

DANVILLE
VIRGINIA
CITY GOVERNMENT
COMPREHENSIVE
ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR
JULY 1, 2013 TO JUNE 30, 2014

CITY OF DANVILLE, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014



Prepared by:

The Department of Finance
City of Danville, Virginia



CITY OF DANVILLE, VIRGINIA

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INTRODUCTORY SECTION





City of Danville Virginia

January 27, 2015

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, 2014.

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.

Brown, Edwards & Company, LLP, 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 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 costs 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 4a 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 42,912.

The City operates under the council-manager form of government. Policymaking and legislative authority is vested in the City Council, which consists 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-December of each year. The Budget Director uses these requests as a starting point for developing a work budget. The City Manager, in conjunction with the budget team, reviews departmental requests along with mandated costs and expected revenues. Once a complete budget is developed, it is presented as a recommended budget to the City Council by April 1 for review and deliberation. After City Council's approval, an introduction budget is released by April 30. The introduction budget contains all 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 30 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

Fiscal year 2014 proved to be an exciting time for Danville's River District. The City began its branding and way-finding study to make downtown Danville feel even more like a destination. The results of this study will be made public in the coming months. Phase I of the Streetscape Improvement Project, in the River District, was completed in December 2013 and Phase II was completed in April 2014. In Phase I, sidewalks were extended by six feet on each side of the 300 through 500 blocks of Main Street. The new sidewalks were constructed of brick pavers and cobblestone. New benches, trees, and trash receptacles, along with refurbished antique light poles, were installed on each block. Phase I was funded with \$1.4 million of Virginia Department of Transportation revenue sharing grants and matching funds from the City. Phase II included the creation of the Main Street Plaza with the JTI Fountain as its main attraction. Phase II was funded with \$800,000 of Virginia Department of Transportation revenue sharing grant, matching funds from the City, \$635,000 of City capital project funds, and a \$465,000 donation from Japan Tobacco International. Other important highlights in the City's economy for fiscal year 2014 are as follows:

- July 2013 – Golden Leaf Bistro, a full service restaurant, opened in the River District at 215 Craghead Street, providing an upscale option for dining in the City.
- September 2013 – Pemberton Lofts completed Phase I of its residential lofts located at 541 Bridge Street in the River District. All 62 units have been completely leased and Phase II of Pemberton Lofts began in February 2014 to add an additional 50 residential units next door at 549 Bridge Street. The developers, Ross Fickenscher and Garrett Shifflett from Richmond, Virginia, have successfully transformed what was once home to Pemberton & Penn Tobacco Co. prizery into apartment units and commercial space. Commercial tenants include the headquarters of AllergEase, a company that produces an all-natural allergy lozenge, and Hot Asana, a hot yoga studio.
- September 2013 – Columbia Flooring – Columbia Flooring is expanding its manufacturing facility in Danville. The \$3 million expansion will ultimately result in approximately 40 new jobs in the City.
- September 2013 – North American Mold Technology invested \$4.35 million to establish a new manufacturing facility in the City in the former Corning Glass facility.
- October 2013 – Nestle Refrigerated Foods announced an expansion of its facility.
- November 2013 – The Danville Industrial Development Authority (IDA) purchased the former Dan River Inc. Schoolfield Site. Demolition of certain buildings on the 82-acre Schoolfield site has been completed. The IDA, however, agreed to leave the three smokestacks and water tower in place, as well as the five-story section of the finishing plant, the main office and high bay warehouse.
- February 2014 – The nDanville Fiber Network has installed public Wi-Fi connections on Main Street in the River District. The addition of four hotspot locations on the 300, 400, and 500 blocks of Main Street has provided outdoor Wi-Fi connections. These connections are offered by the City and are free to the public.
- February 2014 – The Danville Science Center unveiled its new digital dome projecting movies all around and above the viewers. One hundred people are able to watch at a time.
- April 2014 – Moon River Thai Bistro is the first of its kind in the City. This restaurant is located on North Main Street, next to the North Theater and was the choice of Danville citizens expressed through a survey conducted by the City's Office of Economic Development.
- June 2014 – The City won the 2014 Commercial Revitalization Plans & Streetscapes Award for its work in the River District. The award, given by the Virginia Downtown Development Association, recognizes excellence in physical design and planning for revitalization districts.

- June 2014 – The City received word that its application for its Community Development Office was awarded \$20 million of New Market Tax Credits. This award will be used to finalize the redevelopment of the former Dan River Inc. Research Building at the corner of Main and Bridge Streets. The building will house the Danville Orthopedic Clinic and associated medical facilities, seminar space and family medicine facilities for the Danville Regional Medical Center; and other specialty retail establishments including a pharmacy and food service establishments.
- The Danville Fire Department started construction on converting a blighted lumber yard into a new state-of-the-art Fire Station Headquarters and Emergency Services call center. This \$9.3 million project includes a museum that showcases historic items and photos, as well as a piece of steel from the World Trade Center.
- Adaptive reuse construction began on the building at 554 Craghead Street in summer 2013. It will be a very attractive addition to the River District when it is completed in early 2015.

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 IALR 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 IALR also houses the Piedmont Governor's School for Mathematics, Science, and Technology.

IALR, along with Virginia Tech, was selected as the first national award winner of the Peter McGrath/W.K. Kellogg Foundation Engagement Award awarded by the National Association of State Universities and Land-Grant Colleges (NASULGC). Established in 2006, the McGrath Award recognizes the outreach and engagement partnerships of four-year public universities. The award program seeks to identify colleges and universities that have redesigned their teaching, research, extension, and service functions to become even more sympathetically and productively involved with their communities. The award is named for C. Peter McGrath, who served as president of National Association of State Universities and Land-Grant Colleges from 1992-2005. This award provided compelling validation that IALR and Virginia Tech have developed an innovative and powerful integrated model of a university/community partnership to promote the economic development of a region.

The IALR also earned an award from the National Science Foundation to create the Center for Tire Research which will focus solely on four main area of emphasis: tire materials, manufacturing, modeling, and simulation/testing.

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 \$10,468,250; Sewer and Wastewater Capital Improvements of \$1,600,000; Water and Gas Capital Improvements of \$6,335,000; and Electric and Telecom Capital Improvements of \$5,200,000.

The Regional Industrial Facility Authority (RIFA) resulted from a regional effort between the City of Danville and Pittsylvania County. RIFA 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 and the Regional Center for Applied Technology and Training (RCATT) anchor the Cyber Park. RIFA constructed the Research Addition, which is being leased to the IALR for private research and development.

Also part of the Cyber Park is CBN Secure Technologies, Inc.; Electronic Instrumentation and Technology, LLC (EIT); and NextGen Aeronautics. CBN opened its high-security production facility in early 2009. This new facility produces driver's licenses and identification cards, under the new regulations, for the Virginia Department of Motor Vehicles. CBN announced an expansion in March 2011 to include 25 new jobs and an investment of \$1.1 million. CBN announced a second expansion in April 2013 to include 25 new jobs and an investment of \$8.2 million.

The AVRC building was constructed in 2009 for a small company called the Advanced Vehicle Research Center (AVRC) to relocate from Raleigh. The company operated as a research and design center for converting hybrid vehicles to plug-in hybrid electric vehicles until it closed due to unforeseen circumstances in 2012. NextGen Aeronautics, a California-headquartered company that is conducting research and development on a solar powered satellite system, is presently located in the AVRC building and employs six people. The AVRC building has been sold to a local Danville entity, Daly Seven Inc., which uses the building for its hotel and cemetery equipment operations. A groundbreaking was held at the IALR in October 2010 for a new research and development facility, the Sustainable Energy Technology Center (SEnTeC). SEnTeC will include approximately 25,000 square feet of research facilities and will develop enhanced bio-based fuels, among other research and development projects. EIT opened its second facility in Danville and first in the Cyber Park with the construction of a 60,000-square-foot facility, which was completed in May 2012. This expansion resulted in the creation of 50 new jobs and a capital investment of \$5 million. EIT provides printed circuit boards for military, information technology, and electrical contractors. The EIT Cyber Park facility employs thirty-five people.

RIFA began developing a 1,000-acre industrial park in 2005, now called Cane Creek Centre (formerly Danville/Pittsylvania County Regional Industrial Park). Yorktowne Cabinetry (now Elkay) became the first company to locate in Cane Creek Centre, investing \$19 million and creating nearly 250 jobs, thus far, in its 240,000-square-foot facility. Elkay is a manufacturer of semi-custom cabinets. Elkay's first cabinet manufactured at the Cane Creek facility came off the line on March 14, 2006. Elkay is currently adding new product lines to its operation in Cane Creek Centre, and employment is expected to increase in the next year as a result of these additions.

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. Swedwood began manufacturing in early 2008. Currently, Swedwood has 380 employees and has made a capital investment close to \$100 million. Swedwood is now known as IKEA Factory, and it has just announced that it will add a new production line to its factory. There will be some increase in jobs, but that number has not yet been established.

In June 2010, a groundbreaking ceremony was held for a new project in Cane Creek Centre to develop two building sites, a 33-acre lot with a 15-acre graded pad and a 64-acre lot with a 36-acre graded pad. The U.S. Economic Development Administration provided a \$1,800,000 net grant to grade both sites. This project will allow potential employers to begin operations with less transition time and costs and is expected to create between 500 to 800 jobs and an investment between \$27 and \$45 million. The site grading was completed in June 2012, and the sites are being actively marketed to clients.

Another collaborative effort of RIFA has been the creation of the Berry Hill Mega Park located west of Danville in the Berry Hill community of Pittsylvania County. RIFA sees this mega-site project as the next stage in its economic development efforts to transform the region and its work force. The Mega Site has approximately 3,500 acres, and is the largest site in Virginia and fifth largest on the East Coast. RIFA is working in concert with Eden and Rockingham, North Carolina, to extend the sewer line to the state border where the City will continue this line to the site. In recent history, Eden lost a lot of textile operations and has an oversupply of sewer capacity that would be best served by cooperating on the Mega Site, since a proportion of workers may come from North Carolina to work at the future plants. This arrangement is a true partnership between localities in two states that are choosing to ignore politically-drawn lines. RIFA has received a \$6 million Tobacco Commission Mega Site grant in 2012 to grade approximately 400 acres on two sites, so clients can be shown “shovel ready” sites. The City anticipates it will take two years to obtain the necessary permits from federal and state regulatory agencies before grading can begin. Even though this project is in its early stages, RIFA has already seen some interest from companies wanting to invest at the mega site. The efforts to obtain the necessary permits from both state and federal agencies continue, and we hope that grading can begin in early spring of 2015.

In November 2013, the Utilities Department contracted with Utility Financial Solutions (UFS) to provide general consulting services and specifically to provide expertise in the areas of rate making and Power Cost Adjustments (PCA). Due to the combined effect of a rate stabilization plan implemented in August 2010, congestion charges incurred in January 2014 and stranded costs associated with the Prairie State Energy Campus, UFS recommended a rate change for all electric customer classes effective July 1, 2014. This change included rolling the existing PCA into the base rate and temporarily resetting the PCA to zero so that the PCA can adjust periodically. A comprehensive biennial rate study and cost of service study for all five Utility funds will be completed by early 2015. Also effective July 1, 2014 was step two of the water rate adjustment recommended in the 2013 biennial rate study. The rate study recommended a water rate schedule adjustment in two steps, with step one effective July 1, 2013, and step two effective July 1, 2014, to recover revenue shortfalls projected for the study period. The water consumption charge increased from \$1.57 per 100 cubic feet to \$2.20 per 100 cubic feet July 1, 2013 and to \$2.40 per 100 cubic feet July 1, 2014. The charge for water meters of all sizes will increase by \$1.50 per month effective July 1, 2013, and an additional \$1.50 per month July 1, 2014.

The Electric Division continues to collaborate with our rate consultant, as well as advisors with American Municipal Power, Inc. to build a portfolio of short-term block purchases at below-market prices and participation in generation projects, coupled with direct-market purchases to enable us to stabilize electric rates in the future. Last fiscal year, the Electric Division invested in a new CAD 3-D product that interfaces with our inventory management, CityWorks, and our accounting software. This product is designed to interface with our work order management system. The Utility Department continues to refine the Interactive Voice Response System, the Supervisory Control and Data Acquisition, and the Outage Management System (OMS) to enable operations to better handle major electric outage situations. In addition, the Electric Division deployed iPads in the field to facilitate the work order management and inventory tracking systems. The two major projects the Electric Division worked on this year included replacing transformers at the Hydro facility and rebuilding the Brantley to Airside Transmission line. Both projects are substantially complete.

In 2007, Danville Utilities entered into a 20-year natural gas contract with MuniGas that has provided a discount on our wholesale gas purchases. This discount produced a cost savings of over \$978,844 in 2014, which was passed on to customers.

During fiscal year 2014, the Water & Gas Divisions installed new gas mains on all or portions of 13 various streets and also installed new water mains on 3 City streets. Phase 13 of the Gas Pipeline Replacement Program was completed by outside contractors under the guidance of Water & Gas Engineering and the engineering work for Phase 14 was also completed.

At the City's Northside Wastewater Treatment Plant, the construction of Phase I Improvements was completed. Phase I included the \$2.4 million conversion of a pure oxygen process to a conventional activated sludge process using air. Phase II was completed in fall 2013. This phase consisted of converting the flotation grit separators into high-rate primary clarifiers at a cost of \$1.4 million. Phase III consists of grit removal facilities at a cost of \$2,000,000. The Phase I process conversion is estimated to save the City between \$50,000 and \$100,000 in electrical power costs annually as well as reduce chemical costs as liquid oxygen will no longer be required.

In 2013, the City contracted with the firm of Hazen and Sawyer to determine the best way to address the high total trihalomethane (THM) concentrations in the distribution system. THMs are formed by the reaction of chlorine, used for disinfection, with the organics in the treated water. This evaluation indicated that the best alternative is to install mixing and aeration equipment in the 8 million gallon reservoir in Ballou Park. The design and construction of this project is to be completed in fiscal year 2015.

The nDanville fiber to the home expansion continued connecting homes in fiscal year 2014 and finished the first neighborhood project of approximately 1,200 homes. Future expansions will continue each year as funds allow until all Danville Utilities customers have access to fiber optic broadband. The nDanville network currently has two service providers and is continuing to grow as commercial and residential customers sign up for service. The two service providers are offering IP television, telephone, and high-speed internet at speeds higher than the competition, but at lower rates. More fiber to the home projects are being engineered and are being planned in this year's budget. This will allow the region to remain competitive with the broadband capabilities of other metropolitan areas.

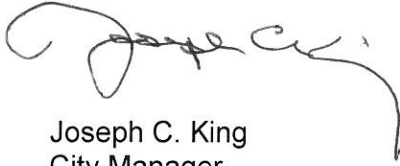
Awards and Acknowledgements

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, for the fiscal year ended June 30, 2013. This was the twenty-eighth 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 only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, 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,

A handwritten signature in black ink, appearing to read "Joseph C. King", with a long, sweeping underline that extends to the right.

Joseph C. King
City Manager

A handwritten signature in black ink, appearing to read "Michael L. Adkins", written in a cursive style.

Michael L. Adkins
Director of Finance

A handwritten signature in black ink, appearing to read "Patricia K. Conner", written in a cursive style.

Patricia K. Conner
Deputy Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Danville
Virginia**

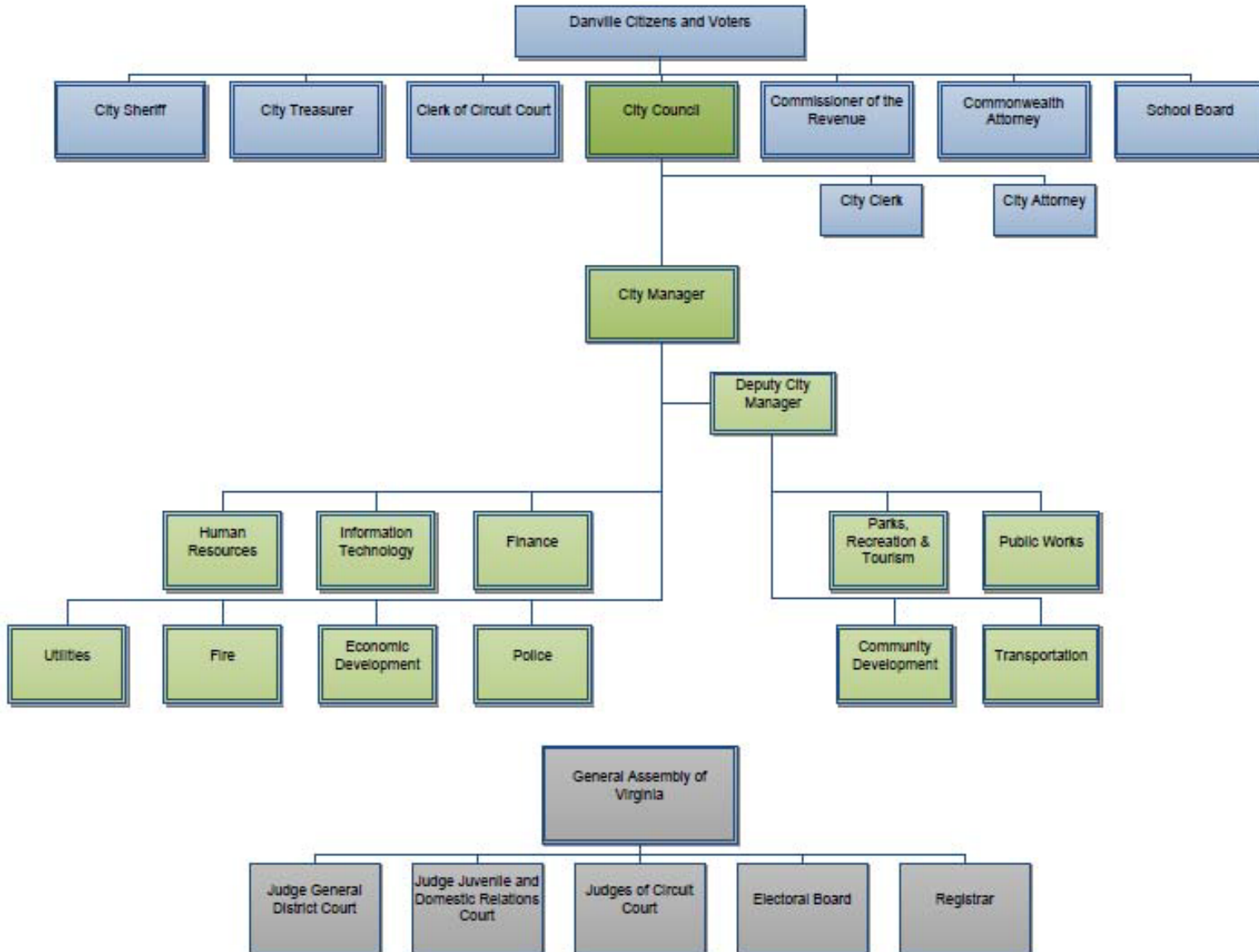
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

CITY OF DANVILLE, VIRGINIA

ORGANIZATIONAL CHART



CITY OF DANVILLE, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

CITY COUNCIL

Sherman M. Saunders – Mayor
Gary P. Miller, MD – Vice Mayor

L.G. “Larry” Campbell, Jr.
Alonzo L. Jones
Fred O. Shanks III
J. Lee Vogler

John B. Gilstrap
Albert K. “Buddy” Rawley, Jr.
Adam J. Tomer

LEGISLATIVE STAFF

W. Clarke Whitfield, Jr. City Attorney
Susan M. DeMasi City Clerk

ADMINISTRATIVE OFFICIALS

Joseph C. King City Manager
Kenneth F. Larking..... Deputy City Manager
Cynthia L. Thomasson Budget Director
Marc D. Adelman Director of Transportation Services
Barbara A. Dameron..... Director of Finance
Richard I. Drazenovich..... Director of Public Works
Earl B. Reynolds, Jr..... Director of Community Development
Inez J. Harville Director of Information Technology
David R. Eagle Fire Chief
Philip A. Broadfoot Chief of Police
Sara B. Weller Director of Human Resources
William O. Sgrinia Director of Parks, Recreation, and Tourism
Steven G. Saum Director of Utilities

CONSTITUTIONAL OFFICERS

Michael S. Mondul City Sheriff
Michael J. Newman Commonwealth Attorney
Gerald A. Gibson..... Clerk of Circuit Court
James M. Gillie..... Commissioner of the Revenue
Lynwood L. Barbour City Treasurer

CITY OF DANVILLE, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
(Continued)

SCHOOL BOARD

Dr. Edward C. Polhamus – Chairman
Terri Hall – Vice Chairman

George Wilson
Rebecca Bolton
Cheryl Bryant

O. Renee' Hughes
Dr. Philip W. Campbell

SCHOOL ADMINISTRATIVE OFFICIALS

Dr. Edward NewsomeSuperintendent
Dr. Kathy J. OsborneAssistant Superintendent for Administrative Services
Lori CassadaClerk of School Board
Dr. Juliet C. JenningsAssistant Superintendent for Human Resource Services
Yvette SmithAssistant Superintendent for Instruction

EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES

City Employee Members

David H. Patterson – Chairman – Captain, Fire Department
D. Joyce Obstler – Assistant Director, Information Technology Department
Sandra M. Stevens – Lieutenant, Police Department

Citizen Members

T. Wayne Oakes – Vice-Chairman – Retired, DIMON Incorporated
Lenard D. Lackey, Jr. – Retired, Danville/Pittsylvania County Service Board
Jeffrey V. Haley – President & CEO, American National Bank

Ex-Officio Members

Sherman M. Saunders

Joseph C. King

Barbara A. Dameron

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 16 to the financial statements, during 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Prior Period Adjustments

As discussed in Note 16 to the financial statements, the June 30, 2013 balances have been restated to adjust beginning balances for GASB Statement No. 65 implementation and other items. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
January 27, 2015

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 \$454,696,016 (total net position – government-wide). Of this amount, \$139,744,984 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The net position of the City's business-type activities, as of June 30, 2014, was \$325,737,781, an increase of \$11,664,167 from the restated net position of \$314,073,614 at June 30, 2013. Of the net position, \$84,302,763 is reported as unrestricted, a \$2,240,712 decrease from the unrestricted net position existing at June 30, 2013.
- As of June 30, 2014, the City's governmental activities for government-wide statements reported a net position of \$128,958,235, an increase of \$3,875,129 over a beginning restated net position of \$125,083,106. A net position of \$55,442,221 at June 30, 2014, is 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 \$63,073,363, a decrease of \$410,275 in comparison to the restated fund balance at June 30, 2013 of \$63,483,638. Fifty-six percent of the total fund balance at June 30, 2014, \$35,078,780, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was forty-one percent of total fund expenditures.

