832,770	84,059,168	87,885,876	89,133,407	95,792,604	95,556,420
Expenditures								
General government	4,774,011	4,860,476	5,055,245	5,121,782	5,815,842	6,024,273	6,443,419	6,965,300
Judicial administration	4,038,651	4,200,274	4,123,767	4,242,578	4,409,910	4,584,788	5,128,684	5,379,273
Public safety	19,586,864	20,304,556	20,482,466	21,402,433	22,182,965	22,423,516	24,673,695	25,667,267
Public works	8,695,353	8,697,285	9,553,828	9,298,498	11,117,739	10,277,641	10,407,920	12,114,049
Health and welfare	7,956,954	9,059,091	9,690,249	10,483,034	10,495,688	11,808,295	15,352,675	13,675,562
Education	17,487,152	19,824,453	16,776,100	19,453,244	16,772,404	18,219,735	17,370,028	19,918,463
Parks, recreation, and cultural	4,776,271	4,807,819	5,249,673	5,509,938	4,833,862	5,131,578	6,144,838	5,150,624
Community development	3,779,514	3,382,732	3,410,345	3,937,381	4,464,673	6,512,278	3,026,397	4,164,824
Nondepartmental	2,613,717	3,030,177	4,320,956	3,355,058	3,861,787	3,301,462	3,542,949	3,952,931
Capital outlay	13,344,462	12,162,256	10,482,809	11,061,055	8,088,678	1,543,623	5,761,705	4,332,433
Debt service								
Principal	4,086,282	2,981,288	4,429,139	3,812,362	3,516,046	3,438,597	4,181,152	4,242,206
Interest	2,561,321	1,045,006	2,112,704	2,461,084	1,886,516	1,654,538	1,567,139	1,438,487
Total expenditures	93,700,542	94,465,413	95,687,281	100,139,447	97,448,110	94,920,344	103,600,601	106,991,419
Ratio of debt service to total expenditures	7.1%	4.3%	6.8%	6.3%	5.5%	5.4%	5.5%	5.3%
Excess of revenues over (under) expenditures	(13,456,548)	(9,635,987)	(12,854,511)	(16,080,279)	(9,560,234)	(5,786,937)	(7,807,997)	(11,434,999)
Other financing sources (uses)								
Transfers in	13,523,636	13,729,573	15,238,926	15,086,335	17,068,419	16,878,713	20,753,576	20,415,323
Transfers out	(6,499,659)	(15,046,017)	(5,121,837)	(4,206,351)	(6,362,647)	(4,552,315)	(7,987,982)	(7,038,645)
Bonds issued	10,000,000	17,491,369	-	8,647,271	-	-	-	-
Refunding bonds issued	-	10,263,909	-	23,490,000	-	-	-	-
Payments to refunded bond escrow agent	-	(23,263,909)	-	(32,147,294)	-	-	-	-
Total other financing sources (uses)	17,023,977	3,174,925	10,117,089	10,869,961	10,705,772	12,326,398	12,765,594	13,376,678
Net change in fund balances	\$ 3,567,429	\$ (6,461,062)	\$ (2,737,422)	\$ (5,210,318)	\$ 1,145,538	\$ 6,539,461	\$ 4,957,597	\$ 1,941,679

* Information prior to June 30, 2001 is difficult to extract due to change in software.

CITY OF DANVILLE
MAJOR ENTERPRISE FUNDS - CHARGES FOR SERVICES
FOR THE LAST TEN YEARS

Fiscal Year	Electric Fund	Gas Fund	Wastewater Fund	Water Fund	Total Major Enterprise Funds
1998-99	50,724,319	22,217,295	7,175,240	5,559,480	85,676,334
1999-00	51,885,648	26,097,977	7,516,719	5,541,802	91,042,146
2000-01	51,899,293	41,941,876	7,654,636	5,557,279	107,053,084
2001-02	51,772,550	27,509,613	7,267,220	5,601,798	92,151,181
2002-03	54,793,952	30,029,152	7,009,576	5,388,944	97,221,624
2003-04	55,491,259	25,999,471	6,918,502	5,223,867	93,633,099
2004-05	53,740,565	25,211,996	6,059,995	5,075,326	90,087,882
2005-06	72,751,817	33,414,367	7,528,176	6,117,848	119,812,208
2006-07	88,910,376	26,290,132	7,805,221	7,012,772	130,018,501
2007-08	90,181,855	32,949,607	8,362,522	7,142,932	138,636,916