Governmental fund statements utilize the current financial resources measurement focus and modified accrual basis of accounting, which focuses on transactions and events that affect the financial resources available for current spending during the period and reflect near-term inflows or outflows of cash. Government-wide statements and proprietary fund statements use the economic resources measurement focus and accrual basis of accounting, which focuses on transactions and events that affect total economic resources; i.e., increase or decrease in net position during the period regardless of the timing of the related cash inflows or outflows. Governmental 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 position 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 \$62,367,975 to the combined balances of governmental funds when converting to net position of governmental activities. The reconciliation presented on pages 8 and 10 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 a total fund balance of \$63,073,363 and an unassigned fund balance of \$35,078,780. Government-wide net position for governmental activities report a total net position of \$128,958,235 and an unrestricted net position of \$55,442,221.

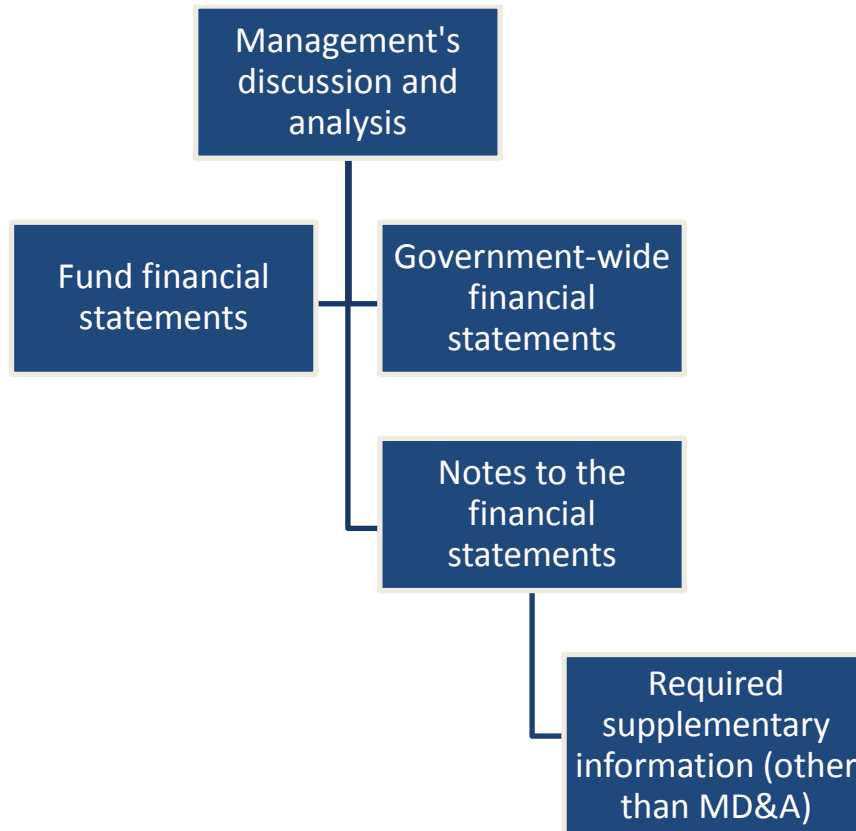
The conversion from fund balance, other than unassigned, to restricted net position can be shown as follows:

Non-spendable, restricted, committed, and assigned fund balance (fund statement)	\$ 27,994,583
Non-spendable inventory and prepaid items	(482,060)
Budget Stabilization, committed for fund statements	(5,064,922)
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(12,677,689)</u>
Restricted net position – governmental activities	<u>\$ 9,769,912</u>

The Statement of Net Position – Enterprise Funds does not require a conversion to the Statement of Net Position 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, 2014. 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 Position and the Statement of Activities.

The Statement of Net Position

The Statement of Net Position presents information on all the City's assets and liabilities. The difference between assets and liabilities is reported as net position. Net position is 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 position can be an indicator as to whether the financial position of the City is improving or deteriorating. To accurately use changes in net position 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 position changed during the year. As mentioned earlier, government-wide statements use the accrual basis of accounting. Therefore, changes in net position 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 Position 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 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 that 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 of the fund statements to the government-wide statements is provided to facilitate this comparison.

The City of Danville maintains seven 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, Virginia Department of Transportation (VDOT) Fund, Economic Development Fund, and the Cemetery Maintenance Fund are considered nonmajor funds. The data for these four funds are combined in a single column for the Balance Sheet-Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds.

Proprietary Funds

The City of Danville maintains two types of proprietary funds: (a) utility enterprise funds and (b) internal service funds. Enterprise 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. Enterprise 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 three fiduciary funds: a Pension Trust Fund; an Other Postretirement Benefits 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. Similarly, the Other Postretirement Benefits Fund accounts for investments used to cover the liabilities associated with retiree health insurance benefits. These activities are also 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 Position
June 30, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013 (Restated)	2014	2013 (Restated)	2014	2013 (Restated)
Current and other assets	\$ 101,304,186	\$ 95,140,252	\$ 112,579,009	\$ 101,795,148	\$ 213,883,195	\$ 196,935,400
Capital assets	93,690,573	77,840,012	294,547,056	287,693,014	388,237,629	365,533,026
Total assets	<u>\$ 194,994,759</u>	<u>\$ 172,980,264</u>	<u>\$ 407,126,065</u>	<u>\$ 389,488,162</u>	<u>\$ 602,120,824</u>	<u>\$ 562,468,426</u>
Deferred outflows	\$ 374,824	\$ -	\$ -	\$ -	\$ 374,824	\$ -
Long-term liabilities outstanding	\$ 51,118,267	\$ 37,296,852	\$ 64,619,684	\$ 61,063,119	\$ 115,737,951	\$ 98,359,971
Other liabilities	14,808,268	10,600,306	16,209,732	14,351,429	31,018,000	24,951,735
Total liabilities	<u>\$ 65,926,535</u>	<u>\$ 7,897,158</u>	<u>\$ 80,829,416</u>	<u>\$ 75,414,548</u>	<u>\$ 146,755,951</u>	<u>\$ 123,311,706</u>
Deferred inflows	\$ 484,813	\$ -	\$ 558,868	\$ -	\$ 1,043,681	\$ -
Net position:						
Invested in capital assets,						
Net of related debt	\$ 63,746,102	\$ 46,886,692	\$ 241,435,018	\$ 219,427,254	\$ 305,181,120	\$ 266,313,946
Restricted for grants and contributions	3,731,869	17,447,517	-	-	3,731,869	17,447,517
Restricted for community development loans	3,303,951	-	-	-	3,303,951	-
Restricted for cemetery perpetual care	2,734,092	2,708,917	-	-	2,734,092	2,708,917
Unrestricted	55,442,221	58,039,980	84,302,763	94,646,360	139,744,984	152,686,340
Total net position	<u>\$ 128,958,235</u>	<u>\$ 25,083,106</u>	<u>\$ 325,737,781</u>	<u>\$ 314,073,614</u>	<u>\$ 454,696,016</u>	<u>\$ 439,156,720</u>

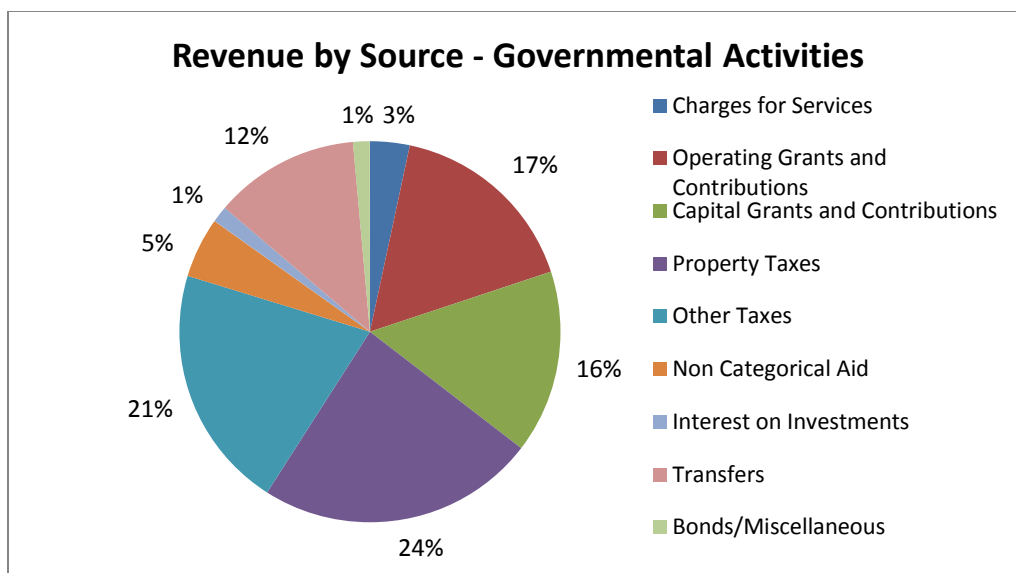
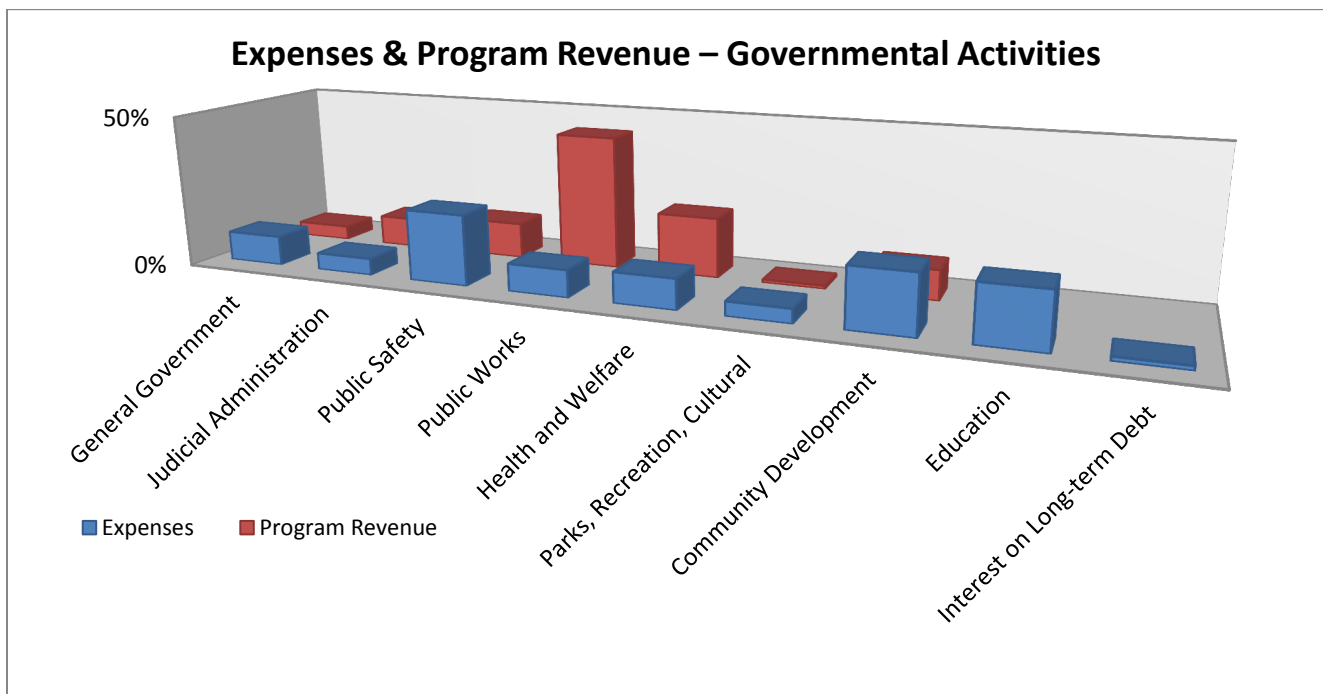
The City's combined net position at June 30, 2014 of \$454,696,016 represents an increase of \$15,539,296 from the combined net position at June 30, 2013. Thirty-one percent of total net position (\$139,744,984) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Sixty-seven percent of total net position 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. The remaining two percent of net position (\$9,769,912) is restricted for other special projects (grants), community development loans, and the perpetual care of the municipal cemetery. The composition of net position at June 30, 2013 was as follows: Unrestricted net position – 35%, Invested in Capital Assets, Net of Related Debt – 61%, Restricted for special projects (grants) and cemetery care – 4%. For the City as a whole, unrestricted net position decreased \$12,941,356, primarily due to increases in debt and capital assets within the business-type activities.

City of Danville
Changes in Net Position
Year Ended June 30, 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,957,226	\$ 4,268,729	\$ 175,450,098	\$ 144,714,293	\$ 179,407,324	\$ 148,983,022
Operating Grants and Contributions	19,523,936	29,926,361	1,473,919	1,390,628	20,997,855	31,316,989
Capital Grants and Contributions	18,332,445	17,307,698	268,697	318,635	18,601,142	17,626,333
General Revenues:						
Real Estate and Personal Property	27,868,180	26,758,831	-	-	27,868,180	26,758,831
Other Taxes (See Exhibit B for detail)	24,401,554	24,156,386	-	-	24,401,554	24,156,386
Interest on Investments	1,641,092	521,402	1,583,234	874,230	3,224,326	1,395,632
Non-categorical state and federal aid	6,038,488	5,964,892	-	-	6,038,488	5,964,892
Miscellaneous	1,682,156	1,005,617	2,823,930	2,145,633	4,506,086	3,151,250
Total Revenues	\$ 103,445,077	\$ 109,909,916	\$ 181,599,878	\$ 149,443,419	\$ 285,044,955	\$ 259,353,335
Expenses:						
General Government	\$ 10,985,447	\$ 27,448,521	\$ -	\$ -	\$ 10,985,447	\$ 27,448,521
Judicial Administration	6,210,609	6,115,877	-	-	6,210,609	6,115,877
Public Safety	26,273,320	29,449,843	-	-	26,273,320	29,449,843
Public Works	10,114,068	10,251,460	-	-	10,114,068	10,251,460
Health and Welfare	11,250,069	11,413,162	-	-	11,250,069	11,413,162
Parks, Recreation, and Culture	5,247,916	5,573,523	-	-	5,247,916	5,573,523
Community Development	21,838,752	3,395,882	-	-	21,838,752	3,395,882
Education (payment to school district)	20,646,479	21,303,585	-	-	20,646,479	21,303,585
Interest on Long-term Debt	1,552,148	1,339,765	-	-	1,552,148	1,339,765
Wastewater	-	-	6,328,929	6,411,408	6,328,929	6,411,408
Water	-	-	5,352,732	5,562,611	5,352,732	5,562,611
Gas	-	-	22,819,175	19,464,631	22,819,175	19,464,631
Electric	-	-	113,273,134	89,532,367	113,273,134	89,532,367
Transportation	-	-	2,105,000	1,807,422	2,105,000	1,807,422
Telecommunication	-	-	849,998	934,142	849,998	934,142
Sanitation	-	-	3,771,298	3,397,813	3,771,298	3,397,813
Cemetery Operations	-	-	886,585	867,864	886,585	867,864
Total Expenses	\$ 114,118,808	\$ 116,291,618	\$ 155,386,851	\$ 127,978,258	\$ 269,505,659	\$ 244,269,876
Subtotal Revenue over Expenses	\$ (10,673,731)	\$ (6,381,702)	\$ 26,213,027	\$ 21,465,161	\$ 15,539,296	\$ 15,083,459
Transfers	14,548,860	17,234,663	(14,548,860)	(17,234,663)	-	-
Increase in Net Position	3,875,129	10,852,961	11,664,167	4,230,498	15,539,296	15,083,459
Beginning Net Position	125,083,106	113,347,351	314,073,614	301,740,230	439,156,720	415,087,581
Effect of Restatements (Note 16)	-	882,794	-	8,102,886	-	8,985,680
Ending Net Position	\$ 128,958,235	\$ 125,083,106	\$ 325,737,781	\$ 314,073,614	\$ 454,696,016	\$ 439,156,720

Governmental Activities

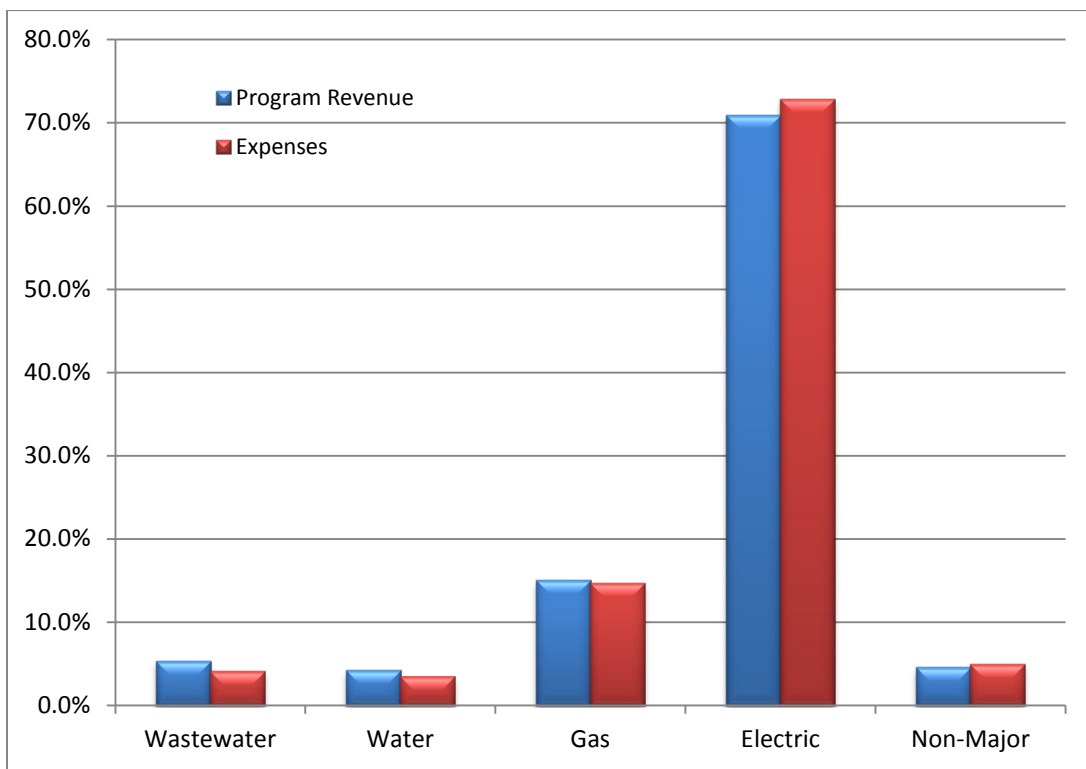
Governmental activities increased the City of Danville's net position by \$3,875,129. Revenues (including transfers) from governmental activities totaled \$117,993,937, with Property Taxes 24%, Other Taxes 21%, Operating Grants and Contributions 17%, Capital Grants and Contributions 16%, and Transfers 12%, representing 90% of the City's revenues. Expenses for governmental activities totaled \$114,118,808, of which 37% was supported from program revenues and the remaining 63% from general revenues. Expenses for Public Safety 23%, Education 18%, Community Development 19%, Health & Welfare 10%, General Government 10%, and Public Works 9%, make up 89% of the total governmental expenses for the fiscal year.



Business-type Activities

Business-type activities increased the City's net position by \$11,664,167 compared to last year's increase in net position of \$4,230,498. At June 30, 2014, total net position was \$325,737,781 of which \$241,435,018 represented investments in capital assets and \$84,302,763 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). Revenues for business-type activities were \$181,599,878 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 14.

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 \$63,073,363, a decrease of \$410,275 when compared with the combined fund balance at June 30, 2013 of \$63,483,638. The fund balance in the Capital Projects Fund, also known as Construction In Progress (CIP), decreased \$3,509,903. Of the \$20,235,276 expended in the CIP fund, \$1,750,143 was expended on blight removal and improvements to public buildings, and grounds. Funds of \$3,188,526 were expended for streets and parking lot improvement and construction within the City's developing River District. \$1,402,524 was expended for economic development, equipment, and information technology upgrades, \$6,514,337 was expended for improvements at the municipal airport, and \$6,554,508 was expended for Fire and Emergency Operations Center Headquarters.

Fifty-six percent (\$35,078,780) of the combined governmental funds balance is unassigned fund balance, which is available for spending at the government's discretion. Thirty-nine percent (\$24,778,431) of the combined fund balance is not available for new spending, because it has already been restricted, committed, or assigned to specific future expenditures. The remaining five percent (\$3,216,152) of fund balance is not spendable as it represents inventories or prepaid expenses (\$482,060) and investments for the perpetual care of the municipal cemetery (\$2,734,092).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2014 of \$42,871,760. This is an increase of \$5,103,479 compared to last year's fund balance of \$37,768,281. The General Fund reported an unassigned fund balance of \$35,078,780, an increase of \$2,737,334 from the June 30, 2013 unassigned fund balance of \$32,341,446. The adopted budget for the General Fund included drawing \$2,060,000 from fund balance in fiscal year 2014. The ability of the General Fund to generate cash on demand can be calculated by comparing both the unassigned fund balance and total fund balance to total funds expended. Unassigned fund balance represents 41% of total General Fund expenditures while total fund balance represents 51% of total fund expenditures. When transfers out of \$11,580,680 are added to expenditures, then unassigned fund balance is 36% percent of expenditures and transfers out. The following table represents General Fund support shown as transfers out:

Support of CIP Projects	\$ 8,293,419
Support of Regional Industrial Facility Authority	553,330
Support of Economic Development	1,142,791
Support of Grants	1,310,000
Support of Cemetery Operations	88,540
Support of Transportation	192,600
	<hr/>
	\$ 11,580,680

The increase in fund balance of \$5,103,479 was \$9,818,365 more than the final budgeted decrease of \$4,714,886. The actual increase resulted from \$7,632,259 unexpended budgeted expenditures and \$2,186,106 in additional revenue (including bond issuance items and transfers in). Unexpended budget of \$1,689,404 was encumbered at June 30, 2014.

Some key factors of unexpended appropriations are as follows:

- City Support of Public Schools had an unexpended balance of \$1,214,026. Danville City Schools pulls local funding as needed and is allowed to carry unspent funding forward for future years. The unencumbered portion of this amount is reserved as a carryforward for fiscal 2015.
- The City's self-insured group health insurance plan had an unexpended balance of \$1,753,653. Over the last few years, the City has offered employees with a new high-deductible plan. This has resulted in lower utilization and decreased costs to the City. The City has also gradually allocated a larger share of the premium to the employees in order to obtain an employer-employee allocation that is aligned with industry norms.
- Savings in salaries, related payroll taxes, and retirement contributions of over \$1.5 million were realized through vacancies in the General Fund, primarily in Public Safety.
- Expenditures that were encumbered and remained unexpended at June 30, 2014 amounted to nearly \$1.7 million. The remaining savings resulted from the conservatism of management in every department as the City attempted to uphold the level of services provided during the continued economic challenges of fiscal year 2014.

Key factors of the additional revenue are as follows:

- General Property Tax collections were \$320,456 over budget. The primary components of this variance exist in the following areas:

Real Estate	\$ 88,990
Personal Property	\$ (32,878)
Public Service	\$ (37,911)
Penalties & Interest	\$ 302,255

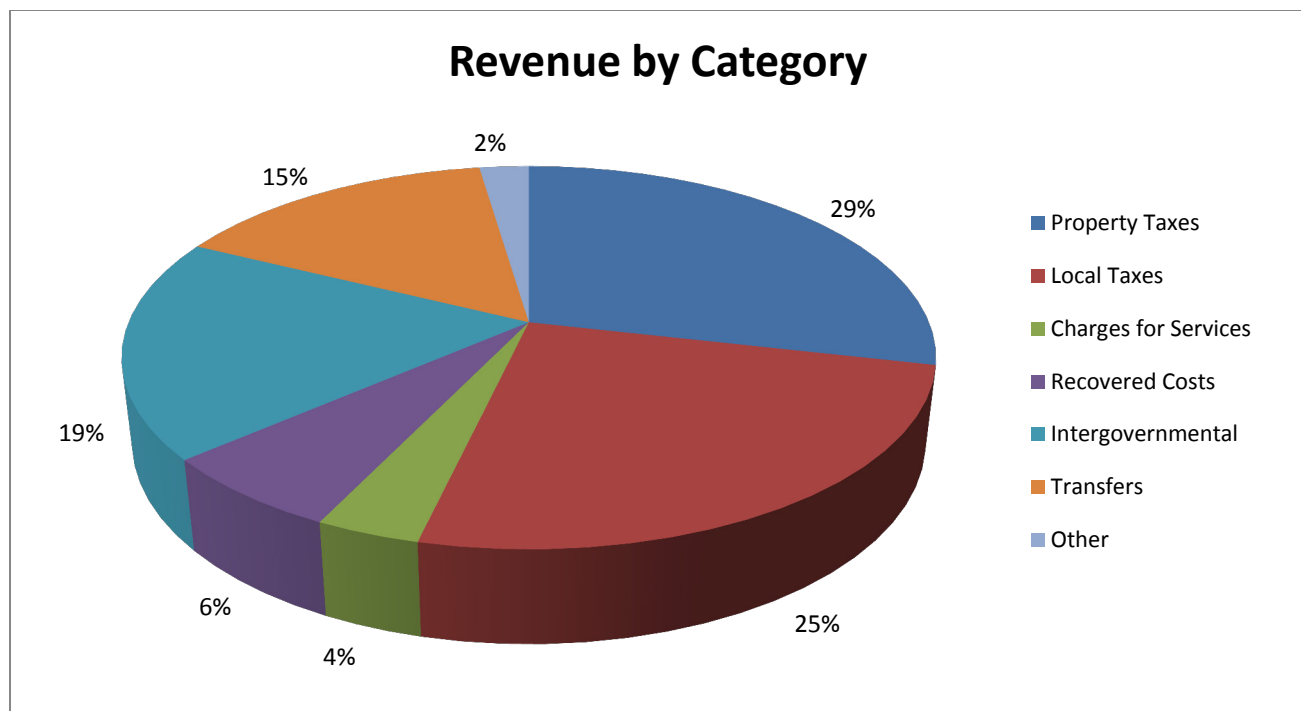
- Real Estate realized additional revenues in delinquent taxes due to increased efforts in collections. The City's use of a collection agent combined with periodic publication of delinquent taxpayers' names has proven effective. This is also demonstrated in the additional penalty and interest collections, which often exceed the amount of the delinquent tax owed. Personal property tax revenues and property taxes on public service entities performed very closely to budget for fiscal year 2014.

- Other Local Taxes exceeded the final budget of \$23,279,080 by \$1,117,466. Many categories of local tax revenue exceeded budgeted expectations, while others were close to budgeted expectations. The most significant component of this positive variance relates to Business Licenses. An audit performed by the City's Commissioner of Revenue identified business license revenue of nearly \$250,000 owed to the City that was subsequently collected. The audit proceeds, combined with the conservative budget of \$4.7 million allowed for a positive variance of nearly \$1 million for fiscal year 2014. Local Sales Taxes were collected at 99.8% of budget, Business Licenses were collected at 119% of budget, Hotel Taxes were at 106% of budget, and Prepared Meals Tax collections also met or outperformed estimates at 99.9% of budget. Areas contributing to the budget variance include:

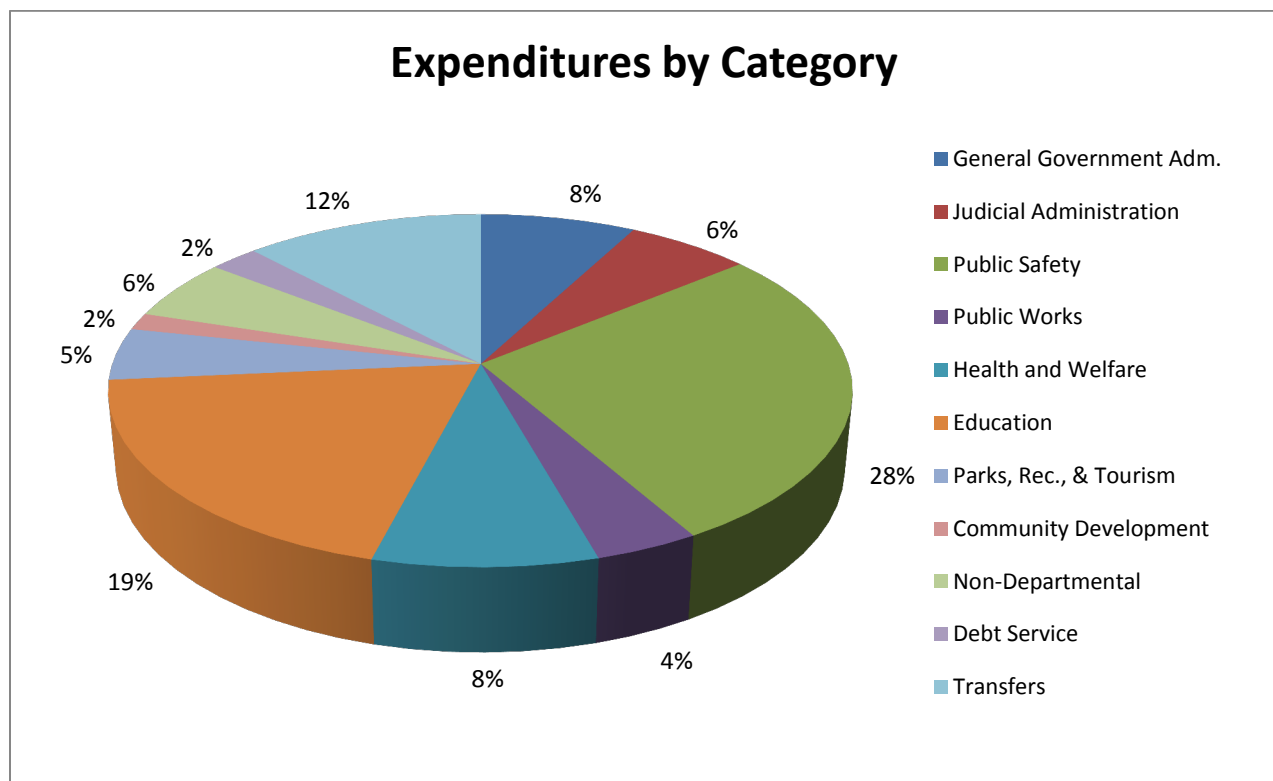
Local Sales Tax	\$ (17,129)
Prepared Meals Tax	\$ (12,770)
Business Licenses	\$ 915,017
Vehicle License & DMV Fees	\$ 106,799
Hotel & Lodging Tax	\$ 42,271
Others	\$ 83,278

- Revenue from the Use of Money and Property category was over budget by \$551,491. This resulted primarily from changes in interest rates, which resulted in a positive market value adjustment on investments held at June 30, 2014.
- Revenue from all other categories performed closely to budgeted amounts for fiscal year 2014.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2014. Total revenues are \$97,199,962, including transfers in of \$14,931,345.



The next graph shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2014. Total expenditures are \$96,219,850, including transfers out of \$11,580,680.



Enterprise Funds

Enterprise funds reported a combined ending net position of \$325,737,781; an increase of \$11,664,167 compared to a combined net position reported at June 30, 2013 of \$314,073,614. Each of the following enterprise funds contributed to this increase: Wastewater Fund, 22% or \$2,567,671; Water Fund, 12% or \$1,414,161; Gas Fund, 15% or \$1,774,480; Electric Fund, 43%, or \$5,093,003; Transportation Fund, 1% or \$71,287; Sanitation Fund, 3% or \$295,248; Telecommunications Fund, 3% or \$353,121; and the Cemetery Operations Fund, 1% or \$95,196.

Fiscal year 2014 revenues from all sources combined, excluding contributed capital and transfers in, increased \$31,916,322 when compared to the previous fiscal year ended June 30, 2013. The details of this net increase in revenue result from the following:

Charges for Services	\$ 30,735,805
Recovered Costs	\$ 1,397,666
Jobbing Income	\$ (860,693)
Interest Income & Market Value Adjustment	\$ 806,625
Grants	\$ (148,069)
Sales/Rental/Gain on Disposal/Inkind	\$ (15,012)

Charges for Services increased in the Electric Fund \$25,494,137, reflecting the accrual of revenue related to the Power Cost Adjustment. The Power Cost Adjustment allows for the recording of a regulatory asset that represents purchased power costs that have not yet been billed to the customers. During the winter season of fiscal year 2014, the City, along with much of the east coast, experienced an extended period of cold weather which resulted in congestion charges from power distribution companies. This cost, combined with the stranded costs of a canceled project with American Municipal Power, resulted in a large accrual of revenue to be billed over future periods. Likewise, the cost of purchased power increased proportionately. The only increase in utility rates during fiscal year 2014 related to consumption charges and customer charges in the Water Fund. This resulted in an increase of 1,630,826 in Charges for Services in the Water Fund. An increase of \$3,023,269 in gas revenue resulted from increased consumption of approximately 5% in residential, commercial, industrial customer classes. The Wastewater Fund remained fairly constant with an increase of \$37,040. No rate increases occurred in fiscal year 2015; however, rate increases are being considered in the Wastewater Fund for fiscal year 2016 as the City completes its biennial rate study over the coming months. Currently, the study proposes increases in rates for Gas, Water, and Electric in fiscal year 2017. Non-major Funds (Transportation, Sanitation, Cemetery, and Telecommunication) experienced some growth with a combined increase in revenues of \$550,533.

Reclassification of revenues between Recovered Costs and Jobbing Income created most of the variances seen in these two revenue categories. The Gas Fund recovered \$372,354 from a class action settlement regarding overpricing of purchased gas which contributed to the remaining positive variance in Recovered Costs for fiscal year 2014. The increase in interest income resulted from changes in interest rates between the current and prior fiscal year. Income before contributions and transfers for all enterprise funds combined increased \$4,522,004 from the prior year, primarily because of the increased gross margin from the higher charges for services combined with the recovered costs and higher interest income.

The Utilities contributed \$14,830,000 in transfers to the General Fund for fiscal year ending June 30, 2014. Enterprise Funds' net position of \$325,737,781 include \$51,299,742 unrestricted and undesignated, \$33,003,021 unrestricted and designated for incomplete projects, and \$241,435,018 invested in capital assets, net of related debt.

General Budgetary Highlights

City of Danville
General Fund Budget
Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual
Revenues, Transfers, and Other Financial Sources			
Taxes	\$ 50,698,600	\$ 50,712,680	\$ 52,150,602
Intergovernmental	18,097,090	18,261,077	18,139,469
Transfers and Other	<u>25,377,480</u>	<u>30,163,466</u>	<u>31,033,258</u>
Total	94,173,170	99,137,223	101,323,329
Expenditures, Transfers, and Other Financial Uses			
Expenditures	88,046,700	92,271,429	84,639,170
Transfers and other	<u>8,186,470</u>	<u>11,580,680</u>	<u>11,580,680</u>
Total	96,233,170	103,852,109	96,219,850
Change in Fund Balance	<u>\$ (2,060,000)</u>	<u>\$ (4,714,886)</u>	<u>\$ 5,103,479</u>

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 \$3,475,729 and additional appropriations totaling \$4,143,210. All of the additional appropriations had matching revenues. There were no appropriations from fund balance during fiscal year 2014.

Appropriations with matching revenue:

Police & Commonwealth Attorney – Forfeited Funds	\$ 137,417
Juvenile Detention – Electronic Monitoring	\$ 56,101
City Jail – Room and Board	\$ 23,871
Unanticipated Funding – Parks & Recreation	\$ 105,102
Additional Funding – DMV Fees	\$ 14,080
Police – Special Duty Pay	\$ 449,170
Additional Funding of Various City Departments	\$ 46,036
Hazardous Material Response	\$ 11,912
Project Lifesaver	\$ 3,102
General Obligation Bonds – Transfer to CIP Fund	\$ 3,296,419

As explained on pages 4k and 4l, local tax revenues performed better than budget with increases in interest income and market value adjustments providing a positive budget variance for fiscal year 2014 revenues. The positive budget variance in expenditures resulted primarily from delayed transfers to the Danville City School System (\$1.2 million). The school funds have been encumbered and will be transferred during fiscal 2015 as needed. Budget savings were also realized through lower utilization of group health insurance (\$1.8 million), personnel vacancies (\$1.5 million) and cost cutting measures taken in all City departments.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$388,237,629 (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 11 in the notes to the financial statements.

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

- The City began extensive improvements to its downtown area, spending nearly \$3.2 million on the recently named River District. Sidewalks have been widened along Main Street to allow for outdoor dining and easily accessible storefronts. A fountain was completed as the focal point for the awakening downtown.
- Over \$9 million was spent to construct a new Fire Department headquarters and Emergency Operation Center. The new headquarters replaces an 88-year-old building that had become insufficient in meeting current needs. Bond proceeds of nearly \$6 million were allocated to this capital project.
- Improvements exceeding \$8 million were made to the infrastructure, such as streets, parking lots, and various public buildings, parks, trails, and facilities throughout the City. Of this amount, just over \$6.5 million was spent to improve Airport facilities. The City also spent \$1.7 million in its blight eradication efforts.

City of Danville
Capital Assets (net of depreciation)
June 30, 2014

	Governmental Activities	Business-type Activities	Total
Land	\$ 19,598,641	\$ 1,454,625	\$ 21,053,266
Building & Improvements	25,471,660	247,571,070	273,042,730
Machinery and Equipment	7,384,516	27,015,896	34,400,412
Infrastructure	21,853,746	-	21,853,746
Construction in Progress	13,637,293	18,505,465	32,142,758
Subtotal	87,945,856	294,547,056	382,492,912
Assets Transferred from School Board	5,744,717	-	5,744,717
Total	<u>\$ 93,690,573</u>	<u>\$ 294,547,056</u>	<u>\$ 388,237,629</u>

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation debt of \$88,410,628 and revenue bonded debt of \$1,683,940 for a total of \$90,094,568.

City of Danville's Outstanding Debt Bonds and Related Loans

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ 34,381,908	\$ 31,523,096	\$ 54,028,720	\$ 55,360,887	\$ 88,410,628	\$ 86,883,983
Revenue Bonds	-	-	1,683,940	2,276,945	1,683,940	2,276,945
Total	<u>\$ 34,381,908</u>	<u>\$ 31,756,730</u>	<u>\$ 55,712,660</u>	<u>\$ 55,924,755</u>	<u>\$ 90,094,568</u>	<u>\$ 89,160,928</u>

During fiscal year 2014, the City of Danville issued \$6.36 million in General Obligation Public Improvement Bonds, Series 2013A. The Series 2013A was issued to finance capital expenditures for general governmental projects, capital expenditures relating to the City's electric system, and to pay the costs of issuing the bonds.

The City of Danville's debt management policy states that debt supported by General Fund tax revenue will not exceed 3.0% of total taxable assessed value of property within City limits. For the purposes of calculating this ratio, assessed value includes real property and personal property. At June 30, 2014, debt to assessed value was 1.28%.

Additional information on the City of Danville's long-term debt can be found in Note 12 of the notes to the financial statements.