CITY OF DANVILLE
SCHEDULE OF ASSESSED PROPERTY VALUES
FOR THE LAST TEN YEARS

<u>Fiscal Year</u>	<u>Assessed Value of Real Property (1)</u>	<u>Assessed Value of Personal Property (2)</u>	<u>Assessed Value of Machinery and Tools (2)</u>	<u>Assessed Value of Mobile Homes (2)</u>	<u>Assessed Value of Public Service Corp. (2)</u>	<u>Assessed Value of Aircraft (2)</u>	<u>Total Assessed Value</u>
1998-99	1,506,914,200	245,169,049	73,840,040	5,498,338	43,335,538	-	1,874,757,165
1999-00	1,528,359,100	260,131,562	77,644,461	5,310,500	52,557,772	-	1,924,003,395
2000-01	1,574,720,000	265,599,262	91,355,628	5,351,056	52,559,426	-	1,989,585,372
2001-02	1,593,365,800	260,503,705	93,412,803	5,207,888	51,751,357	2,429,800	2,006,671,353
2002-03	1,740,967,100	257,461,270	94,496,913	4,663,036	51,413,068	3,889,920	2,152,871,307
2003-04	1,765,839,000	246,282,106	97,002,334	5,055,627	54,285,263	5,165,235	2,173,629,565
2004-05	1,864,447,500	257,033,492	90,504,892	4,977,283	52,021,885	4,306,540	2,273,291,592
2005-06	1,953,694,100	277,466,101	82,870,885	4,548,776	51,149,212	3,135,840	2,372,864,914
2006-07	2,067,848,400	291,749,737	79,708,821	4,261,308	50,697,018	3,394,102	2,497,659,386
2007-08	2,089,774,400	302,143,014	79,506,859	4,229,328	50,798,716	4,858,771	2,531,311,088

(1) Assessed on a fiscal year basis.

(2) Assessed on a calendar year basis.

**CITY OF DANVILLE, VIRGINIA
PRINCIPAL REAL ESTATE TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Taxpayer</u>	<u>2008</u>			<u>1999</u>		
	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Assessed Value¹</u>	<u>Total Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Assessed Value</u>
Danville Regional Medical Center LLC	\$ 76,182,600	1	3.65%			
Goodyear Tire and Rubber Company	33,191,000	2	1.59%	\$ 39,014,700	1	2.52%
Piedmont Mall LLC	31,091,100	3	1.49%	22,249,200	3	1.44%
NAP Coleman Marketplace LLC	22,411,800	4	1.07%			
Daniel Group Inc.	19,211,200	5	0.92%			
Nestle USA Inc. (formerly Carnation Co.)	10,749,200	6	0.51%	8,265,300	8	0.53%
Sams Real Estate Business Trust	10,113,800	7	0.48%			
Riverside Shopping Center LP	9,947,700	8	0.48%			
Revenue Properties of Danville LLC	9,906,800	9	0.47%			
Wal-Mart Real Estate Business Trust	9,724,200	10	0.47%	7,986,100	9	0.52%
Dan River Properties LLC	8,739,700	11	0.42%			
Lorillard Tobacco Company	8,300,600	12	0.40%	10,478,000	6	0.68%
Finlay Interests 5 LTD ²	8,208,400	13	0.39%			
Dan Shopping Center Inc	7,851,600	14	0.38%	6,303,800	11	0.40%
Marshall, Robert & Margaret D. (Rev Trust)	7,503,000	15	0.36%			
Dan River Inc.				36,024,700	2	2.32%
General Development Co., Inc				20,345,200	4	1.31%
Dibrell Brothers Inc.				11,732,500	5	0.76%
Southern Processors				8,364,400	7	0.54%
Belk Stores of Virginia				7,491,900	10	0.48%
Sears, Roebuck and Co.				6,099,500	12	0.39%
Medical Facilities of America XXII				5,818,200	13	0.38%
MJRW Inc.				5,646,400	14	0.36%
Old 97 Inc.				5,588,300	15	0.36%
	<u>\$ 273,132,700</u>		<u>13.07%</u>	<u>\$ 201,408,200</u>		<u>12.99%</u>

¹ Total 2008 Assessed Real Estate Value is \$2,089,774,400 for the City of Danville.

² Finlay Interests 5 Ltd qualifies under the City's Rehabilitated Tax Abatement Program. The Real Estate Taxes will be based on only \$816,700 of the total assessed value.