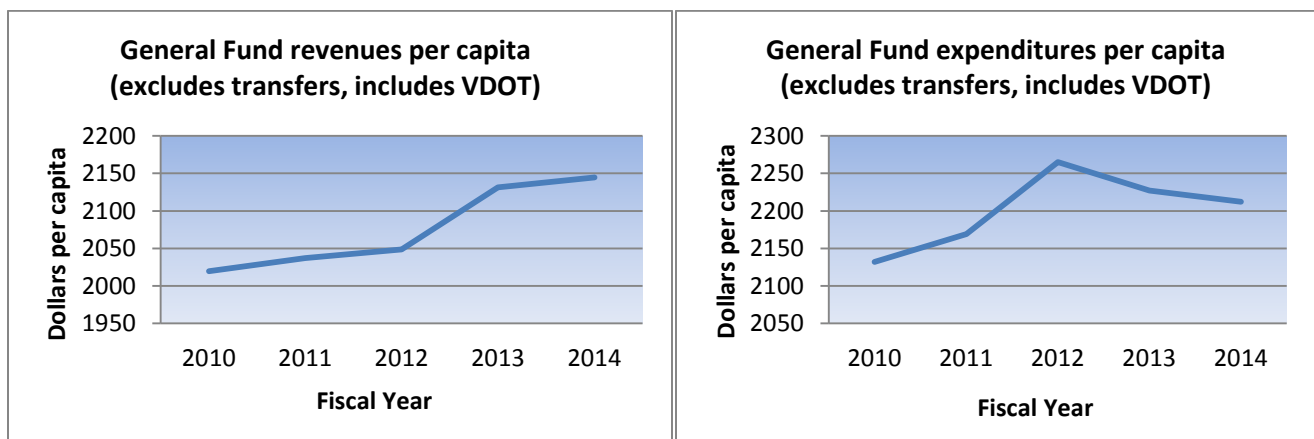
Economic Factors and Next Year's Budget and Rates

- As of October 31, 2014, the average unemployment rate for the City of Danville was 6.7%, which is a decrease from a rate of 8.1% at August 31, 2013. This compares to the Commonwealth's average unemployment rate of 5.3% and the national average rate of 5.8% at October 31, 2014.
- Danville continues to make economic development a priority in its effort to reduce unemployment. In June of 2014, Danville received word that its Community Development Entity was awarded \$20 million of New Market Tax Credits. This award is expected to be used to finalize the redevelopment of the former Dan River Inc. Research Building at the corner of Main and Bridge Streets. Successful deployment of the tax credits will potentially lead to additional allocations of credits for future projects.

- During fiscal year 2013-2014, management continued its goal to stabilize utility rates for electric services charged to its consumers despite congestion charges incurred during the winter. The Power Cost Adjustment utilized by Danville Utilities will allow these costs, along with increasing operating costs, to be recovered through gradual, small rate increases over the next five years. There was one rate change passed in the adoption of the fiscal year 2014 budget for water, raising the rate from \$1.57 to \$2.20 per 100 cubic feet and no rate increases imposed for fiscal year 2015.
- Danville has an estimated population of 42,912, based on the 2010 census. The most recent data shows per capita income of \$32,775 for the Danville Metropolitan Area and \$48,838 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 despite the economic downturn over previous years. Although the overall increase in revenue per capita is partially attributable to a declining population, revenues have increased 6% over the five year period. Expenditures continued to decrease from 2013 to 2014, demonstrating management's efforts to contain costs despite ever increasing costs of goods and services. Expenditures in fiscal year 2014 decreased about \$3.6 million due to changes in the City's group health insurance and savings related to debt refinancing. Danville's population has shown decreases up until fiscal year 2012 and has been consistent since that time. It is anticipated that through the economic development efforts, and downtown revitalization, the City will see the population increase even more in the future.

Requests for Information

This financial report is designed to provide a general overview of the City of Danville's finances. Separately issued audited financial statements are available for the City's component units. 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.



BASIC FINANCIAL STATEMENTS



EXHIBIT 1**CITY OF DANVILLE, VIRGINIA****STATEMENT OF NET POSITION****June 30, 2014**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Danville Public Schools	Industrial Development Authority
ASSETS					
Cash and investments (Note 2)					
Unrestricted	\$ 62,386,229	\$ 69,684,930	\$ 132,071,159	\$ 1,179,990	\$ 613,795
Restricted	4,281,119	3,441,349	7,722,468	-	2,732,312
Cash and investments – held by fiscal agents	95,000	-	95,000	-	-
Receivables, net (Note 4)	16,287,244	16,887,301	33,174,545	618,667	74,447
Due from primary government/component units (Note 9)	54,487	-	54,487	6,274,026	477,333
Due from other governments (Note 5)	9,648,747	376,296	10,025,043	2,717,899	-
Prepays and other	211,114	-	211,114	2,428,028	-
Inventories	405,271	3,128,005	3,533,276	26,577	-
Loans receivable, net (Note 7)	3,303,951	-	3,303,951	-	289,634
Power cost adjustment (Note 6)	-	18,807,944	18,807,944	-	-
Other post-employment benefit asset (Note 20)	2,511,494	-	2,511,494	-	-
Net pension asset (Note 17)	977,780	253,184	1,230,964	-	-
Due from primary government/component unit, long-term (Note 9)	1,141,750	-	1,141,750	-	6,682,667
Net investment in sales-type leases (Note 10)	-	-	-	-	7,523,771
Property held for sale	-	-	-	-	1,276,930
Capital assets:					
Non-depreciable (Note 11)	33,235,934	19,960,090	53,196,024	2,313,013	8,822,181
Depreciable, net (Note 11)	60,454,639	274,586,966	335,041,605	8,071,165	21,632,083
Total assets	194,994,759	407,126,065	602,120,824	23,629,365	50,125,153
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	374,824	-	374,824	-	-
LIABILITIES					
Accounts payable and escrow	5,734,141	12,413,817	18,147,958	494,599	683,278
Accrued payroll and related liabilities	968,413	-	968,413	3,139,859	-
Accrued interest payable	506,158	728,905	1,235,063	-	133,675
Due to primary government/component unit (Note 9)	6,751,359	-	6,751,359	-	54,487
Due to other governments (Note 5)	541,862	-	541,862	208,661	-
Refundable deposits	306,335	3,067,010	3,373,345	-	422,823
Long-term liabilities:					
Due to primary government/component unit, long-term (Note 9)	6,682,667	-	6,682,667	-	1,141,750
Due within one year (Note 12)	4,768,412	6,104,353	10,872,765	581,000	1,534,605
Due in more than one year (Notes 12 and 19)	39,667,188	58,515,331	98,182,519	6,173,090	24,682,189
Total liabilities	65,926,535	80,829,416	146,755,951	10,597,209	28,652,807
DEFERRED INFLOWS OF RESOURCES					
Unearned revenue (Note 14)	484,813	-	484,813	30,905	35,507
Deferred gain on refunding	-	104,704	104,704	-	-
Natural gas cost adjustment (Note 6)	-	454,164	454,164	-	-
Total deferred inflows of resources	484,813	558,868	1,043,681	30,905	35,507
NET POSITION					
Net investment in capital assets	63,746,102	241,435,018	305,181,120	10,384,178	11,971,837
Restricted for:					
Debt service	-	-	-	-	588,105
Grant and contributions	3,731,869	-	3,731,869	-	-
Community development loans	3,303,951	-	3,303,951	-	-
Cemetery perpetual care	2,734,092	-	2,734,092	-	-
Unrestricted	55,442,221	84,302,763	139,744,984	2,617,073	8,876,897
Total net position	\$ 128,958,235	\$ 325,737,781	\$ 454,696,016	\$ 13,001,251	\$ 21,436,839

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

CITY OF DANVILLE, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Danville Public Schools	Industrial Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 10,985,447	\$ 27,316	\$ 1,544,205	\$ 353,507	\$ (9,060,419)		\$ (9,060,419)		
Judicial administration	6,210,609	3,498,685	577,500	-	(2,134,424)		(2,134,424)		
Public safety	26,273,320	10,935	4,878,473	-	(21,383,912)		(21,383,912)		
Public works	10,114,068	-	215,043	17,978,938	8,079,913		8,079,913		
Health and welfare	11,250,069	-	8,205,887	-	(3,044,182)		(3,044,182)		
Parks, recreation, and cultural	5,247,916	419,975	10,369	-	(4,817,572)		(4,817,572)		
Community development	21,838,752	315	4,092,459	-	(17,745,978)		(17,745,978)		
Education	20,646,479	-	-	-	(20,646,479)		(20,646,479)		
Interest on long-term debt	1,552,148	-	-	-	(1,552,148)		(1,552,148)		
Total governmental activities	114,118,808	3,957,226	19,523,936	18,332,445	(72,305,201)		(72,305,201)		
Business-type activities:									
Wastewater	6,328,929	9,410,786	-	27,159		\$ 3,109,016	3,109,016		
Water	5,352,732	7,345,579	-	71,486		2,064,333	2,064,333		
Gas	22,819,175	26,497,854	-	71,486		3,750,165	3,750,165		
Electric	113,273,134	125,670,235	-	-		12,397,101	12,397,101		
Transportation	2,105,000	379,865	1,473,919	98,566		(152,650)	(152,650)		
Telecommunications	849,998	1,417,935	-	-		567,937	567,937		
Sanitation	3,771,298	4,006,715	-	-		235,417	235,417		
Cemetery operations	886,585	721,129	-	-		(165,456)	(165,456)		
Total business-type activities	155,386,851	175,450,098	1,473,919	268,697		21,805,863	21,805,863		
Total primary government	\$ 269,505,659	\$ 179,407,324	\$ 20,997,855	\$ 18,601,142	(72,305,201)	21,805,863	(50,499,338)		
Component units:									
Danville Public Schools	\$ 69,154,437	\$ 743,207	\$ 24,772,210	\$ -	-	-	-	\$ (43,639,020)	\$ -
Industrial Development Authority	6,598,537	1,236,730	5,432,400	-	-	-	-	-	70,593
Total component units	\$ 75,752,974	\$ 1,979,937	\$ 30,204,610	\$ -	-	-	-	(43,639,020)	70,593
General revenues:									
Real estate and personal property taxes					27,868,180	-	27,868,180	-	-
Other taxes:									
Sales and use					8,082,871	-	8,082,871	-	-
Business and other licenses					5,833,099	-	5,833,099	-	-
Utility					991,780	-	991,780	-	-
Hotel and meals					7,442,989	-	7,442,989	-	-
Recordation and bank stock					930,744	-	930,744	-	-
Auto license and recordation					1,120,071	-	1,120,071	-	-
Contributions from City					-	-	-	18,712,123	7,160,000
Noncategorical state and federal aid					6,038,488	-	6,038,488	23,264,700	-
Investment income					1,641,092	1,583,234	3,224,326	77,807	501,288
Gain on sale of assets					107,189	101,185	208,374	-	-
Miscellaneous					1,574,967	2,722,745	4,297,712	811,061	36,902
Transfers					14,548,860	(14,548,860)	-	-	-
Total general revenues and transfers					76,180,330	(10,141,696)	66,038,634	42,865,691	7,698,190
Change in net position					3,875,129	11,664,167	15,539,296	(773,329)	7,768,783
Net position – beginning, as restated (Note 16)					125,083,106	314,073,614	439,156,720	13,774,580	13,668,056
Net position – ending					\$ 128,958,235	\$ 325,737,781	\$ 454,696,016	\$ 13,001,251	\$ 21,436,839

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

CITY OF DANVILLE, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2014**

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and investments	\$ 43,354,039	\$ 6,864	\$ 7,321,982	\$ 6,602,632	\$ 57,285,517
Cash and investments – restricted	-	-	4,281,119	-	4,281,119
Cash and investments – held by fiscal agents	35,000	-	-	-	35,000
Receivables, net					
Taxes	11,982,120	-	-	-	11,982,120
Accounts	2,360,037	-	-	128,397	2,488,434
Other	1,800,646	-	-	-	1,800,646
Due from other funds	180,964	-	-	-	180,964
Due from component unit	1,196,237	-	-	-	1,196,237
Due from other governments	2,800,067	151,786	6,073,560	623,334	9,648,747
Prepays and other	211,114	-	-	-	211,114
Inventories	270,946	-	-	-	270,946
Loans receivable, net	-	3,303,951	-	-	3,303,951
Total assets	<u>\$ 64,191,170</u>	<u>\$ 3,462,601</u>	<u>\$ 17,676,661</u>	<u>\$ 7,354,363</u>	<u>\$ 92,684,795</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 947,258	\$ 43,935	\$ 3,509,857	\$ 1,058,176	\$ 5,559,226
Accrued payroll and related liabilities	968,413	-	-	-	968,413
Loan escrow	-	43,894	-	-	43,894
Due to other funds	-	107,090	-	-	107,090
Due to component unit	6,274,026	-	-	-	6,274,026
Due to other governments	287,049	-	254,813	-	541,862
Refundable deposits	306,335	-	-	-	306,335
Total liabilities	<u>8,783,081</u>	<u>194,919</u>	<u>3,764,670</u>	<u>1,058,176</u>	<u>13,800,846</u>
Deferred inflows of resources:					
Unavailable/unearned revenue	<u>12,536,329</u>	<u>3,260,057</u>	<u>-</u>	<u>14,200</u>	<u>15,810,586</u>
Fund balances:					
Nonspendable	482,060	-	-	2,734,092	3,216,152
Restricted	185,376	-	4,281,119	3,547,895	8,014,390
Committed	5,358,972	7,625	4,484,513	-	9,851,110
Assigned	1,766,572	-	5,146,359	-	6,912,931
Unassigned	35,078,780	-	-	-	35,078,780
Total fund balances	<u>42,871,760</u>	<u>7,625</u>	<u>13,911,991</u>	<u>6,281,987</u>	<u>63,073,363</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 64,191,170</u>	<u>\$ 3,462,601</u>	<u>\$ 17,676,661</u>	<u>\$ 7,354,363</u>	<u>\$ 92,684,795</u>

CITY OF DANVILLE, VIRGINIA

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

Total fund balances – governmental funds \$ 63,073,363

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital assets at historical cost	\$ 238,388,316	
Accumulated depreciation	(144,697,743)	
		93,690,573

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

Net pension asset	\$ 977,780	
Other post-employment benefit asset	2,511,494	
Deferred loss on refunding	374,824	
		3,864,098

Certain other assets are also not available to pay for current period expenditures and, therefore, are reported as deferred inflows in the funds.

Deferred taxes	\$ 8,530,814	
Amounts due from the IDA	1,196,237	
Community development loans receivable	3,260,057	
Other receivables	2,338,665	
		15,325,773

The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position.

Internal service fund net position – Exhibit 8	\$ 7,413,387	
Less: internal service fund capital assets	(2,334,609)	
Less: internal service fund net pension asset	(22,557)	
Add: internal service fund accrued interest	305	
Add: internal service fund long-term liabilities	49,660	
		5,106,186

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

Long-term liabilities	\$ (44,435,600)	
Due to component unit – long-term	(7,160,000)	
Accrued interest	(506,158)	
		(52,101,758)

Total net position – governmental activities		\$ 128,958,235
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CITY OF DANVILLE, VIRGINIA

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

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES					
Property taxes	\$ 27,754,056	\$ -	\$ -	\$ -	\$ 27,754,056
Other local taxes	24,396,546	-	-	-	24,396,546
Fines and forfeitures	520,154	-	-	-	520,154
Permits, privilege fees, and regulatory licenses	218,083	-	-	-	218,083
Revenue from use of money and property	1,446,701	210	4,474	102,397	1,553,782
Charges for services	3,411,896	-	-	-	3,411,896
Miscellaneous	90,870	345,779	6,498	28,539	471,686
Contributions	-	-	102,500	353,508	456,008
Recovered costs	6,290,842	-	22,968	-	6,313,810
Intergovernmental	18,139,469	1,012,256	8,110,593	16,176,543	43,438,861
Total revenues	<u>82,268,617</u>	<u>1,358,245</u>	<u>8,247,033</u>	<u>16,660,987</u>	<u>108,534,882</u>
EXPENDITURES					
Current:					
General government	7,509,999	-	1,359,926	338,420	9,208,345
Judicial administration	6,023,740	-	-	12,582	6,036,322
Public safety	26,524,804	-	6,620,187	365,155	33,510,146
Public works	3,814,161	-	10,461,113	10,600,610	24,875,884
Health and welfare	8,158,761	-	-	3,367,720	11,526,481
Education	18,724,575	-	-	-	18,724,575
Parks, recreation, and cultural	4,608,958	-	143,334	595,017	5,347,309
Community development	1,498,646	1,376,243	1,650,716	6,087,191	10,612,796
Nondepartmental	5,419,946	-	-	-	5,419,946
Debt service:					
Principal	1,226,188	-	-	-	1,226,188
Interest	1,129,392	-	-	-	1,129,392
Total expenditures	<u>84,639,170</u>	<u>1,376,243</u>	<u>20,235,276</u>	<u>21,366,695</u>	<u>127,617,384</u>
Deficiency of revenues under expenditures	<u>(2,370,553)</u>	<u>(17,998)</u>	<u>(11,988,243)</u>	<u>(4,705,708)</u>	<u>(19,082,502)</u>
OTHER FINANCING SOURCES (USES):					
Bond proceeds	4,085,000	-	-	-	4,085,000
Premium on bonds	38,367	-	-	-	38,367
Transfers in	14,931,345	-	8,478,340	3,134,002	26,543,687
Transfers out	(11,580,680)	-	-	(414,147)	(11,994,827)
Total other financing sources (uses)	<u>7,474,032</u>	<u>-</u>	<u>8,478,340</u>	<u>2,719,855</u>	<u>18,672,227</u>
Net change in fund balances	5,103,479	(17,998)	(3,509,903)	(1,985,853)	(410,275)
FUND BALANCES – Beginning (as restated, Note 16)	<u>37,768,281</u>	<u>25,623</u>	<u>17,421,894</u>	<u>8,267,840</u>	<u>63,483,638</u>
FUND BALANCES – Ending	<u>\$ 42,871,760</u>	<u>\$ 7,625</u>	<u>\$ 13,911,991</u>	<u>\$ 6,281,987</u>	<u>\$ 63,073,363</u>

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

CITY OF DANVILLE, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Net change in fund balances – total governmental funds \$ (410,275)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets 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. The components of capital outlay, depreciation expense, and other various transactions involving capital assets are as follows:

Outlays for capital assets	\$ 22,187,029	
Book value of capital assets disposed	(76,361)	
Depreciation	<u>(6,263,044)</u>	
		15,847,624

Transactions involving debt principal and cash flows relating to other long-term items are expenditures in the governmental funds, however these transactions increase or decrease long-term items in the Statement of Net Position.

Principal payments on long-term debt	\$ 1,226,188	
Bond proceeds	(4,085,000)	
Premium on bonds	(38,367)	
Change in other bond related items	(332,903)	
Change in reimbursement agreements	87,004	
Change in net pension asset	1,882,219	
Change in other post-employment benefit asset	1,040,148	
Change in accrued interest	<u>(173,776)</u>	
		(394,487)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Contribution to IDA	\$ (7,160,000)	
Tobacco Commission obligation payable	(3,200,000)	
Incentive grant provision	(1,000,000)	
Change in workers' compensation	(208,860)	
Change in compensated absences	<u>13,525</u>	
		(11,555,335)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

83,623

The net income or loss of internal service funds is reported with governmental activities.