**CITY OF DANVILLE, VIRGINIA
REAL PROPERTY TAX LEVIES AND COLLECTIONS
FOR THE LAST TEN YEARS**

Year	Tax Rate Per \$100	Original Levy	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due	Uncollected at End of Month in which 2nd Half Tax Due	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due	Collections & Adjustments After Month in which 2nd Half Tax Due	Uncollected Balance June 30, 2008	Percentage of Original Levy Uncollected June 30, 2008
1998-99	0.79	11,942,326	11,332,892	609,434	5.10	586,707	22,727	0.19
1999-00	0.8125	12,417,949	11,763,590	654,359	5.27	624,961	29,398	0.24
2000-01	0.785	12,361,615	11,646,307	715,308	5.79	675,491	39,817	0.32
2001-02	0.785	12,507,984	11,779,079	728,905	5.83	675,852	53,053	0.42
2002-03	0.8	13,927,737	13,103,406	824,331	5.92	750,984	73,347	0.53
2003-04	0.8	14,126,712	13,185,128	941,584	6.67	843,804	97,780	0.69
2004-05	0.77	14,356,246	13,540,558	815,688	5.68	675,395	140,294	0.98
2005-06	0.77	15,043,445	14,242,460	800,985	5.32	613,598	187,387	1.25
2006-07	0.77	15,922,433	14,964,100	958,333	6.02	660,771	297,562	1.87
2007-08	0.77	15,980,915	15,126,749	854,166	5.34	-	854,166	5.34

(1) Taxes assessed on fiscal year basis; Due Dates - 1st half December 5th - 2nd half June 5 each year; Collections through June 30 each year.

**CITY OF DANVILLE, VIRGINIA
PERSONAL PROPERTY TAX LEVIES AND COLLECTIONS
FOR THE LAST TEN YEARS**

Year	Tax Rate Per \$100	Levy (1)	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due	Uncollected at End of Month in which 2nd Half Tax Due	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due	Collections & Adjustments After Month in which 2nd Half Tax Due	Uncollected Balance June 30, 2008 (2)	Percentage of Original Levy Uncollected June 30, 2008
1998(6mos)	3.00	4,055,489	3,912,563	142,926	3.52	142,926	-	-
1999	3.00	8,535,512	8,297,196	238,316 (3)	2.79 (3)	238,316	-	-
2000	3.00	9,063,512	8,799,350	264,162 (3)	2.91 (3)	264,162	-	-
2001	3.00	9,386,391	9,113,208	273,183 (3)	2.91 (3)	273,183	-	-
2002	3.00	9,283,231	9,052,351	230,880 (3)	2.49 (3)	230,880	-	-
2003	3.00	9,227,252	9,034,063	193,189 (3)	2.09 (3)	112,775	80,414	0.87
2004	3.00	8,897,075	8,259,740	637,335 (3)	7.16 (3)	553,724	83,610	0.94
2005	3.00	9,112,715	8,826,339	286,376 (3)	3.14 (3)	150,822	135,555	1.49
2006	3.00	9,581,768	9,238,435	343,333 (3)	3.58 (3)	230,820	112,513	1.17
2007	3.00	9,722,045	9,391,605	330,440 (3)	3.40 (3)	-	330,440	3.40
2008	3.00	10,114,292	3,402,702	6,711,590 (4)	66.36 (4)	-	6,711,590	66.36

(1) Personal property taxes were levied on a fiscal year basis beginning July 1 until July 1, 1998. On July 1, 1998, the City levied personal property taxes for a six-month period ending on December 31, 1998. Beginning on January 1, 1999, the City has levied taxes on a calendar year basis.

(2) According to state law uncollected personal property taxes are collectible five years following the year of levy.

(3) Personal property tax uncollected reported as of June 30 of subsequent fiscal year.

(4) This includes second half of the tax levy which is not due until December 5, 2007 and also the Personal Property Tax Relief Act (PPTRA) funds from the Commonwealth of Virginia. PPTRA funds amounting to \$3,593,576 are received in three installments during July, August, and November each year, thus are shown as uncollected at June 30.