303,979

Total change in net position – governmental activities

\$ 3,875,129

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts			Variances with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 27,433,600	\$ 27,433,600	\$ 27,754,056	\$ 320,456
Other local taxes	23,265,000	23,279,080	24,396,546	1,117,466
Fines and forfeitures	497,950	521,821	520,154	(1,667)
Permits, privilege fees, and regulatory licenses	218,810	218,810	218,083	(727)
Revenue from use of money and property	856,900	895,210	1,446,701	551,491
Charges for services	3,212,370	3,373,573	3,411,896	38,323
Miscellaneous	123,000	140,752	90,870	(49,882)
Recovered costs	5,638,450	6,104,348	6,290,842	186,494
Intergovernmental	18,097,090	18,261,077	18,139,469	(121,608)
Total revenues	79,343,170	80,228,271	82,268,617	2,040,346
EXPENDITURES				
Current:				
General government	7,463,210	7,977,853	7,509,999	467,854
Judicial administration	6,091,740	6,223,228	6,023,740	199,488
Public safety	26,004,950	27,680,901	26,524,804	1,156,097
Public works	4,143,180	4,351,053	3,814,161	536,892
Health and welfare	8,623,340	8,660,433	8,158,761	501,672
Education	17,412,310	19,910,699	18,724,575	1,186,124
Parks, recreation, and cultural	4,951,860	5,334,086	4,608,958	725,128
Community development	1,582,490	1,652,169	1,498,646	153,523
Nondepartmental	8,959,850	7,764,948	5,419,946	2,345,002
Debt service:				
Principal	1,257,160	1,159,449	1,226,188	(66,739)
Interest	1,556,610	1,556,610	1,129,392	427,218
Total expenditures	88,046,700	92,271,429	84,639,170	7,632,259
Excess (deficiency) of revenues over expenditures	(8,703,530)	(12,043,158)	(2,370,553)	9,672,605
OTHER FINANCING SOURCES (USES):				
Bond proceeds	-	4,078,952	4,085,000	6,048
Premium on bonds	-	-	38,367	38,367
Transfers in	14,830,000	14,830,000	14,931,345	101,345
Transfers out	(8,186,470)	(11,580,680)	(11,580,680)	-
Total other financing sources (uses)	6,643,530	7,328,272	7,474,032	145,760
Net change in fund balance	\$ (2,060,000)	\$ (4,714,886)	\$ 5,103,479	\$ 9,818,365

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2014**

	Enterprise Funds					Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total
ASSETS						
Current assets						
Cash and investments	\$ 4,326,917	\$ 6,260,047	\$ 12,328,617	\$ 44,338,130	\$ 2,431,219	\$ 69,684,930
Cash and investments – held by fiscal agent	-	-	-	-	-	60,000
Receivables, net	843,154	717,462	2,248,908	12,923,022	154,755	16,887,301
Due from other funds	-	-	138,551	180,762	-	319,313
Due from other governments	-	-	-	-	376,296	376,296
Inventories	-	434,811	760,098	1,691,514	241,582	3,128,005
Total current assets	5,170,071	7,412,320	15,476,174	59,133,428	3,203,852	90,395,845
Noncurrent assets						
Cash and investments – restricted	-	-	-	3,441,349	-	3,441,349
Due from other funds	-	-	610,163	800,200	-	1,410,363
Power cost adjustment	-	-	-	18,807,944	-	18,807,944
Net pension asset	-	49,009	19,722	132,150	77,100	277,981
Capital assets:						
Non-depreciable	1,245,833	157,909	14,944	18,032,172	509,232	19,960,090
Depreciable, net	53,016,396	34,972,247	38,221,791	138,899,212	9,477,320	274,586,966
Total noncurrent assets	54,262,229	35,179,165	38,866,620	180,113,027	10,063,652	318,484,693
Total assets	59,432,300	42,591,485	54,342,794	239,246,455	13,267,504	408,880,538
LIABILITIES						
Current liabilities						
Accounts payable	287,393	286,696	1,503,523	10,157,107	179,098	12,413,817
Accrued interest	126,085	105,490	37,249	459,886	195	728,905
Due to other funds	319,313	-	-	-	-	319,313
Refundable deposits	-	-	-	3,047,010	20,000	3,067,010
Long-term liabilities – due within one year	1,056,787	873,303	228,688	3,746,405	199,170	6,104,353
Total current liabilities	1,789,578	1,265,489	1,769,460	17,410,408	398,463	22,633,398

(Continued)

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

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2014**

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
Noncurrent liabilities							
Long-term liabilities – due in more than one year	\$ 7,103,769	\$ 6,203,979	\$ 2,061,815	\$ 41,679,709	\$ 1,466,059	\$ 58,515,331	\$ 18,813
Due to other funds	1,410,363	-	-	-	-	1,410,363	-
Net pension liability	24,797	-	-	-	-	24,797	-
Total noncurrent liabilities	8,538,929	6,203,979	2,061,815	41,679,709	1,466,059	59,950,491	18,813
Total liabilities	10,328,507	7,469,468	3,831,275	59,090,117	1,864,522	82,583,889	254,860
DEFERRED INFLOWS OF RESOURCES							
Deferred gain on refunding	-	-	-	104,704	-	104,704	-
Natural gas cost adjustment	-	-	454,164	-	-	454,164	-
Total deferred inflows of resources	-	-	454,164	104,704	-	558,868	-
NET POSITION							
Net investment in capital assets	46,232,893	28,203,647	36,002,787	121,021,634	9,974,057	241,435,018	2,314,210
Unrestricted, designated for capital assets	3,284,853	592,636	3,237,423	25,888,109	-	33,003,021	-
Unrestricted, undesignated	(413,953)	6,325,734	10,817,145	33,141,891	1,428,925	51,299,742	5,099,177
	\$ 49,103,793	\$ 35,122,017	\$ 50,057,355	\$ 180,051,634	\$ 11,402,982	\$ 325,737,781	\$ 7,413,387

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Enterprise Funds				Nonmajor Enterprise Funds	Total	Internal Service Funds
	Wastewater	Water	Gas	Electric			
OPERATING REVENUES							
Charges for services	\$ 9,410,786	\$ 7,345,579	\$ 26,497,854	\$ 125,670,235	\$ 6,525,644	\$ 175,450,098	\$ 6,331,769
OPERATING EXPENSES							
Purchased power and gas	-	-	17,768,118	92,406,606	-	110,174,724	-
Production	-	-	-	849,999	-	849,999	-
Transmission	2,629,023	1,340,701	-	1,435,181	-	5,404,905	-
Engineering	-	284,667	490,286	751,315	-	1,526,268	-
Distribution	825,683	536,213	775,597	3,137,194	-	5,274,687	-
Services	104,732	30,733	24,025	-	6,928,864	7,088,354	-
Depreciation	1,812,721	1,696,397	1,372,943	7,353,518	668,780	12,904,359	629,141
Meters/regulators	-	105,496	134,308	387,057	-	626,861	-
General and administrative	629,834	1,005,908	2,210,592	6,359,812	-	10,206,146	5,643,255
Total operating expenses	6,001,993	5,000,115	22,775,869	112,680,682	7,597,644	154,056,303	6,272,396
Operating income (loss)	3,408,793	2,345,464	3,721,985	12,989,553	(1,072,000)	21,393,795	59,373
NONOPERATING REVENUES (EXPENSES)							
Sales income	-	-	-	-	120,300	120,300	-
Jobbing income, net	55,292	49,931	37,984	187,154	-	330,361	-
Recovered costs	-	53,795	729,801	859,419	97,792	1,740,807	58,100
Gain (loss) on sale of capital assets	5,680	61,189	16,363	12,141	(8,463)	86,910	100,691
Other income	-	136	1,607	495,855	33,679	531,277	-
Federal and state grants	-	-	-	-	1,242,559	1,242,559	-
In-kind contributions	-	-	-	-	231,360	231,360	-
Net increase in the fair value of investments	42,784	62,800	108,860	510,188	47,781	772,413	44,915
Interest income	40,659	59,277	138,030	527,755	45,100	810,821	42,395
Interest expense	(326,936)	(352,617)	(43,306)	(592,452)	(962)	(1,316,273)	(1,495)
Total nonoperating revenues (expenses)	(182,521)	(65,489)	989,339	2,000,060	1,809,146	4,550,535	244,606
Income before contributions and transfers	3,226,272	2,279,975	4,711,324	14,989,613	737,146	25,944,330	303,979
Capital contributions	27,159	71,486	71,486	-	98,566	268,697	-
Transfers in	-	-	-	-	281,140	281,140	-
Transfers out	(685,760)	(937,300)	(3,008,330)	(9,896,610)	(302,000)	(14,830,000)	-
Total	(658,601)	(865,814)	(2,936,844)	(9,896,610)	77,706	(14,280,163)	-
Change in net position	2,567,671	1,414,161	1,774,480	5,093,003	814,852	11,664,167	303,979
Total net position – beginning – as restated (Note 16)	46,536,122	33,707,856	48,282,875	174,958,631	10,588,130	314,073,614	7,109,408
Total net position – ending	\$ 49,103,793	\$ 35,122,017	\$ 50,057,355	\$ 180,051,634	\$ 11,402,982	\$ 325,737,781	\$ 7,413,387

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

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Enterprise Funds		
	Wastewater	Water	Gas
OPERATING ACTIVITIES			
Received from customers	\$ 9,539,461	\$ 7,003,772	\$ 27,326,023
Payments to suppliers for goods and services	(3,571,665)	(1,896,518)	(19,450,128)
Payments to employees for services	(474,270)	(1,558,705)	(1,487,196)
Payments to internal service funds for goods and services	(201,068)	(4,339)	(1,105)
Net cash provided by operating activities	<u>5,292,458</u>	<u>3,544,210</u>	<u>6,387,594</u>
NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	-	-
Transfers to other funds	(685,760)	(937,300)	(3,008,330)
Interfund borrowing	(307,031)	-	133,222
Operating grants received	55,016	-	-
Net cash provided by (used in) noncapital financing activities	<u>(937,775)</u>	<u>(937,300)</u>	<u>(2,875,108)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(2,031,973)	(2,075,311)	(2,595,996)
Principal payments on long-term debt	(1,301,003)	(749,945)	(176,421)
Proceeds from the issuance of long-term debt	-	-	-
Interest payments on long-term debt	(557,276)	(430,522)	(120,999)
Proceeds from sale of capital assets	5,680	63,260	16,577
Contributed capital	27,159	71,486	71,486
Net cash used in capital and related financing activities	<u>(3,857,413)</u>	<u>(3,121,032)</u>	<u>(2,805,353)</u>
INVESTING ACTIVITIES			
Interest on investments	40,659	59,277	138,030
Net activity in investment securities	121,550	152,098	123,833
Net cash provided by investing activities	<u>162,209</u>	<u>211,375</u>	<u>261,863</u>
Net increase (decrease) in cash and investments	659,479	(302,747)	968,996
CASH AND CASH EQUIVALENTS			
Beginning	<u>3,667,438</u>	<u>6,562,794</u>	<u>11,359,621</u>
Ending	<u>\$ 4,326,917</u>	<u>\$ 6,260,047</u>	<u>\$ 12,328,617</u>
RECONCILIATION TO EXHIBIT 8			
Cash and investments	\$ 4,326,917	\$ 6,260,047	\$ 12,328,617
Cash and investments – held by fiscal agent	-	-	-
Cash and investments – restricted	-	-	-
	<u>\$ 4,326,917</u>	<u>\$ 6,260,047</u>	<u>\$ 12,328,617</u>

(Continued)

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

EXHIBIT 10

Enterprise Funds			Internal Service Funds
Electric	Nonmajor Enterprise Funds	Total	
\$ 109,226,465	\$ 6,797,525	\$ 159,893,246	\$ 6,374,897
(91,832,675)	(3,665,102)	(120,416,088)	(4,804,903)
(5,329,530)	(2,465,276)	(11,314,977)	(781,621)
(11,249)	(631,187)	(848,948)	(55,544)
12,053,011	35,960	27,313,233	732,829
-	281,140	281,140	-
(9,896,610)	(302,000)	(14,830,000)	-
173,809	(406,415)	(406,415)	14,872
495,855	1,734,116	2,284,987	-
(9,226,946)	1,306,841	(12,670,288)	14,872
(10,585,150)	(1,165,518)	(18,453,948)	(680,082)
(2,028,244)	(1,641)	(4,257,254)	(1,586)
2,275,000	-	2,275,000	-
(1,525,875)	(1,012)	(2,635,684)	(1,574)
41,932	11,150	138,599	148,696
-	98,566	268,697	-
(11,822,337)	(1,058,455)	(22,664,590)	(534,546)
527,755	45,100	810,821	42,395
519,707	48,055	965,243	45,342
1,047,462	93,155	1,776,064	87,737
(7,948,810)	377,501	(6,245,581)	300,892
55,728,289	2,053,718	79,371,860	4,859,820
\$ 47,779,479	\$ 2,431,219	\$ 73,126,279	\$ 5,160,712
\$ 44,338,130	\$ 2,431,219	\$ 69,684,930	\$ 5,100,712
-	-	-	60,000
3,441,349	-	3,441,349	-
\$ 47,779,479	\$ 2,431,219	\$ 73,126,279	\$ 5,160,712

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	<u>Enterprise Funds</u>		
	<u>Wastewater</u>	<u>Water</u>	<u>Gas</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,408,793	\$ 2,345,464	\$ 3,721,985
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation charged to operations	1,812,721	1,696,397	1,372,943
Power/gas cost adjustment	-	-	443,664
In-kind contributions	-	-	-
Nonoperating revenue (expense), net	-	103,858	769,396
Postclosure landfill expense	-	-	-
AMP obligation	-	-	-
Change in noncash employee benefits charged to operations	(20,585)	(55,009)	(52,857)
(Increase) decrease in receivables	128,675	(445,664)	(384,890)
Increase (decrease) in reserve for uncollectibles	58,037	36,252	170,868
(Increase) decrease in inventories	-	(44,541)	431,922
Increase (decrease) in accounts payable	(95,183)	(92,547)	(85,437)
Increase (decrease) in refundable deposits	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 5,292,458</u>	<u>\$ 3,544,210</u>	<u>\$ 6,387,594</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Non-cash transactions			
Capitalized interest	<u>\$ 208,074</u>	<u>\$ 60,395</u>	<u>\$ 72,748</u>

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

EXHIBIT 10

Enterprise Funds			Internal Service Funds
Electric	Nonmajor Enterprise Funds	Total	
\$ 12,989,553	\$ (1,072,000)	\$ 21,393,795	\$ 59,373
7,353,518	668,780	12,904,359	629,141
(15,901,885)	-	(15,458,221)	-
-	231,360	231,360	-
1,051,176	251,771	2,176,201	58,100
-	(90,000)	(90,000)	-
5,580,664	-	5,580,664	-
(158,934)	(113,115)	(400,500)	(31,254)
(1,580,456)	19,810	(2,262,525)	(14,973)
516,442	-	781,599	-
96,269	78,066	561,716	(7,722)
2,114,667	61,288	1,902,788	40,164
(8,003)	-	(8,003)	-
<u>\$ 12,053,011</u>	<u>\$ 35,960</u>	<u>\$ 27,313,233</u>	<u>\$ 732,829</u>
<u>\$ 1,014,927</u>	<u>\$ -</u>	<u>\$ 1,356,144</u>	<u>\$ -</u>

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2014**

	Pension and Other Employee Benefit Trust Funds		Agency
	Employees' Retirement Plan	Other Post- Employment Benefits	Veterans' Memorial Fund
ASSETS			
Cash	\$ 24,151	\$ 124,945	\$ 1,073
Accrued interest and dividends	47,038	-	-
Investments – at fair value:			
Common stocks	158,280,893	2,390,149	-
Bonds and bond funds	35,301,332	-	-
Foreign stocks	34,087,627	-	-
Real estate – timberland	9,303,880	-	-
Temporary cash investments	2,895,839	-	-
Private equity	3,079,398	-	-
Total investments	242,948,969	2,390,149	-
Total assets	243,020,158	2,515,094	1,073
LIABILITIES			
Accounts payable	283,377	3,600	-
Amounts held for others	-	-	1,073
Total liabilities	283,377	3,600	1,073
NET POSITION – RESTRICTED FOR PENSION AND OTHER POST- EMPLOYMENT BENEFITS			
Held in trust	\$ 242,736,781	\$ 2,511,494	\$ -

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
Year Ended June 30, 2014**

	Employees' Retirement Plan	Other Post- Employment Benefits
ADDITIONS		
Contributions		
Employer contributions	\$ 5,849,278	\$ 80,000
Investment earnings		
Net increase in fair value of investments	37,490,347	423,801
Interest	73,071	123
Dividends	2,096,393	43,271
Total investment income	39,659,811	467,195
Less – investment expenses	(903,563)	-
Net investment income	38,756,248	467,195
Total additions	44,605,526	547,195
DEDUCTIONS		
Benefits paid to participants	10,345,166	-
Refunds of contributions	34,958	-
Administrative expenses	109,411	30,090
Total deductions	10,489,535	30,090
Change in net position	34,115,991	517,105
Net position held in trust for pension and other post-employment benefits – beginning	208,620,790	1,994,389
Net position held in trust for pension and other post-employment benefits – ending	\$ 242,736,781	\$ 2,511,494

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Financial 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 43,000. The accompanying financial statements present the government and its component units, which are legally separate entities for which the City is financially accountable.

Primary Government:

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.

Discretely Presented Component Units: Danville Public Schools (DPS) is organized as an independently governed school system for operating the public schools of the City. DPS is financially dependent upon appropriations by the City Council. In addition, major capital improvements are financed with long-term debt issued by the City.

The Industrial Development Authority of Danville (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. 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.

Complete financial statements for each of the component units may be obtained at the entities' offices:

Danville Public Schools
P.O. Box 9600
Danville, Virginia 24543

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

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 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. For the year ended June 30, 2014, the City provided \$282,650 in funding for DPCS.

In July 1995, City Council approved an intergovernmental agreement with Pittsylvania County, Virginia, establishing the Danville-Pittsylvania Community Policy and Management Board (the "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 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. For the year ended June 30, 2014, the City provided no funding for the 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 County and is a political subdivision of the Commonwealth of Virginia. 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. For the year ended June 30, 2014 the City provided \$1,134,221 in funding to the Facility Authority. The City has a moral obligation to continue to provide funding to the Facility Authority both for debt service as well as ongoing construction projects.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

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

Governmental Fund Types:

The City reports the following major governmental funds:

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

Community Development Fund: The Community Development Fund is a special revenue fund that accounts for all financial resources used for the growth of the City through state, federal, and local grants and donations. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Fund: The Capital Projects Fund accounts for financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Governmental Fund Types: (Continued)

The City reports the following nonmajor governmental funds:

Special Revenue Funds: These funds consist of the Special Revenue (used for miscellaneous restricted resources), Virginia Department of Transportation and Economic Development Funds.

Permanent Fund: A permanent fund is used to report resources that are legally restricted to the extent that only the earnings, and not principal, may be used for purposes that support the government's program. The Cemetery Maintenance Fund is considered a permanent nonmajor fund. Earnings are used for maintenance of the City's cemetery, which is accounted for in the nonmajor cemetery enterprise fund.

Proprietary Fund Types:

Enterprise Funds: Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City's major enterprise funds consist of the Wastewater, Water, Gas, and Electric funds.

The City's nonmajor enterprise funds consist of the Transportation, Sanitation, Telecommunication, and Cemetery funds.

Internal Service Funds: Internal Service Funds account for the financing of goods or services provided by one department or other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Funds are included in governmental activities for government-wide reporting purposes. The excess revenue or expenses for the funds are allocated to the appropriate functional activity. Internal service funds consist of the Motorized Equipment, Central Services and Insurance funds.

Fiduciary Fund Types:

Pension and Other Employee Benefit Trust Funds: The Pension and Other Employee Benefit Trust Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The two such funds reported by the City are the Employees' Retirement Plan and Other Post-Employment Benefits (OPEB).

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Agency Fund: The Agency Fund accounts for assets held by the City as an agent or custodian for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. This fund consists of the Veterans' Memorial Fund.

Interfund Activity: During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements, such that only net amounts due between governmental and business-type activities are shown as internal balances.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in and out. Certain eliminations are made in the preparation of the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both "measurable" and "available." Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for most non-grant revenues. Reimbursement basis grants are recognized as revenue when all eligibility requirements are met and are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales, communication, and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary fund types utilize the accrual basis of accounting. Revenues are recognized when earned, including unbilled utility receivables, and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds, including the Pension and Other Employee Benefits Trust funds, utilize the accrual basis of accounting. Agency Fund are unlike all other fund types, reporting only assets and liabilities; therefore, Agency Fund do not have a measurement focus. The Agency Fund utilizes the accrual basis of accounting to recognize receivables and payables.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

- **Cash and cash equivalents**

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents.

- **Investments**

Investments are stated at fair value. The reported fair value of certain investments held for pension and other post-employment benefits is based on estimates provided by fund managers.

- **Receivables**

Receivables are presented net of an allowance for doubtful accounts, which is calculated using historical collection data and specific account analysis. Demolition receivables consist of costs incurred to clean up certain properties; such amounts are billed to property owners and secured by a lien on the property. The City has included a 50% reserve for such amounts in the allowance for doubtful accounts. Incentive grant funds recoverable from recipients reflect amounts advanced under incentive grants where the recipient has failed to meet the grant requirements and the City has become liable to the Tobacco Commission for the funds. The City has recorded a reserve of 100% of these accounts.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Inventories**

Primary Government:

Inventories in the General Fund consist of supplies, valued using the first-in, first-out basis, and are reported using the consumption method, in which an expenditure is reported when the supplies are removed from inventory and used. Inventories in the Enterprise Funds consist primarily of parts held for repairs or construction, and are valued using the average cost method.

Component Units:

Inventories for DPS consist of various consumable supplies and food. Food commodities received from the United States Department of Agriculture (USDA) are carried at the value assigned by USDA.

- **Loans Receivable**

The City provides several types of housing loans to low income citizens within the City through awards from the U.S. Department of Housing and Urban Development (HUD). Substantially all of the loans, except for those below \$3,000 in amount, are secured by a first or second deed of trust on the related real estate. These loans consist of the following:

Deferred loans – no monthly principal payments are due. The full amount of the loan becomes due if the house is no longer occupied as primary residence by the designated owner. No interest is charged on these loans.

Low interest loans – these loans are generally amortized over ten years if under \$5,000 or over twenty years if over \$5,000. The loans bear interest at 4.00% to 6.00% and the maximum loan amount is \$40,000.

Forgivable loans – no interest is charged and 20% of the principal balance is forgiven at each anniversary date of the loan. The maximum forgivable loan amount is \$30,000 for houses under 1,400 square feet and \$40,000 for houses over 1,400 square feet.

Revitalization loans – As part of blight removal and revitalization efforts the City may rehabilitate a property through repair, demolition, or new construction, and then deed the property to the Danville Redevelopment Housing Authority (DRHA). The property must then be sold to qualified low income buyers, often through rent-to-own arrangements, and proceeds are returned to the City for similar reinvestments.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Loans Receivable (Continued)**

Other homeowner loans – these consist of a variety of loans similar to those above and may be used for demolition, rehabilitation, or emergency repairs. Interest rates and other terms vary.