CITY OF DANVILLE, VIRGINIA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST NINE FISCAL YEARS*

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Per Capita
	General Obligation Bonds	Lease		Revenue Bonds	General Obligation Bonds	Capital Leases		
2000	37,130,303	18,385,000	-	10,571,234	46,675,207	-	112,761,744	2,246
2001	34,189,347	17,880,000	758,478	9,858,952	43,548,657	-	106,235,434	2,194
2002	46,081,284	17,124,015	1,400,000	9,065,380	40,845,037	-	114,515,716	2,431
2003	42,352,275	16,381,472	223,163	8,256,918	37,583,274	-	104,797,102	2,225
2004	39,269,396	12,622,935	45,718	7,628,686	35,081,625	-	94,648,360	2,031
2005	35,666,775	11,841,989	-	6,990,317	31,770,451	-	86,269,532	1,880
2006	32,105,970	11,047,929	-	6,349,929	37,001,542	-	86,505,370	1,875
2007	28,488,092	10,230,059	-	5,708,574	38,073,432	-	82,500,157	1,810
2008	24,819,277	9,394,098	-	5,133,548	33,909,608	-	73,256,531	1,614

* Information prior to June 30, 2000 is difficult to extract due to change in software.

CITY OF DANVILLE, VIRGINIA
RATIO OF BONDED DEBT TO ASSESSED VALUES AND BONDED DEBT PER CAPITA
FOR THE LAST TEN YEARS

Fiscal Year Ended June 30	Population	Assessed Value	Bonded Debt			Ratio of Bonded Debt To Assessed Value			Bonded Debt Per Capita	
			General Fund Supported	Self- Sustaining Utilities		General Fund Supported	Self- Sustaining Utilities		General Fund Supported	Self- Sustaining Utilities
1999	50,100	1,506,914,200	39,882,939	61,053,672		2.65	4.05		796.07	1,218.64
2000	48,411	1,528,359,100	37,130,303	57,246,441		2.43	3.75		766.98	1,182.51
2001	48,411	1,574,720,000	34,189,347	53,407,609		2.17	3.39		706.23	1,103.21
2002	48,411	1,593,365,800	46,081,284	49,910,417		2.89	3.13		951.88	1,030.97
2003	48,411	1,740,967,100	42,352,275	45,840,192		2.43	2.63		874.85	946.90
2004	46,600	1,765,839,000	39,269,396	42,710,311		2.22	2.42		842.69	916.53
2005	45,900	1,864,447,500	35,666,775	38,760,768		1.91	2.08		777.05	844.46
2006	46,143	1,953,694,100	32,105,970	43,351,471		1.64	2.22		695.79	939.50
2007	45,586	2,067,848,400	28,488,092	43,782,006		1.38	2.12		624.93	960.43
2008	45,385	2,089,774,400	24,819,277	39,043,156		1.19	1.87		546.86	860.27

Note: The above bonded debt excludes Lease Revenue Bonds and Capital Leases for equipment and other obligations which are subject to appropriation of funds by City Council for payment of debt service.

CITY OF DANVILLE, VIRGINIA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit (10% of assessed value)	\$ 157,140,619	\$ 158,063,953	\$ 157,472,000	\$ 159,336,580	\$ 174,096,710	\$ 176,583,900	\$ 186,444,750	\$ 195,369,410	\$ 206,784,840	\$ 208,977,440
Gross bond debt	100,936,611	94,376,744	87,586,956	95,991,701	88,192,467	81,979,707	74,427,543	75,457,441	72,270,098	63,862,433
Less bond debt not applicable to limit:										
Section 10 Bonds	150,000	75,000								
Revenue Bonds	11,343,297	10,571,234	9,858,952	9,065,380	8,256,918	7,628,686	6,990,317	6,349,929	5,708,574	5,133,548
Total debt not applicable to limit	11,493,297	10,646,234	9,858,952	9,065,380	8,256,918	7,628,686	6,990,317	6,349,929	5,708,574	5,133,548
Total net debt applicable to limit	89,443,314	83,730,510	77,738,004	86,926,321	79,935,549	74,351,021	67,437,226	69,107,512	66,561,524	58,728,885
Legal debt margin	\$ 67,697,305	\$ 74,333,443	\$ 79,733,996	\$ 72,410,259	\$ 94,161,161	\$ 102,232,879	\$ 119,007,524	\$ 126,261,898	\$ 140,223,316	\$ 150,248,555
Total net debt applicable to the limit as a percentage of debt limit	56.92%	52.97%	49.37%	54.56%	45.91%	42.11%	36.17%	35.37%	32.19%	28.10%
Total net debt applicable to the limit as a percentage of assessed value	5.69%	5.30%	4.94%	5.46%	4.59%	4.21%	3.62%	3.54%	3.22%	2.81%

The City's Debt Management Policy states: Total general obligation net debt will not exceed 7.5% of the assessed valuation of the real property in the City of Danville.

**CITY OF DANVILLE
SCHEDULE OF UTILITY REVENUE BOND COVERAGE
FOR THE LAST TEN YEARS**

Fiscal Year Ended June 30	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			
				Principal	Interest	Total	Coverage
1999	87,787,010 *	58,712,636	29,074,374 *	395,421	213,490	608,911	47.75
2000	93,589,661	63,683,390	29,906,271	772,063	683,601	1,455,664	20.54
2001	110,711,610	77,683,958	33,027,652	781,443	479,267	1,260,710	26.20
2002	94,938,429	65,790,877	29,147,553	793,573	444,553	1,238,126	23.54
2003	99,876,892	68,128,146	31,748,746	808,462	406,581	1,215,043	26.13
2004	93,618,466	64,551,919	29,066,547	628,232	345,917	974,149	29.84
2005	91,551,655	64,946,537	26,605,118	638,369	293,344	931,713	28.56
2006	122,978,875	94,409,837	28,569,038	640,388	267,776	908,164	31.46
2007	134,864,905	97,930,083	36,934,822	641,355	242,102	883,457	41.81
2008	142,592,168	106,285,500	36,306,668	575,026	216,425	791,451	45.87

(1) Total revenue includes interest earned and other miscellaneous revenues.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of revenue bonds only. It does not include the general obligation bonds reported in the utility funds.

* 98-99 Net Revenue Available for Debt Service does not include Recoveries and Rebates of \$6,074.55 for Water, \$998,153.70 for Gas, and \$5,405,380.36 for Power and Light.

**CITY OF DANVILLE
DEMOGRAPHIC AND ECONOMIC STATISTICS
FOR THE LAST TEN YEARS**

Year	Population (1)	Per Capita Income (2)	Median Age (3)	% of Population with Bachelor's Degree or Higher (4)	School Enrollment (5)	Danville MSA Personal Income (6)	% Unemploy- ment Rate (7)
1999	50,100	19,936	N/A	N/A	8,130	2,233,159	7.40
2000	48,411	21,280	34.5	N/A	7,691	2,364,127	6.80
2001	48,411 est.	21,280	40.5	N/A	7,659	2,408,584	7.70
2002	48,411 est.	21,280 est.	40.5 est.	N/A	N/A	2,533,518	9.60
2003	48,411 est.	21,280 est.	40.1	5.3	7,668	2,611,053	10.90
2004	46,600 est.	21,280 est.	40.5	13.9	7,232	2,677,216	12.30
2005	45,900 est.	21,280 est.	40.5	13.9	7,114	2,788,486	10.80
2006	46,143 est.	25,037 est.	40.5	13.9	6,951	2,788,486 est.	10.60
2007	45,586 est.	25,037 est.	40.5	13.9	6,904	2,788,486 est.	7.20
2008	45,385 est.	26,008 est.	40.5	13.9	6,606	2,763,550	8.90

(1) Source: 1998 through 1999, Weldon Cooper Center for Public Services, University of Virginia.
2000 from U.S. Bureau of Census.
2001-2008, Weldon Cooper Center for Public Services, University of Virginia.

(2) Source: Weldon Cooper Center for Public Service, University of Virginia.
Data includes both the City of Danville and Pittsylvania County.
2001 - 2008 estimated projections

(3) Source: Weldon Cooper Center for Public Service, University of Virginia.

(4) Source: 2000 U.S. Census Bureau. Profile of Selected Social characteristics.
Percent based on population 25 years and over.

(5) Source: 1997 through 2000, Danville City Schools.
2001-2003 through National Center for Education Statistics.
2004-2008 through Weldon Cooper Center for Public Services, University of Virginia.
Includes Grades K-12.

(6) Source: Weldon Cooper Center for Public Service, University of Virginia & Bureau of Economic Analysis (BEA).
Danville MSA includes Danville and Pittsylvania County.

(7) Source: Virginia Employment Commission, through June 2008.