- **Property Held For Sale**

Property held for sale by the IDA 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.

- **Capital Assets**

Capital outlays are recorded as capital assets to the extent the City's capitalization threshold is met. Infrastructure has been capitalized retroactively to 1980. The capitalization threshold for purchased or constructed capital assets is \$5,000, except that the infrastructure 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.

Property held for sale is recorded at the lower of cost or market. Property held for lease is stated at cost less accumulated depreciation.

The City follows the policy of capitalizing, during the period of construction, the net interest costs on funds borrowed to finance the construction of enterprise funds' capital assets. In the current year the enterprise funds incurred interest costs of \$2,672,417 of which \$1,356,144 was capitalized.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Capital Assets (Continued)**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>City</u>	
Buildings	40 years
Furniture and other equipment	3-20 years
Infrastructure	50 years
<u>DPS</u>	
Buildings	40 years
Furniture and other equipment	5-10 years
<u>IDA</u>	
Buildings held for lease	40 years
Land improvements	15-40 years
Equipment held for lease	5-15 years

- **Deferred Outflows/Inflows of Resources**

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has a loss on a bond refunding that qualifies for reporting in this category.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has four types of items. One item occurs only under the modified accrual basis of accounting; this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the deferred gain on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The third is the natural gas cost adjustment discussed in Note 6. The fourth is unearned revenue, which results from collections of property taxes levied to fund future years. This results when amounts have been collected from the customers and costs have not yet been incurred by the City.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Compensated Absences and Other Employee Benefits**

Expenditures for self-insured group hospitalization and workers' compensation claims in governmental funds are recorded when the liability has been incurred. Compensated absences are reported in governmental funds only when they are due. 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 statements.

- a. Vacation Pay**

The City's policy regarding vacation pay allows for the unlimited accumulation of unused benefits. Unused vacation is paid upon termination or retirement of employment up to the City's limits, which vary depending on employee classification. The current portions are recorded as liabilities in the governmental fund financial statements when they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits as earned. All vacation pay is accrued when incurred in the government-wide financial statements. Each operating fund is responsible for covering its share of vacation pay liability. The DPS allows for the accumulation of vacation pay that may be used by employees upon retirement, but is not paid at termination.

- b. Sick Pay**

At the City accumulated sick leave benefits earned but unpaid at the end of the fiscal year are recorded as a liability at the balance sheet date to the extent they are not subject to payout limitations. Accumulated sick leave is paid to employees upon retirement 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 for purposes of calculation of pension benefits. Sick leave is not paid to employees upon termination.

The DPS records accrued sick leave at a rate of \$15 a day. Sick leave is only paid out upon retirement or death, therefore, the DPS only accrues sick leave for employees 50 years of age or older.

- c. Group Health Insurance**

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 health insurance with the exception of \$125,000 in stop loss coverage per individual occurrence. There is no aggregate stop loss coverage.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Compensated Absences and Other Employee Benefits (Continued)**

- c. **Group Health Insurance (Continued)**

The DPS administer a self-insurance plan for employee medical and pharmacy insurance, subject to the annual stop loss coverage in the amount of \$100,000 per individual occurrence, and approximately \$5,194,000 in aggregate.

- d. **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. Liabilities related to reported claims are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

The DPS is a member of the School Systems of Virginia Group Self-Insurance Association (the "Association"), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since DPS entered the pool in 1982. DPS has elected to have the Association hold the Board's dividends in escrow as a reserve against possible future claims. The escrow is included on the Statement of Net Position as a prepaid expense.

- **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 an other 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 funds and on the government-wide financial statements 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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

- **Net Position/Fund Equity**

Net position in government-wide and proprietary financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position reflects constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statutes.

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

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – includes amounts associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

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

Committed – includes amounts that can be used only for specific purposes determined by the City's highest level of decision-making authority, which is the Danville City Council. Formal Council action includes the annual adoption of the City's Budget Ordinance/Resolution, Council Resolutions appropriating funds and/or resources, and Budget Amendments.

Assigned – includes amounts intended to be used by the City for specific purposes but which do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assignments are made through the budget process and periodic financial reviews with the joint approval of the City Manager and the Director of Finance.

Unassigned – consists the residual amounts in the City's General Fund.

The City has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Director of Finance will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-City funds, and City funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed by committed fund balance, then assigned fund balance and lastly unassigned fund balance. The Director of Finance has the authority to deviate from this policy if it is considered in the best interest of the City.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Continued)

• **Net Position/Fund Equity (Continued)**

The City has a policy to maintain a minimum unassigned fund balance within its General Fund of not less than 20% of operating revenues. If fiscal year end results show an increase to the unassigned fund balance, half of this increase will be as added to the City's budget stabilization balance. In 2012 City Council created a budget stabilization policy which is intended to sustain future service levels if General Fund revenues decline by more than 1.00%. Use of the funds require action by City Council, and draws from the fund are to be accompanied by cost-saving measures. The fund may not exceed 5.00% of the previous year's General Fund revenues.

• **Regulatory Assets and Deferred Inflows**

The City's Electric and Gas Funds apply regulatory accounting principles to certain power and gas costs, which result in regulatory assets or deferred inflows. City statutes provide that the City Utilities, over time, will adjust customers' electric and natural gas bills, for changes between expected and actual costs of purchased gas and power.

E. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenue, expenditures, and expenses. Actual results could differ from these estimates.

F. Budgetary Information

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 legal level of budgetary control is effective at the fund level. 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. 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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

F. Budgetary Information (Continued)

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.

Note 2. Deposits and Investments

Deposits

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

Investments

Investment Policy:

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 State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the City’s position in the pools is the same as the value of the pool shares.

The City’s investments are subject to credit risk, concentration of credit risk, interest rate risk, and custodial risk as described below. The City’s investments are not subject to foreign currency risk.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” or “P-1” (or its equivalent) from Moody’s Investors Service or Standard & Poor’s. Corporate notes shall be defined as rated by Standards & Poor’s no lower than “AA” or by Moody’s as no lower than “Aa.” Certificates of deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s or “P-1” by Moody’s Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers’ acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

Concentration of Credit Risk:

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. The Policy establishes limitations on the holdings on non-U.S. Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted for commercial paper and corporate notes are 35% of the portfolio.

Interest Rate Risk:

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of operating funds to investments with a stated maturity of no more than 5 years from the date of purchase.

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, all of the City’s investments are held in a custodian’s trust department in the City’s name.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

The City's investments consist of the following:

	Fair Value	Weighted Average Maturity (Years)
Municipal taxable bonds	\$ 23,438,225	3.03
Municipal non-taxable bonds	2,641,290	3.25
Corporate bonds	22,409,315	2.78
U.S. Government bonds	9,074,420	3.41
Certificates of deposit	31,607,229	2.00
LGIP	5,060,391	N/A
SNAP	7,722,468	N/A
	<u>\$ 101,953,338</u>	

City investments by credit rating consist of the following:

Fair Value	Rating (Moody's or S&P)
\$ 988,010	A
1,000,110	A-
1,127,170	A+
2,519,700	A2
7,659,273	AA
14,341,136	AA-
26,186,760	AA+
646,601	AA2
3,094,490	AAA
12,782,859	AAAm
<u>31,607,229</u>	Unrated
<u>\$ 101,953,338</u>	

DPS and the IDA investments are held solely with LGIP or SNAP which have been rated as AAAm by Standard & Poor's.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Cash and investments are reflected in the financial statements as follows:

		Component Units	
	Primary Government	Danville Public Schools	Industrial Development Authority
Deposits and investments:			
Demand deposits	\$ 37,829,247	\$ 352,036	\$ 1,624,722
Cash on hand	11,042	1,251	-
Bonds	57,563,250	-	-
Certificates of deposit	31,607,229	-	-
LGIP	5,060,391	826,703	-
SNAP	7,722,468	-	1,721,385
	<u>\$ 139,793,627</u>	<u>\$ 1,179,990</u>	<u>\$ 3,346,107</u>
Statement of net position:			
Cash and investments – unrestricted	\$ 132,071,159	\$ 1,179,990	\$ 613,795
Cash and investments – restricted	7,722,468	-	2,732,312
	<u>\$ 139,793,627</u>	<u>\$ 1,179,990</u>	<u>\$ 3,346,107</u>

Restricted cash consists of unspent bond proceeds, except for \$1,010,928 in the IDA restricted for debt service.

Employees' Retirement System Funds

All investments of the Employees' Retirement System (the "System") are to adhere to the Board of Trustees Statement of Policy and Guidelines adopted on August 13, 1997. The Investment Consultant and the Executive Secretary of the Board will review compliance with these policies and guidelines on a regular basis. They shall report to the Trustees on a timely basis any violations, exceptions, required reports, and/or requests made by the investment managers with respect to the stated policies.

In accordance with these guidelines, investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Each advisor has been apportioned funds assuming that they will be fully invested in his assigned sector with no more than 5-10% in cash equivalents. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the statement of plan net position. Certain of the System's investments are held with partnerships or other common funds where value is reported on a net asset value (NAV) per share, and is estimated by the fund manager.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Funds (Continued)

Based on an asset/liability simulation study completed in 1995 and subsequent decisions to increase the international component, the Trustees believe the following asset deployment (based upon market value) will be able to best achieve the long-term goals of the System in terms of compound total rate of return and assumed risk:

Domestic Equities	50%
Bonds	20%
International Equities	15%
Emerging Markets	10%
Real Estate	5%

This target mix has been chosen for the aggregate total portfolio. From time to time, the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations be kept to a minimum. From time to time, the Trustees may redeploy assets among the managers to balance the portfolio in accordance with the above target.

Interest Rate Risk:

The System had the following investments and maturities subject to interest rate risk as of June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>More than 10</u>
Collateralized mortgage obligations (CMOs)	\$ 175,946	\$ -	\$ 175,946
Non-government backed CMOs	1,128,428	-	1,128,428
	1,304,374	-	1,304,374
Temporary cash investments	2,895,839	2,895,839	-
		<u>\$ 2,895,839</u>	<u>\$ 1,304,374</u>
Bond funds – maturity not determined	33,996,958		
Total – subject to interest rate risk	<u>\$ 38,197,171</u>		

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Funds (Continued)

Interest Rate Risk: (Continued)

These investments are included on the statement of fiduciary net position as:

Temporary cash investments	\$ 2,895,839
Bonds and bond funds	<u>35,301,332</u>
	<u><u>\$ 38,197,171</u></u>

The System's investment policy does not limit investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Credit Risk:

The System's formal investment policy requires a minimum rating of A by Standard & Poor's for any corporate bond at the time the bond is acquired.

The System's exposure to credit risk as of June 30, 2014 is as follows:

<u>Rating</u>	<u>Fair Value</u>
B	\$ 53,388
BB	80,090
CC	195,231
CCC	258,174
D	585,336
Unrated	<u>37,024,932</u>
	<u><u>\$ 38,197,171</u></u>

Concentration of Credit Risk:

The System's formal policy limits investments in any corporate entity to 5.00% of the outstanding shares in a company or 15 times the average daily trading volume for that stock. The policy prohibits any one corporate bond holding from exceeding 10% of the portfolio, at market value. The policy also limits total bond holdings in any corporation to 10% of the long-term indebtedness of that corporation.

The System did not have any single investment over 5.00% of the total investments of the system.

Foreign Currency Risk:

All foreign investments are valued in United States dollars. The asset allocation policy of the System allows the managers to invest in equity securities of any developed country provided that no more than 20% of the total assets are in any one developed country except Japan where the maximum is 25%.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Funds (Continued)

Unfunded Commitments:

The System had non-marketable alternative investments that have associated unfunded commitments at June 30, 2014. These investments were in private equity, which had a fair value of \$3,079,398 and unfunded commitments of \$3,640,177 at June 30, 2014.

Unfunded commitments are drawn down throughout the life of the investment based on the cash needs of each individual limited partnership. Limited partnerships with unfunded commitments generally have remaining lives of 4 to 10 years.

Other Post-Employment Benefits Trust Funds

The Other Post-Employment Benefits Trust Fund of the City of Danville, Virginia (the "Trust") was established by Danville City Council on May 5, 2009, as an irrevocable trust. The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

The Trust's investment policy limits investments in any single corporation to no more than 5.00% of each investment manager's total portfolio based on the fair market value of the portfolio at the time of purchase and no more than 10% at any quarterly valuation.

As of June 30, 2014, the Trust's investments consisted entirely of large capital stocks of \$2,390,149.

Because the other post-employment benefits plan has been terminated subsequent to year end, it is expected that the assets of the plan will be returned to the City.

Note 3. 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. The Commonwealth of Virginia 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% of fair market value and reassessed each year as of July 1 at which time property taxes attach as an enforceable lien. The Director of Real Estate Assessments, by authority of City ordinance, prorates billings for property where construction is 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. The tax rate effective for fiscal year 2014 was \$0.73 per \$100 of assessed value.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Property Taxes (Continued)

Personal property tax assessments on tangible business property and all motor vehicles are based on 100% 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 is in the City. Personal property taxes do not create a lien on property. Interest at the rate of 10% per annum is added to the delinquent tax and penalty. The taxes receivable balance at June 30, 2014 includes amounts not yet received from the January 1, 2014 levy due June 5, 2014. Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. The tax rate for fiscal year 2014 was \$3.00 for motor vehicles and tangible property and \$1.50 for machinery and tools per \$100 of assessed value. Under the provisions of the Personal Property Tax Relief Act of 1998, the state's share of the local personal property tax payment is an annual amount of \$3,593,576.

Note 4. Receivables

Receivables consist of the following:

			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Danville Public Schools</u>	<u>Industrial Development Authority</u>
Receivables				
Taxes and licenses	\$ 13,022,991	\$ -	\$ -	\$ -
Accounts	669,917	17,756,619	-	74,447
Demolition	1,462,909	-	-	-
Public works	848,799	-	-	-
Juvenile detention	189,440	-	-	-
Accrued interest	1,800,646	-	-	-
Incentive grant funds recoverable	3,624,000	-	-	-
Miscellaneous	-	-	618,667	-
	21,618,702	17,756,619	618,667	74,447
Less: allowance for doubtful accounts	(5,331,458)	(869,318)	-	-
Net receivables	<u>\$ 16,287,244</u>	<u>\$ 16,887,301</u>	<u>\$ 618,667</u>	<u>\$ 74,447</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 5. Due From (To) Other Governments

Amounts due from other governments consist of the following:

	Governmental Activities	Business-Type Activities	Component Unit Danville Public Schools
Federal and state funding:			
Airport runway rehabilitation	\$ 5,064,616	\$ 376,296	\$ -
River District Street improvement	569,696	-	-
Riverside Drive drainage improvement	242,213	-	-
Education grants	-	-	1,635,035
State compensation board funding	388,264	-	-
Other miscellaneous state and federal grants	1,455,749	-	-
Sales and communication taxes	1,928,209	-	1,082,864
	<u>\$ 9,648,747</u>	<u>\$ 376,296</u>	<u>\$ 2,717,899</u>

Amounts due to other governments consist of the following:

	Governmental Activities	Component Unit Danville Public Schools
Detention Center	\$ 287,049	\$ -
Facility Authority	254,813	-
Commonwealth of Virginia	-	208,661
	<u>\$ 541,862</u>	<u>\$ 208,661</u>

Note 6. Regulatory Assets and Deferred Inflows

The City's Electric and Gas Funds apply regulatory accounting principles to certain power and gas costs, which result in regulatory assets or deferred inflows. City statutes provide that the City Utilities, over time, will adjust customers' electric and natural gas bills for changes between expected and actual costs of purchased gas and power.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Regulatory Assets and Deferred Inflows (Continued)

Regulatory assets at June 30 consist of wholesale electric costs in the Electric Fund that have not yet been passed on to consumers, but are expected to be recovered through future rate increases. The regulatory asset increased significantly in fiscal year 2014 – from approximately \$2.9 million at June 30, 2013 to \$18,807,944 at June 30, 2014. This increase was driven by several factors: first, the City recognized a liability for stranded costs of approximately \$5.6 million as discussed in Note 12; second, unexpected congestion charges of approximately \$4.8 million were incurred in the winter of 2014; lastly, the remaining increase arose from ordinary differences between base power costs and charges to customers. In recognition of the significance of this balance, City Council approved an ordinance in September 2014 raising the City’s statutory limit with respect to this asset to \$20 million, and acknowledging the expectation that the asset is expected to be recovered through future rate increases. Actions by future City Councils or other events that serve to limit rate increases could result in this regulatory asset becoming unrecoverable.

Regulatory deferred inflows consist primarily of situations where current natural gas rates have recovered more from consumers than has been incurred in costs, and this differential is expected to be reflected in future rate reductions.

Note 7. Loans Receivable

Loans receivable consist of the following:

Revitalization loans	\$ 734,296
Demolition, downpayment, and emergency loans	124,132
Deferred loans	1,380,678
Low interest loans	1,351,729
Forgivable loans	<u>1,340,435</u>
	4,931,270
Less: allowance for doubtful accounts	<u>(1,627,319)</u>
	<u><u>\$ 3,303,951</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Interfund Balances and Activity

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

	Due From (Fund)			
	Community Development Fund	Central Services Fund	Wastewater Fund	Total
Due To (Fund)				
General Fund	\$ 107,090	\$ 73,874	\$ -	\$ 180,964
Gas Fund	-	-	748,714	748,714
Electric Fund	-	-	980,962	980,962
	<u>\$ 107,090</u>	<u>\$ 73,874</u>	<u>\$ 1,729,676</u>	<u>\$ 1,910,640</u>

The primary reasons for interfund receivables and payables are as follows:

The interfund receivable to the General Fund from the Community Development Fund represents amounts expended, but not yet reimbursed by HUD. The interfund receivable to the General Fund from the Central Services Funds represents amounts expended for inventoried office and printing supplies, but not yet issued and billed out.

The primary reasons for the interfund receivables in the Electric Fund and the Gas Fund are to provide loans to cover operating expenses of the Wastewater Fund. In April 2008, the Electric Fund loaned the Wastewater Fund \$1,700,000 at an interest rate of 4.00% to be repaid over a ten year period of \$200,000 each year. In April 2008, the Gas Fund loaned \$1,300,000 to the Wastewater Fund at an interest rate of 4.00% to be repaid over a ten year period at \$168,500 annually.

Maturities of the amounts payable by the Wastewater Fund to the Electric and Gas Funds are as follows:

Fiscal Year				
Ending June 30,	Principal	Interest	Total	
2015	\$ 319,313	\$ 69,187	\$ 388,500	
2016	332,086	56,414	388,500	
2017	345,369	43,131	388,500	
2018	359,184	29,316	388,500	
2019	373,724	14,949	388,673	
	<u>\$ 1,729,676</u>	<u>\$ 212,997</u>	<u>\$ 1,942,673</u>	

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Interfund Balances and Activity (Continued)

Transfers between funds for the current year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental funds:			
General Fund	\$ 14,931,345	\$ (11,580,680)	\$ 3,350,665
Capital Projects Fund	8,478,340	-	8,478,340
Economic Development Fund	1,832,792	(101,345)	1,731,447
Special Revenue Fund	<u>1,301,210</u>	<u>(312,802)</u>	<u>988,408</u>
	<u>\$ 26,543,687</u>	<u>\$ (11,994,827)</u>	<u>\$ 14,548,860</u>
Enterprise funds:			
Wastewater Fund	\$ -	\$ (685,760)	\$ (685,760)
Water Fund	-	(937,300)	(937,300)
Gas Fund	-	(3,008,330)	(3,008,330)
Electric Fund	-	(9,896,610)	(9,896,610)
Nonmajor Funds	<u>281,140</u>	<u>(302,000)</u>	<u>(20,860)</u>
	<u>\$ 281,140</u>	<u>\$ (14,830,000)</u>	<u>\$ (14,548,860)</u>

Funds are transferred from the General Fund to the Transportation Fund and Cemetery Operations Fund because the latter operates for the benefit of the City.

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

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

Transfers from the General Fund to the Economic Development Fund represent the City's support of ongoing economic development activity.

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Balances Between City and Component Units

Due from/to balances between the City and its component units are as follows:

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
Governmental Activities	\$ 13,434,026	\$ 1,196,237
	<u>\$ 13,434,026</u>	<u>\$ 1,196,237</u>
Component Units:		
Danville Public Schools	\$ -	\$ 6,274,026
Danville Industrial Development Authority	1,196,237	7,160,000
	1,196,237	13,434,026
Less: long-term portion	<u>(1,141,750)</u>	<u>(6,682,667)</u>
Current portion due from/to	<u>\$ 54,487</u>	<u>\$ 6,751,359</u>

In 2004 the City advanced \$1,600,000 to the IDA to finance construction of a facility for lease. Under the note agreement the IDA must repay the advance over twenty-five years, including interest at 4.00%. The receivable has been deferred in the governmental funds as the amounts are not considered available; however, revenue is recognized in the fund statements as recovered costs when principal payments are received.