**City of Danville, Virginia
Principal Employers
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2008</u>			<u>1999</u>		
	<u>Employees¹</u>	<u>Rank</u>	<u>Percentage of Total City Employment³</u>	<u>Employees²</u>	<u>Rank</u>	<u>Percentage of Total City Employment³</u>
City of Danville	2,454	1	8.76%	1,950	3	6.83%
Goodyear Tire & Rubber Co.	2,447	2	8.73%	2,550	2	8.94%
Danville Regional Health System	1,636	3	5.84%	1,360	4	4.77%
Telvista	840	4	3.00%			
Nestle Refrigerated Food	567	5	2.02%	300	7	1.05%
Wal-Mart	450	6	1.61%			
CIT Commercial	375	7	1.34%			
Danville Community College	356	8	1.27%			
Roman Eagle Memorial Home	350	9	1.25%			
Intertape Polymer	290	10	1.04%	235	9	0.82%
Dan River, Inc.				4,500	1	15.77%
Health-Tex, Inc.				583	6	2.04%
Dimon				731	5	2.56%
Durham Hosiery						
Corning Glass Works				250	8	0.88%
C.M. Offray & Son, Inc.				225	10	0.79%

¹ Source: City of Danville, Office of Economic Development.

² Source: The Official Statement for 98-99 General Obligation Bond (4,100,000) Issue.

³ Source: Virginia Employment Commission - total employment for 2008 (28,015) and 1999 (28,536).

CITY OF DANVILLE, VIRGINIA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund										
General Government Administration	92	88	88	88	88	96	97	97	98	98
Judicial Administration	88	88	89	89	92	94	95	98	98	97
Public Safety	366	362	366	403	402	403	403	403	403	406
Public Works	108	107	107	110	110	110	110	110	111	111
Health, Welfare & Social Services	96	96	98	98	98	100	100	100	101	101
Park, Recreational and Cultural	62	61	63	65	65	64	49	49	49	49
Community Development	6	6	6	11	12	18	18	18	18	19
Total General Fund	818	808	817	864	867	885	872	875	878	881
Wastewater Fund	11	11	11	11	11	11	11	11	11	11
Water Fund	19	16	16	16	16	16	16	16	16	16
Gas Fund	55	55	55	55	56	56	56	55	55	55
Electric Fund	113	113	115	115	115	115	115	116	114	114
Telecommunications Fund	-	-	-	-	-	-	-	-	2	2
Transportation Fund	18	18	17	17	17	17	17	17	16	16
Central Services Fund	4	4	4	4	4	4	4	4	4	4
Motorized Equipment Fund	28	23	23	23	23	22	22	22	22	22
Sanitation Fund	61	56	56	53	53	53	57	53	53	46
Cemetery Fund	-	-	-	-	-	-	16	16	16	16
Total Other Funds	309	296	297	294	295	294	314	310	309	302
Total	1,127	1,104	1,114	1,158	1,162	1,179	1,186	1,185	1,187	1,183

City of Danville, Virginia
Operating Indicators and Capital Asset Statistics by Function
Last Eight Fiscal Years

Date of Incorporation	1830								
Form of Government	Council / Manager								
Area in Square Miles	44								
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Number of Employees (Full & Part-Time)	1260	1,251	1,240	1,240	1,173	1,219	1,212	1,237	
Name of Government Facilities and Services:									
Miles of streets	309	311	314	314	315	315	316	316	
Number of street lights	8,378	8,394	8,407	8,477	8,703	8,485	8,483	8,804	
Culture and Recreation:									
Recreation Centers	11	11	12	12	12	12	12	10	
Number of parks	9	9	9	9	10	10	10	10	
Park Acreage	337	344	344	344	349	349	349	466	
Number of trails	8	10	10	11	8	8	8	8	
Trail Mileage	7	9	9	10	18	25	25	28	
Number of athletic fields	21	23	23	23	23	23	23	31	
Athletic field acreage	40	45	45	45	45	45	45	49	
Number of playgrounds	24	24	24	24	24	24	24	22	
Playground acreage	69	88	88	88	88	74	74	74	
Number of outdoor basketball courts	8	8	10	10	10	10	10	12	
Number of tennis courts	4	19	19	19	19	19	19	21	
Fire Protection:									
Number of stations	7	7	7	7	7	7	7	7	
Number of fire personnel and officers	122	123	123	123	123	123	123	123	
Number of calls answered	4,296	4,370	4,529	4,648	4,734	4,860	5,002	5,143	
Number of inspections conducted	3,185	3,172	2,935	2,542	3,170	2,821	2,152	1,030	
Police Protection:									
Number of stations	3	3	3	3	3	3	3	3	
Number of police officers	141	139	139	139	137	137	137	137	
Number of patrol units	24	12	12	12	12	40	53	53	
Number of law violations:									
Physical arrests	8,010	8,371	8,499	6,399	7,075	7,253	7,434	5,840	
Traffic violations	12,120	8,956	7,780	6,481	5,498	6,127	6,571	7,896	
Parking violations	3,144	2,464	2,179	1,831	1,178	2,132	2,515	1,813	

City of Danville, Virginia
Operating Indicators and Capital Asset Statistics by Function
Last Eight Fiscal Years

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Sewerage System:								
Miles of sanitary sewers	350	350	354	384	384	384	386	386
Number of treatment plants	1	1	1	1	1	1	1	1
Number of service connections	16,944	17,047	17,194	17,302	16,883	16,651	16,589	16,665
Average daily treatment								
- Million Gallons per Day (MGD)	12.50	12.44	13.99	13.57	10.54	6.26	5.46	5.95
Maximum daily capacity of treatment plant - MGD	24	24	24	24	24	24	24	24
Water System:								
Miles of water mains	308.52	310.10	310.11	311.99	312.37	312.37	317.15	319.00
Active number of service connections	18,041	18,047	17,957	17,949	17,956	17,880	17,826	17,942
Number of fire hydrants	1,889	1,902	1,909	1,930	1,945	1,951	1,967	2,029
Average daily consumption - MGD	7.30	7.75	7.88	7.54	6.76	6.38	6.39	4.76
Maximum daily capacity of treatment plant - MGD	18	18	18	18	18	18	18	18
Electric Distribution System:								
Square Miles of service	500	500	500	500	500	500	500	500
Number of distribution stations	16	16	16	16	14	14	14	14
Facilities and services not included in the primary government:								
Education:								
Number of preschools	-	-	-	-	-	1	1	1
Number of elementary schools	10	10	10	10	10	9	9	9
Number of middle schools	3	3	3	3	3	3	3	3
Number of high schools	1	1	2	2	2	2	2	2
Number of alternative schools	1	1	1	1	1	1	1	1
Number of preschool instructors						21	18	19
Number of elementary school instructors	389	389	388	271	276	255	250	251
Number of middle school instructors				136	136	134	137	144
Number of high school instructors				202	188	186	183	182
Number of secondary school instructors	280	260	252					
Facilities and services not included in the reporting entity:								
Hospitals:								
Number of hospitals	1	1	1	1	1	1	1	1
Number of patient beds	350	350	350	350	350	350	350	350

SINGLE AUDIT

***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***

Board of Directors
City of Danville, Virginia

We have audited the financial statements of *City of Danville, Virginia* as of and for the year ended June 30, 2008, and have issued our report thereon dated December 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

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

Goodman & Company, LLP

Danville, Virginia
December 4, 2008

***Report on Compliance With
Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance
With OMB Circular A-133***

Board of Directors
City of Danville, Virginia

Compliance

We have audited the compliance of *City of Danville, Virginia* with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended June 30, 2008. *City of Danville, Virginia's* major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the management of *City of Danville, Virginia*. Our responsibility is to express an opinion on *City of Danville, Virginia's* compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *City of Danville, Virginia's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of *City of Danville, Virginia's* compliance with those requirements.

In our opinion, *City of Danville, Virginia* complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of *City of Danville, Virginia* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered *City of Danville, Virginia's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of *City of Danville, Virginia's* internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *City of Danville, Virginia's* ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by *City of Danville, Virginia's* internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by *City of Danville, Virginia's* internal control.

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

This report is intended solely for the information and use of management, Board of Directors, others within *City of Danville, Virginia*, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Goodman & Company, LLP

Danville, Virginia
December 4, 2008

Report on Compliance with the Commonwealth of Virginia's Laws, Regulations, Contracts and Grants

To The Honorable Mayor and Members of City Council
City of Danville, Virginia

We have audited the basic financial statements of the *City of Danville, Virginia*, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 4, 2008.

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 and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance with the Commonwealth of Virginia's laws, regulations, contracts, and grants applicable to the *City of Danville, Virginia*, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Tax

State Agency Requirements

- Social Services
- Education
- Comprehensive Services Act Funds
- Highway Maintenance Funds
- Economic Development Opportunity Fund

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

This report is intended solely for the information of City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Government Company, LLP