On September 1, 2013 the IDA issued a taxable revenue bond in the amount of \$7,160,000. As part of the debt issuance documents, the City has agreed to appropriate annual payments to the IDA for debt service.

These amounts are due in the following installments:

<u>Year Ending June 30,</u>	<u>Due From IDA To City</u>		<u>Due From City To IDA</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 54,487	\$ 46,858	\$ 477,333	\$ 184,800
2016	56,707	44,638	477,333	172,055
2017	59,017	42,328	6,205,334	82,841
2018	61,422	39,923	-	-
2019	63,924	37,420	-	-
2020-2024	360,873	145,850	-	-
2025-2029	440,625	66,098	-	-
2030	99,182	2,162	-	-
	<u>\$ 1,196,237</u>	<u>\$ 425,277</u>	<u>\$ 7,160,000</u>	<u>\$ 439,696</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Component Unit IDA Leases

The IDA has operating leases to local companies with various terms and renewal options. These businesses have received incentives through the IDA to locate, expand, or remain in the Danville area. Lease payments are based on the principal loan balance the IDA owes on the individual properties.

Future estimated minimum payments receivable under the operating leases are as follows:

Year Ending June 30,	
2015	\$ 1,162,996
2016	1,163,547
2017	1,055,726
2018	1,054,227
2019	1,052,626
2020-2024	1,932,518
2025-2029	1,197,000
2030-2034	1,108,500
2035-2039	<u>1,020,000</u>
	<u><u>\$ 10,747,140</u></u>

The IDA has also entered into certain sales-type leases, under which the lease payments are accounted for as a long-term receivable and the gain or loss on the sale of the underlying property has been recognized at the time of the lease agreement. Minimum future lease payments due under the sales-type leases are as follows:

Year Ending June 30,	
2015	\$ 615,276
2016	615,276
2017	615,276
2018	615,276
2019	6,465,504
Thereafter	<u>445,510</u>
	9,372,118
Less unearned income	<u>(1,848,347)</u>
Net investment in sales-type leases	<u><u>\$ 7,523,771</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Capital Assets

Changes in capital assets were as follows:

Governmental Activities	Beginning Balance As Restated (Note 16)	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 19,598,641	\$ -	\$ -	\$ 19,598,641
Construction in progress	10,871,020	10,651,783	7,885,510	13,637,293
Total capital assets, not depreciated	30,469,661	10,651,783	7,885,510	33,235,934
Capital assets, depreciated				
Buildings	39,768,964	2,653,872	12,721	42,410,115
Infrastructure	32,440,903	15,393,255	-	47,834,158
Furniture and other equipment	37,051,229	2,053,711	2,033,925	37,071,015
Total capital assets, depreciated	109,261,096	20,100,838	2,046,646	127,315,288
Less accumulated depreciation:				
Buildings	(15,765,686)	(1,185,490)	(12,721)	(16,938,455)
Infrastructure	(24,196,046)	(1,784,366)	-	(25,980,412)
Furniture and other equipment	(29,595,634)	(2,000,425)	(1,909,560)	(29,686,499)
Total accumulated depreciation	(69,557,366)	(4,970,281)	(1,922,281)	(72,605,366)
Total City capital assets, depreciated, net	39,703,730	15,130,557	(124,365)	54,709,922
Assets transferred from DPS*	77,837,094	-	-	77,837,094
Less accumulated depreciation	(70,170,473)	(1,921,904)	-	(72,092,377)
Total assets transferred from DPS, net	7,666,621	(1,921,904)	-	5,744,717
Total capital assets, depreciated, net	47,370,351	13,208,653	(124,365)	60,454,639
Governmental activities capital assets, net	\$ 77,840,012	\$ 23,860,436	\$ (8,009,875)	\$ 93,690,573

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Capital Assets (Continued)

Governmental Activities: (Continued)

Depreciation was charged to government functions as follows:

General government administration	\$ 1,405,879
Judicial administration	151,910
Public safety	1,003,482
Public works	1,426,914
Health and welfare	25,752
Parks, recreation, and cultural	247,717
Community development	79,486
Education	1,921,904
	<u>\$ 6,263,044</u>

*The Virginia Assembly permits the local option of creating a tenancy in common with the local school board when a city or county issues bonds for acquisition, construction or improvement of public school property. As a result, certain school buildings purchased with the City's general obligation bonds are reported as part of the City's capital assets.

Business-Type Activities	Beginning Balance As Restated (Note 16)	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,454,625	\$ -	\$ -	\$ 1,454,625
Construction in progress	47,231,633	6,491,368	35,217,536	18,505,465
Total capital assets, not depreciated	48,686,258	6,491,368	35,217,536	19,960,090
Capital assets, depreciated				
Buildings and infrastructure	348,108,692	43,984,592	1,128,517	390,964,767
Furniture and other equipment	70,245,262	4,551,668	889,574	73,907,356
Total capital assets, depreciated	418,353,954	48,536,260	2,018,091	464,872,123
Less accumulated depreciation:				
Buildings and infrastructure	(135,250,996)	(9,271,359)	(1,128,658)	(143,393,697)
Furniture and other equipment	(44,096,343)	(3,633,000)	(837,883)	(46,891,460)
Total accumulated depreciation	(179,347,339)	(12,904,359)	(1,966,541)	(190,285,157)
Total capital assets, depreciated, net	239,006,615	35,631,901	51,550	274,586,966
Business-type activities capital assets, net	<u>\$ 287,692,873</u>	<u>\$ 42,123,269</u>	<u>\$ 35,269,086</u>	<u>\$ 294,547,056</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Capital Assets (Continued)

Component Unit – Danville Public Schools:

	Beginning Balance As Restated (Note 16)	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 2,313,013	\$ -	\$ -	\$ 2,313,013
Capital assets, depreciated				
Buildings	47,860,598	216,998	-	48,077,596
Furniture and other equipment	6,784,815	739,039	-	7,523,854
Total capital assets, depreciated	54,645,413	956,037	-	55,601,450
Less accumulated depreciation:				
Buildings	(40,946,746)	(1,523,421)	-	(42,470,167)
Furniture and other equipment	(4,489,716)	(570,402)	-	(5,060,118)
Total accumulated depreciation	(45,436,462)	(2,093,823)	-	(47,530,285)
Capital assets depreciated, net	9,208,951	(1,137,786)	-	8,071,165
Total capital assets, net	\$ 11,521,964	\$ (1,137,786)	\$ -	\$ 10,384,178

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Capital Assets (Continued)

Component Unit – Industrial Development Authority:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 3,032,691	\$ 5,489,752	\$ -	\$ 8,522,443
Construction in progress	29,840	273,748	3,850	299,738
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, not depreciated	3,062,531	5,763,500	3,850	8,822,181
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, being depreciated:				
Building	19,449,147	4,798,340	12,580	24,234,907
Equipment	75,000	-	-	75,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated, net	19,524,147	4,798,340	12,580	24,309,907
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:				
Building	2,163,122	514,702	-	2,677,824
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	2,163,122	514,702	-	2,677,824
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated, net	17,361,025	4,283,638	12,580	21,632,083
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, net	<u>\$ 20,423,556</u>	<u>\$ 10,047,138</u>	<u>\$ 16,430</u>	<u>\$ 30,454,264</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Long-Term Liabilities

Following is a summary of the changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General obligation bonds	\$ 31,523,096	\$ 4,085,000	\$ 1,226,188	\$ 34,381,908	\$ 1,424,173
Bond premiums	246,901	38,367	66,762	218,506	-
Tobacco commission obligation	-	3,200,000	-	3,200,000	900,000
Incentive grant provision (Note 23)	-	1,000,000	-	1,000,000	-
Reimbursement agreements	348,016	-	87,004	261,012	65,253
Compensated absences	1,656,949	1,827,528	1,841,053	1,643,424	1,479,082
Workers' compensation	3,521,890	1,123,596	914,736	3,730,750	899,904
	<u>\$ 37,296,852</u>	<u>\$ 11,274,491</u>	<u>\$ 4,135,743</u>	<u>\$ 44,435,600</u>	<u>\$ 4,768,412</u>
<u>Business-Type Activities</u>					
General obligation bonds	\$ 55,360,887	\$ 2,275,000	\$ 3,607,167	\$ 54,028,720	\$ 3,894,204
Bond premiums	781,292	21,367	66,637	736,022	-
Revenue bonds	2,276,945	-	593,005	1,683,940	365,000
Obligation payable – AMP	-	5,600,604	19,940	5,580,664	1,154,620
Landfill postclosure costs (Note 13)	1,620,000	-	90,000	1,530,000	90,000
Reimbursement agreements	250,664	-	57,082	193,582	64,527
Compensated absences	494,644	530,714	522,934	502,424	452,182
Workers' compensation	278,687	86,746	1,101	364,332	83,820
	<u>\$ 61,063,119</u>	<u>\$ 8,514,431</u>	<u>\$ 4,957,866</u>	<u>\$ 64,619,684</u>	<u>\$ 6,104,353</u>

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

Tobacco Commission Obligation:

During the year ended June 30, 2014, the City, in conjunction with the IDA, noted that certain grant recipients were not performing under their agreements with the City and Tobacco Commission. In accordance with the grant agreements, the City is liable to the Tobacco Commission up to the full amount of the Tobacco Commission funds provided in the original award. The City has reached an agreement to repay these funds to the Tobacco Commission, and will attempt to recover the funds from the grant recipients.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Long-Term Liabilities (Continued)

Reimbursement Agreements:

At June 30, the City had outstanding agreements requiring reimbursements to certain developers for streets, sewers, and utility facilities. These agreements require no interest payments.

Obligation Payable – AMP:

During 2008, the City entered into a power sales contract with AMP whereby it agreed to participate in the guaranteed purchase of electric generation capacity from a coal-fired generating facility in southwestern Illinois. The participants authorized AMP to acquire ownership interest in the project, and the City agreed to purchase 9.72% of the power generated under that ownership interest. This project has now been cancelled, which resulted in stranded costs that are owed by each participant. The City's estimated share at March 31, 2014 of impaired costs was \$13,000,804. The City received \$3,391,864 credit for AMPGS costs deemed to have future benefit. The City also elected to participate in a new project, the AMP Fremont Energy Center (AFEC) natural gas combined cycle project for which it received an additional credit of \$4,008,336, which reduced the stranded costs to \$5,600,604. In May 2014 the City elected to begin repaying the estimated total stranded costs over a 5 year period. The obligation bears interest based upon AMP's own borrowing costs, which is currently unknown.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Long-Term Liabilities (Continued)

The following schedule represents all long-term debt of the City:

<u>Description</u>	<u>Original Issue</u>	<u>Annual Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding June 30, 2014</u>
General Obligation Bonds					
School Series 2001B – G.W.	\$ 6,512,513	\$ 296,369 – 371,160	3.10 – 5.10 %	7/15/2021	\$ 2,819,830
School Series 2001B – Langston	5,210,006	237,088 – 296,928	3.10 – 5.10	7/15/2021	2,255,866
School Series 2001A – Loan	2,500,000	125,000	3.10 – 5.10	7/15/2021	1,000,000
General Improvements 2005	8,800,000	290,000 – 640,000	3.70 – 4.25	12/1/2025	6,125,000
General Improvements 2007	5,000,000	165,000 – 360,000	3.80 – 4.12	3/1/2027	3,695,000
General Improvement Refunding 2009A	11,215,000	720,000 – 1,300,000	2.00 – 5.00	3/1/2022	8,550,000
General Improvement Refunding 2009B	13,895,000	775,000 – 2,515,000	3.80 – 6.09	3/1/2022	11,166,932
General Improvement 2009C	12,005,000	425,000 – 890,000	1.50 – 5.00	8/1/2029	10,255,000
General Improvement Refunding 2010A	12,925,000	355,000 – 895,000	2.00 – 5.00	9/1/2028	11,015,000
General Improvement 2010B	10,410,000	330,000 – 655,000	2.19 – 6.02	9/1/2036	10,410,000
General Improvement Refunding 2011	2,121,000	442,000 – 484,000	1.51	12/1/2019	1,648,000
General Improvement Refunding 2012A	6,395,000	860,000 – 1,215,000	2.70 – 3.50	3/1/2026	6,395,000
General Improvements and Refunding 2012B	7,170,000	210,000 – 670,000	2.00 – 4.00	3/1/2032	6,715,000
General Improvement 2013A	<u>6,360,000</u>	60,000 – 535,000	2.00 – 5.00	7/1/2038	<u>6,360,000</u>
	<u>\$ 110,518,519</u>				<u>\$ 88,410,628</u>
Revenue Bonds					
Utility Revenue 96 – 97	<u>\$ 7,300,000</u>	\$ 223,940 – 365,000	4.50 %	2/1/2019	<u>\$ 1,683,940</u>
Reimbursement Agreements					
	<u>\$ 598,680</u>	\$ 64,527 – 98,271	- %	06/30/18	<u>\$ 454,594</u>
Tobacco Commission Obligation					
	<u>\$ 3,200,000</u>	\$ 500,000 – 900,000	- %	06/30/18	<u>\$ 3,200,000</u>
Obligation Payable – AMP					
Generating Station Contract	<u>\$ 5,600,604</u>	\$ 1,154,620	1.20 %	05/01/19	<u>\$ 5,580,664</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Long-Term Liabilities (Continued)

Debt service for future years is as follows:

Year Ending June 30,	General Obligation Bonds					
	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,424,173	\$ 1,412,060	\$ 3,894,204	\$ 2,229,954	\$ 5,318,377	\$ 3,642,014
2016	1,476,550	1,355,849	4,045,329	2,095,209	5,521,879	3,451,058
2017	2,342,396	1,296,667	4,204,465	1,950,088	6,546,861	3,246,755
2018	2,428,177	1,209,837	4,372,240	1,793,836	6,800,417	3,003,673
2019	2,521,502	1,118,092	4,274,074	1,628,713	6,795,576	2,746,805
2020-2024	12,509,278	4,001,282	16,083,240	5,658,949	28,592,518	9,660,231
2025-2029	7,095,063	1,883,354	12,059,937	2,609,902	19,155,000	4,493,256
2030-2034	3,495,432	779,054	3,634,568	735,459	7,130,000	1,514,513
2035-2039	1,089,337	100,135	1,460,663	159,350	2,550,000	259,485
	<u>\$ 34,381,908</u>	<u>\$ 13,156,330</u>	<u>\$ 54,028,720</u>	<u>\$ 18,861,460</u>	<u>\$ 88,410,628</u>	<u>\$ 32,017,790</u>

Year Ending June 30,	Revenue Bonds	
	Business-Type Activities	
	Principal	Interest
2015	\$ 365,000	\$ 66,516
2016	365,000	52,098
2017	365,000	37,681
2018	365,000	23,263
2019	223,940	8,845
	<u>\$ 1,683,940</u>	<u>\$ 188,403</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Long-Term Liabilities (Continued)

Future principal payments for the following obligations are presented below:

Year Ending June 30,	Reimbursement Agreements			Tobacco Commission Obligation	Obligation Payable – AMP
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities
2015	\$ 65,253	\$ 64,527	\$ 129,780	\$ 900,000	\$ 1,154,620
2016	65,253	64,527	129,780	900,000	1,154,620
2017	65,253	64,528	129,781	900,000	1,154,620
2018	65,253	-	65,253	500,000	1,154,620
2019	-	-	-	-	962,184
	<u>\$ 261,012</u>	<u>\$ 193,582</u>	<u>\$ 454,594</u>	<u>\$ 3,200,000</u>	<u>\$ 5,580,664</u>

Component Unit Obligations:

A summary of the changes in long-term liabilities reported by DPS is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 1,350,590	\$ 402,703	\$ 502,000	\$ 1,251,293	\$ 581,000
Entering retirement in phases plan (Note 19)	<u>5,502,797</u>	<u>-</u>	<u>-</u>	<u>5,502,797</u>	<u>-</u>
	<u>\$ 6,853,387</u>	<u>\$ 402,703</u>	<u>\$ 502,000</u>	<u>\$ 6,754,090</u>	<u>\$ 581,000</u>

A summary of the changes in long-term liabilities reported by the IDA is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	<u>\$ 18,938,361</u>	<u>\$ 8,926,970</u>	<u>\$ 551,300</u>	<u>\$ 27,314,031</u>	<u>\$ 1,221,191</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Landfill Postclosure Costs

The City closed its former landfill site in 1993. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure. The presence of certain contaminants has been detected in the groundwater on adjacent property, and the City is subject to a corrective action plan that requires continued monitoring of the site until 2031. Management estimates that postclosure monitoring costs will be approximately \$1,530,000 as of June 30, 2014, which has been recorded as a liability in the Sanitation Fund. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

Note 14. Unavailable/Unearned Revenue

The components of unavailable/unearned revenues in the City's governmental activities and governmental funds are as follows:

Taxes receivable – unavailable	\$ 8,530,814
Taxes receivable – unearned	484,813
Due from IDA – unavailable	1,196,237
Community development loans receivable – unavailable	3,260,057
Other receivables – unavailable	<u>2,338,665</u>
Total unavailable/unearned revenue – governmental funds	15,810,586
Less deferrals for unavailability	<u>(15,325,773)</u>
Total unearned revenue – statement of net position	<u>\$ 484,813</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. Fund Balances

Fund Balances are classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

	General Fund	Community Development Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepays	\$ 211,114	\$ -	\$ -	\$ -	\$ 211,114
Inventory	270,946	-	-	-	270,946
Cemetery perpetual care	-	-	-	2,734,092	2,734,092
Total nonspendable	482,060	-	-	2,734,092	3,216,152
Restricted for:					
Unspent bond proceeds	-	-	4,281,119	-	4,281,119
Police	58,404	-	-	-	58,404
Commonwealth Attorney	77,235	-	-	-	77,235
Fire department equipment and supplies	49,737	-	-	-	49,737
Other grants	-	-	-	3,547,895	3,547,895
Total restricted	185,376	-	4,281,119	3,547,895	8,014,390
Committed to:					
Capital projects	-	-	4,484,513	-	4,484,513
Community development	-	7,625	-	-	7,625
Stabilization	5,064,922	-	-	-	5,064,922
Sheriff – Project Lifesaver	12,662	-	-	-	12,662
General administration	281,388	-	-	-	281,388
Total committed	5,358,972	7,625	4,484,513	-	9,851,110
Assigned to:					
General administration	251,633	-	-	-	251,633
Judicial administration	2,717	-	-	-	2,717
Public safety	494,509	-	-	-	494,509
Public works	28,660	-	5,146,359	-	5,175,019
Health and welfare	14,948	-	-	-	14,948
Parks, recreation, and cultural	32,774	-	-	-	32,774
Education	904,735	-	-	-	904,735
Community development	36,596	-	-	-	36,596
Total assigned	1,766,572	-	5,146,359	-	6,912,931
Unassigned	35,078,780	-	-	-	35,078,780
Total fund balance	\$ 42,871,760	\$ 7,625	\$ 13,911,991	\$ 6,281,987	\$ 63,073,363

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 16. Restatements of Fund Balances and Net Position

Prior year balances of the City's enterprise funds and business-type activities were restated as follows:

	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Electric Fund</u>	<u>Sanitation Fund</u>	<u>Business-Type Activities</u>
Fund balance/net position June 30, 2013 as previously stated	\$ 45,408,841	\$ 32,560,889	\$ 47,621,664	\$ 168,171,195	\$ 1,454,233	\$ 305,970,728
Adoption of GASB 65 – bond issuance costs write off	(43,564)	(38,002)	(28,123)	(673,077)	-	(782,765)
To record capitalized interest as a capital asset	1,170,845	1,184,959	689,334	7,460,513	-	10,505,651
To record landfill postclosure care liability	-	-	-	-	(1,620,000)	(1,620,000)
Fund balance/net position/liability June 30, 2013, as restated	<u>\$ 46,536,122</u>	<u>\$ 33,707,846</u>	<u>\$ 48,282,875</u>	<u>\$ 174,958,631</u>	<u>\$ (165,767)</u>	<u>\$ 314,073,614</u>

Prior year balances of the City's General Fund and governmental activities were restated as follows:

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund balance/net position, June 30, 2013 as previously stated	\$ 36,116,980	\$ 124,200,312
Adoption of GASB 65 – bond issuance costs write off	-	(389,779)
To record receivable due from IDA	-	1,248,591
To record sales and communication tax attributable to prior years	960,949	960,949
To record meals and lodging tax attributable to prior years	690,352	690,352
To record allowance for doubtful accounts on community development loans	-	(1,627,319)
Fund balance/net position, June 30, 2013, as restated	<u>\$ 37,768,281</u>	<u>\$ 125,083,106</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 16. Restatements of Fund Balance and Net Position (Continued)

Prior year balances at the component units were restated as follows:

	Danville Public Schools		IDA
	Governmental Activities	Disclosed Total Pension Liability	Business-Type Activities
Fund balance/net position/disclosed liability, June 30, 2013 as previously stated	\$ 22,750,596	\$ 5,502,797	\$ 14,093,268
To report textbooks as an expenditure when purchased	(847,301)	-	-
To adjust certain capital assets to agree to detail schedules	(8,596,829)	-	-
To record sales taxes attributable to prior years	468,114	-	-
To report retirement benefits as a pension liability	-	4,998,048	-
Adoption of GASB 65 – bond issuance cost write off	-	-	(413,466)
To restate deferred sales-type lease amounts, net	-	-	(11,746)
Fund balance/net position/disclosed liability, June 30, 2013, as restated	<u>\$ 13,774,580</u>	<u>\$ 10,500,845</u>	<u>\$ 13,668,056</u>

Note 17. Employees' Retirement System of the City of Danville

Plan Description:

The Employees' Retirement System of the City of Danville, Virginia (ERS), a single-employer defined benefit plan, was established on January 1, 1946, and was placed under the management of the 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. As such, the ERS functions as an investment and administrative agent for the City with respect to the plan. The ERS is a fiduciary fund and is included in the City's Comprehensive Annual Financial Report as a pension trust fund.