Danville, Virginia
December 4, 2008

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
<u>CITY OF DANVILLE</u>		
DEPARTMENT OF AGRICULTURE		
Department of Social Services:		
State administrative matching grants for food stamp program	10.561	\$ 580,603
Department of Juvenile Justice		
School program	* 10.555	56,325
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct payments:		
Community development block grant program and entitlement grants	14.218	1,073,627
HOME investment partnership program	14.239	633,830
Lead based paint hazard control	14.900	110,911
DEPARTMENT OF JUSTICE		
Direct payments:		
Crime victim assistance	16.575	30,344
Allocation to State (Title II)	16.540	40,896
DEPARTMENT OF TRANSPORTATION		
Direct payments:		
Airport improvements	20.106	105,118
Police Department	20.607	10,000
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Department of Emergency Services		
Emergency Management Preparedness Grant	97.042	102,013
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Department of Social Services:		
Temporary assistance for needy families	* 93.558	561,066
Low income energy assistance	93.568	15,574
Child care and development block grant	93.575	552,127
Refugee and entrant assistance	93.566	2,167
Independent living	93.674	18,417
State Children's Insurance Program (SCHIP)	93.767	32,249
SA & MH Services Projects of Regional & National Significance	93.243	5,775
Department of Social Services:		
Child care and development fund	93.596	421,233
Foster care - Title IV-E	* 93.658	581,211
Adoption assistance	93.659	185,673
Social services block grant	93.667	865,689
Medicaid assistance program-Administrative expenses only	93.778	434,722
Promoting Safe & Stable Families	93.556	74,501

(Continued on next page)

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Grantor/Pass - Through Grantor/Program Title	Federal Catalog Number	Federal Expenditures
Chafee education & Training Vouchers Program	93.599	1,884
Child welfare services-state grant	93.645	4,677
Department of Mental Health, Mental Retardation and Substance Abuse:		
Part C funds	81.181	131,975
Block grants for community mental health services	93.958	85,589
Block grants for prevention and treatment of substance abuse	* 93.959	768,704
Total assistance - City of Danville		\$ 7,486,900
<u>DANVILLE PUBLIC SCHOOLS</u>		
DEPARTMENT OF AGRICULTURE		
Department of Education:		
School breakfast program	* 10.553	\$ 682,646
National school lunch program	* 10.555	1,904,343
Department of Agriculture and Consumer Services		
Food distribution - donated commodities	* 10.555	264,771
DEPARTMENT OF EDUCATION		
Department of Education:		
Adult education - state administered basic grant program	84.002	126,285
Title I grants to local education agencies	* 84.010	3,255,614
Special education - grants to states	* 84.027	2,058,721
Vocational education - consumer and homemaking education	84.048	100,872
Special education - preschool grants	* 84.173	58,294
Safe and drug - free schools - state grants	84.186	48,974
Title IV innovative education program	84.298	13,081
Technology literacy challenge grant	84.318	7,155
Advanced placement incentive program	84.330	530
English language acquisition grants	84.365	42,307
Improving teacher quality state grants	84.367	861,887
Title IV Part B-21	84.287	4,973
Gear Up	84.UNK	45,022
OTHER FEDERAL PAYMENTS		
Election Assistance Commission		
Voting machine implementation	90.401	6,111
Total assistance - Danville Public Schools		\$ 9,481,586
Total assistance - reporting entity		\$ 16,968,486

* Denotes Major Program

See report of independent auditors

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the City's basic financial statements. However, due to the City's involvement in determining eligibility, they are considered federal awards to the City and are included on this schedule.

Federal Cognizant Agency

The Federal Cognizant Agency for the City of Danville, Virginia is the United States Department of Health and Human Services.

Subrecipients

The City provided the following amounts to subrecipients during FY 2008:

Program Title	CFDA	Amount
Block grants for prevention and treatment of substance abuse	93.959	\$ 768,704

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

Summary of Auditor's Results:

Financial Statements

The type of report issued on the financial statements: Unqualified

Internal control over financial reporting

- Material weaknesses identified: None
- No significant deficiencies noted in internal control to disclose

Noncompliance material to the financial statements noted: None

Federal Awards

Internal control over major programs

- Material weaknesses identified: None reported
- No significant deficiencies noted in internal control over major programs to disclose

The type of report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of

OMB Circular A-133: No

Major programs:

- National school lunch program (10.555)
- School breakfast program (10.553)
- Title I grants to local education agencies (84.010)
- Special education – grants to states (84.027)
- Special education – preschool grants (84.173)
- Temporary assistance for needy families (93.558)
- Foster care – Title IV-E (93.658)
- Block grants for prevention and treatment of substance abuse (93.959)

Dollar threshold used to distinguish between Type A and Type B programs: \$509,055

Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133?: Yes

(Continued on next page)

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

**FINDINGS RELATING TO THE BASIC FINANCIAL STATEMENTS WHICH ARE REQUIRED TO
BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL
AUDITING STANDARDS**

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

No findings reported in the prior year.