The retirement allowance for a public safety employee 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 or 2.00% of the final three-year average salary multiplied by the number of years of creditable service. A public safety employee, with at least five years of service, may retire early after reaching the age of 55 and receive reduced benefits.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 17. Employees' Retirement System of the City of Danville

Plan Description: (Continued)

Pension provisions include disability benefits whereby a member who becomes totally and permanently incapacitated and who has completed five 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 the disability is work-related.

If, after five years of service, an active member should die at any time prior to retirement, a retirement allowance shall be payable to either 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. For members employed prior to October 1, 1991, the beneficiary may elect to receive as a lump sum the member's accumulated contributions, with interest, in lieu of any other benefits under the ERS.

Contributions made by the City on behalf of active members are established by the City of Danville, based on actuarial estimates (performed annually on July 1) of future plan benefits to be paid. Since March 1, 1979, employees' contributions have been paid by the City. Contributions for employees hired after September 30, 1991 are considered to be 100% City contributions. These contributions, like the City's portion of pre-October 1, 1991 employees, vest after five years of creditable service. The contribution rate made on behalf of active members is currently 5.00% of compensation for general employees and 6.50% of compensation for public safety employees.

The portion of contributions to the plan made by the City on behalf of members vests immediately with the employees. The remainder of the contributions vests after five years of creditable service.

Prior to 2013, the City generally awarded cost-of-living adjustments (COLAs) to retirees, and an expectation for COLAs was included in assumptions used to calculate the actuarial accrued liability. In 2012, the City Council approved an ordinance to state that retirees will no longer receive COLAs, effective July 1, 2013. On the same date, the City Council adopted a resolution to approve a new retiree bonus policy. The retiree bonus policy calls for a one-time bonus for retirees each year that certain criteria are met. In no case would the retiree bonus exceed 50% of a retiree's monthly benefit. The bonuses will be funded directly from the City's budget, and must be approved by City Council when bonus criteria are met. Council may choose to follow, modify, or ignore the bonus policy. The first such bonus, totaling \$415,000, was awarded in the fall of 2014, and will be recognized as a fiscal year 2015 expense. Because a pattern has not yet been established under the new policy and management has concluded that the actions of future City Councils are uncertain, no assumptions relative to these future bonuses have been included in the actuary's estimate of the plan's actuarial accrued liability. The effect of removing the COLA assumptions, and not incorporating a similar assumption for the bonus plan, had the effect of reducing the actuarial accrued liability by approximately \$30,716,477 in 2013.

Funding Policy: The contribution requirement of plan members and the City are established by City Council with a recommendation from the ERS Board of Trustees, based on actuarial estimates of future plan benefits to be paid. For fiscal year 2014, the contribution rate for general employees was 14.085% of their annual covered salary and 18.546% for public safety employees. Contributions made by the City represent 15.40% of covered payroll for the year.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 17. Employees' Retirement System of the City of Danville (Continued)

Plan Description: (Continued)

Annual Pension Cost and Net Pension Obligation: The City's annual pension cost and net pension obligation for the current year were as follows.

	Governmental Activities	Business-Type Activities
Annual required contribution (ARC)	\$ 2,653,220	\$ 803,562
Interest on net pension obligation	57,671	24,070
Adjustment to ARC	(62,049)	(25,896)
Annual pension cost	2,648,842	801,736
Contributions made	(4,553,618)	(1,295,660)
Decrease in net pension obligation	(1,904,776)	(493,924)
Net pension obligation – beginning of year	926,996	240,740
Net pension asset – end of year	<u>\$ (977,780)</u>	<u>\$ (253,184)</u>

The three-year trend information for the City's pension is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of (APC) Contributed	Net Pension Asset (Liability)
June 30, 2014	\$ 3,450,578	169.52%	\$ 1,230,964
June 30, 2013	\$ 6,264,444	84.60%	\$ (1,143,731)
June 30, 2012	\$ 5,397,687	91.37%	\$ (183,980)

The fiscal year 2014 required contribution was determined as part of the June 30, 2014 actuarial valuation using the entry age actuarial cost method.

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 187,932,189
Less: actuarial value of plan assets	(194,075,656)
Unfunded actuarial accrued liability (UAAL)	<u>\$ (6,143,467)</u>
Funded ratio (actuarial value of plan assets/AAL)	103.30 %
Covered Payroll	\$ 40,449,816
UAAL as a percentage of covered payroll	(15.19)%

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 17. Employees' Retirement System of the City of Danville (Continued)

Plan Description: (Continued)

Funded Status and Funding Progress (Continued)

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

Note 18. Virginia Retirement System

Plan Description

The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer pension plan administered by the VRS for certain covered employees. There are three separate groups of covered employees. The first includes "constitutional employees" of the City, which are all full-time, salaried employees of the Sheriff, Commonwealth's Attorney, Clerk of Court, Treasurer, and the Commissioner of Revenue offices. In addition, full-time, salaried professional and nonprofessional employees of the DPS are covered employees. All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

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

VRS PLAN 1

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

Hybrid Opt-In Election – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

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

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

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

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

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

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

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

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

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

Normal Retirement Age – Normal Social Security retirement age.

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

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

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN

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

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

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

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

***Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Retirement Contributions – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

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

Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

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

Distribution is not required by law until age 70½.

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Calculating the Benefit

Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

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

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

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility

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

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

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)

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

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City of Danville is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City of Danville's contribution rate for the fiscal year ended June 30, 2014 was 12.82% of the annual covered payroll.

DPS non-professional employees' contribution rate for the fiscal year ended 2014 was 14.53% of annual covered payroll. DPS professional employees' contribution rate for the VRS statewide teacher pool for the fiscal year ended 2014 was 11.66% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by DPS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$3,817,358, \$4,028,446, and \$3,964,564, respectively, and were equal to the required contributions for each year.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2014, the City of Danville's and DPS' annual pension cost of \$621,371 and \$169,522 for VRS was equal to the required and actual contributions.

Three-Year Trend Information
City of Danville

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 621,371	100%	\$ -
June 30, 2013	\$ 599,647	100%	\$ -
June 30, 2012	\$ 459,479	100%	\$ -

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

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

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

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. Virginia Retirement System (Continued)

Funded Status and Funding Progress

For the City's VRS covered employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 79.38% funded. The actuarial accrued liability for benefits was \$22,391,315, and the actuarial value of assets was \$17,774,337, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,616,978. The covered payroll (annual payroll of active employees covered by the plan) was \$4,670,944, and the ratio of the UAAL to the covered payroll was 98.84%.

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

The Schedule of Funding Progress, presented as Required Supplemental Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 19. Entering Retirement In Phases Plan – Danville Public Schools

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

ERIP Qualifications and Benefits by Group

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

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. Entering Retirement In Phases Plan – Danville Public Schools (Continued)

ERIP Qualifications and Benefits by Group (Continued)

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

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

Prior to 2014, no actuarial calculation was prepared for the plan; a liability was recorded for the estimated present value of payments due to participants who had declared their retirement and entered the plan. It would be impracticable to actuarially recalculate all annual required contributions and benefit payments since the plan's inception in the 1980's, and therefore the previously recognized liability of \$5,502,797 has been carried forward on the current statement of net position with no change because the carrying amount and actual amounts are not believed to be material. However, the actuarial accrued liability, which was previously unreported, is now disclosed as required supplementary information. With the adoption of GASB Statement No. 68 in fiscal year 2015, a net pension liability of \$9,633,580 will be recorded as of the beginning of the fiscal year.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. Entering Retirement In Phases Plan – Danville Public Schools (Continued)

ERIP Qualifications and Benefits by Group (Continued)

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

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

Funded Status: The plan is funded on a pay-as-you go basis.

Actuarial assumptions include use of the entry age actuarial cost method. The amortization period for the unfunded actuarial liability is 20 years, and the discount rate was 3.50%. Actuarial valuations for the plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial calculations of the plan reflect a long-term perspective.

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 20. Other Post-Employment Benefits

City other post-employment benefits:

In prior years the City offered a post-employment healthcare benefit (OPEB) for retired employees and spouses. The benefit levels, employee contributions and employer contributions, were governed and could be amended by the City through its personnel manual. Participants who were full-time active employees who qualified for retirement after attaining age 55 with at least five years of service were offered postretirement health benefits. The retirees and their spouses were required to pay the full cost of the premium with no portion being paid by the City.

The City elected to terminate the OPEB Plan effective January 2014. All retirees, current and future, were required to leave the plan at the termination date. Therefore no amounts were recorded at June 30, 2014 as an obligation.

The OPEB Trust agreement states that the assets of the trust fund may revert back to the City only upon “the satisfaction of the benefit liabilities to all beneficiaries under the plans.” Since all the plan liabilities are satisfied, the plan assets with a fair value of \$2,511,494 at June 30, 2014, are expected to revert back to the City. Termination of the trust has not been approved as of the date of the audit report.

DPS other post-employment benefits:

In prior years DPS provided a OPEB for retired employees and spouses. The benefit levels, employee contributions and employer contributions, were governed and could be amended by the School Board. Participants were eligible for the plan when eligible to retire under the provisions of the VRS. At retirement, retirees and their spouses were permitted to stay in a medical plan offered by the School System until age 65 or until they became eligible for Medicare. The retirees and their spouses were required to pay the full cost of the premium with no portion being paid by the DPS.

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

Note 21. Service Contracts

Power Purchase Contracts – American Municipal Power

The city purchases substantially all of its power through American Municipal Power, Inc. (AMP) through contracts described below. AMP has issued debt to fund the various projects, and although this is not directly an obligation of the City, the related agreements are “take-or-pay” contracts, under which the City is obligated to purchase a minimum amount of power.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 21. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

AMP Fremont Energy Center (AFEC)

In 2011 AMP acquired the Fremont Energy Center (AFEC). AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio.

To provide permanent financing for the AFEC Project, on June 29, 2012 AMP issued in two series \$546,085,000 of its AMP Fremont Center Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AFEC and development costs and completion of construction and commissioning of AFEC; (ii) make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures allocable to AMP's 90.69% undivided ownership interest in AFEC; (iii) fund deposits to certain reserve accounts; and (iv) pay the costs of issuance of the Series 2012 Bonds.

On January 21, 2012 the AMP AFEC began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. AMP has sold the output of 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 of its members, pursuant to a take-or-pay power sales contract.

The City of Danville has executed a take-or-pay power sales contract with AMP for 37,300 kW or 8.03% of capacity and associated energy from the AFEC facility. As of June 30, 2014, the City's share of the permanent financing was approximately \$43,191,545. The contract contains a step-up provision which provides that in the event of the default of a participant, non defaulting participants may be required to purchase an increased share of power.

Combined Hydroelectric Projects

AMP is currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "Combined Hydroelectric Projects"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 21. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Combined Hydroelectric Projects (Continued)

As of August 4, 2014, AMP is projecting that the Combined Hydroelectric Projects are expected to enter into commercial operation as follows: Cannelton in the second quarter of 2015; Willow Island in the second quarter of 2015; and Smithland in the second quarter of 2016.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which the City of Danville’s share on June 30, 2014 was approximately \$216,473,129. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

The City of Danville has executed a take-or-pay power sales contract with AMP for 22,085 kW or 10.62% of capacity and associated energy from the hydro facilities. The contract contains a step-up provision which provides that in the event of the default of a participant, non defaulting participants may be required to purchase an increased share of power.

Meldahl Hydroelectric Project and Greenup

AMP is currently constructing a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). When the Meldahl Project enters commercial operation, it is projected to have a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license necessary to construct and operate the Meldahl Project. Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project will be owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”), and will be operated by Hamilton. AMP, acting as agent of Meldahl LLC, is financing the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 21. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Meldahl Hydroelectric Project and Greenup (Continued)

The City of Danville has executed a take-or-pay power sales contract with AMP for 5,039 kW or 4.80% of capacity and associated energy from the hydro facility. As of June 30, 2014, the City's share of the debt was approximately \$32,878,275. The contract contains a step-up provision which provides that in the event of the default of a participant, non defaulting participants may be required to purchase an increased share of power.

As of August 4, 2014, AMP estimates the Meldahl Project will enter commercial operation during the first quarter of 2015.

The referenced agreements with Hamilton respecting the Meldahl Project also provided that Hamilton would sell to AMP a 48.60% undivided ownership interest in the Greenup Hydroelectric Facility ("Greenup"), a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River, in commercial operation since 1988. The sale is contingent upon the placement of the Meldahl Project into commercial operation. Based on the estimated commercial operation date for the Meldahl Project, AMP currently estimates that it will issue bonds to finance its undivided ownership interest in Greenup in the second or third quarter of 2014. AMP's Greenup bonds will be secured by a separate power sales contract that has been executed by the same Members (all except Hamilton which will retain title to the remaining 51.40% ownership interest in Greenup) that executed the Meldahl power sales contract. Hamilton will continue to operate Greenup.

Prairie State Energy Campus

On December 20, 2007, AMP acquired 368,000kW or an effective 23.26% undivided ownership interest (the "PSEC Ownership Interest") in the Prairie State Energy Campus (PSEC), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company of which AMP is the sole owner. Construction of the PSEC commenced in October 2007. The contract contains a step-up provision which provides that in an event of the default of a participant, non defaulting participants may be required to purchase an increased share of power.

The City of Danville has executed a take-or-pay power sales contract with AMP for 49,760kW or 13.52% kW of capacity and associated energy from the Prairie State facility.

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 21. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Prairie State Energy Campus (Continued)

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt of which on June 30, 2014 the City of Danville's share was approximately \$217,462,180. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project.

AMP will sell the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the "Prairie State Power Sales Contract") with 68 Members (the "Prairie State Participants"). The Prairie State Power Sales Contract is, in all material respects, comparable to the Power Sales Contract for the Project. The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

Natural Gas Purchase Contracts – MuniGas

In 2007 the City entered into an agreement to purchase all natural gas for distribution to City customers through Municipal Gas Acquisition and Supply Corporation (MuniGas). Although the contract requires the City to source all gas purchases through this contract, it is not take-or-pay contract and does not include minimum purchase requirements. The contract expires in 2027 but may be extended by mutual agreement.

Note 22. Commitments and Contingencies

Litigation:

The City, DPS, and the IDA are contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of 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 or its component units.

Grant programs:

The City, DPS, and the IDA participate in a number of grant programs. Although the City and 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, management believes such disallowances, if any, will not be significant, except as discussed below.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 22. Commitments and Contingencies (Continued)

Construction contracts:

The City has several construction and similar contracts in progress at June 30, 2014. The uncompleted portion of these contracts represents financial commitments that were not yet liabilities at June 30, 2014, and consist of the following:

Contracts in progress	\$ 32,569,360
Less: paid or recorded as liabilities	<u>25,934,974</u>
Remaining commitment	<u><u>\$ 6,634,386</u></u>

Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. As of June 30, 2014, the arbitrage estimate was zero.

Encumbrance commitments:

The City had the following outstanding encumbrances, which include the construction contracts in progress above, as of June 30.

<u>Major Funds</u>	
General Fund	\$ 1,689,404
City Capital Projects Fund	<u>5,146,359</u>
Total encumbrances	<u><u>\$ 6,835,763</u></u>

AMPGS Project:

As discussed in Note 12, the City in 2014 has recognized approximately \$5.6 million of impaired costs related to the AMPGS project. If the approximately \$3.4 million of AMPGS costs that are deemed to have future benefit later ultimately prove to have a value different than that which has been estimated by AMP's management, the City's liability could increase or decrease. Also, the members of the AMPGS project have agreed to pursue litigation against a contractor involved in the planning stages of that project – the City will be responsible for a proportionate share of litigation costs; a favorable outcome of that litigation could result in a significant reduction of the City's liability.

Take-or-pay contracts:

The City has entered into several take-or-pay contracts as described in Note 21, which require the City to purchase certain minimum amounts of power. The City could incur losses if the City were unable to use or resell any portion of the purchases to which it has committed.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 22. Commitments and Contingencies (Continued)

Moral obligations:

The IDA has several moral obligations for debt service in place for various organizations within the Danville, Virginia area.

As discussed in Note 1, the City has a moral obligation for debt service at the Danville-Pittsylvania Regional Facility Authority. Total debt outstanding at the Facility Authority is approximately \$10,275,000 with a final maturity of 2020; the City and Pittsylvania County will each provide equal funding for the debt service.

Note 23. Incentive Grants

The City, often in conjunction with the IDA, has awarded performance grants to companies within the City to foster economic development. Disbursements under these grants vary based on the performance requirements and period in which the company has to perform. During the current fiscal year the City awarded and paid approximately \$1 million in such grant funds from the Economic Development Fund, substantially all of which was provided from the state Tobacco Commission. At June 30, 2014, there were \$425,000 in grants payable in the IDA for those agreements for which performance requirements have been met or substantially met. These payments are expected to be made within the upcoming year. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$1.6 million, and will be funded by the City through the IDA.

The IDA also has multiple performance grants outstanding under which funds have been paid to the companies involved, but the performance period is not yet complete. Should a company fail to perform under the terms of the agreement, all or part of the funds awarded could become due and payable to the IDA. The IDA would then owe funds to the City, which would also owe certain funds back to the various granting authorities. Ultimate repayment responsibility rests with the City for these funds. Total outstanding grants with respect to which the City is contingently liable total approximately \$8.10 million for funds from the Tobacco Commission.

At June 30, 2014, the IDA was aware of the default of three companies on grant funds that were originally awarded to the City from the Tobacco Commission. These funds, totaling \$3.2 million at year end, will be repaid by the City over four years under an agreement negotiated with the Commission. The City and the IDA will weigh legal options available to them to attempt to recover funds from these companies. The City and the IDA are also monitoring three additional companies, which received approximately \$1.6 million in Commission grants, where it appears reasonably possible that the companies will fail to meet all of the performance requirements of the grants, at which point some or all of the grant funds will be required to be refunded to the Commission. In addition to the \$3.2 million which the City has already agreed to repay the Tobacco Commission, the City has estimated and recorded a provision of \$1 million, which in management's judgment is an estimate of additional amounts that are more likely than not to eventually be required to be repaid to the Tobacco Commission.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 24. Risk Management

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; 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 health and workers' compensation claims settlement in the General Fund. The City also maintains an insurance fund to account for insurance transactions other than health insurance and workers' compensation. 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. 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: 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.

One City employee is covered by a surety bond.

The fleet insurance and commercial general liability insurance is provided under a pooled agreement with the Virginia Municipal Liability Pool (the "Pool"), a public entity risk pool. 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.

Workers' compensation claims 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 for an estimate of incurred but not reported claims.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 24. Risk Management (Continued)

Primary government: (Continued)

Self-Insurance

Changes in the estimated claims payable for workers' compensation and health insurance are as follows for the past two years:

			<u>Beginning of Year</u>	<u>Claims and Reserves</u>	<u>Claim Payments</u>	<u>End of Year</u>
Workers' compensation	2014	\$	3,800,577	\$ 1,210,342	\$ 915,837	\$ 4,095,082
	2013	\$	3,672,316	\$ 1,426,059	\$ 1,297,798	\$ 3,800,577
Health insurance	2014	\$	817,262	\$ 7,366,510	\$ 7,417,337	\$ 766,435
	2013	\$	828,275	\$ 7,530,853	\$ 7,541,866	\$ 817,262

Component Unit – Danville Public Schools

DPS is a member of the School Systems of Virginia Group Self-Insurance Association (the "Association"), a public entity risk pool for workers' compensation insurance. All members of the Association have agreed to assume any liability under the Virginia Workers' Compensation Act of any and all members. The Association has operated at a profit and has declared dividends on a regular basis since DPS entered the pool in 1982. DPS has elected to have the Association hold the Board's dividends in escrow as a reserve against possible future claims. At June 30, 2014, the cumulative amount held in escrow by the Association for DPS amounted to \$500,972, and is included on the Statement of Net Position as an account receivable.

In October 2005, DPS entered into an agreement with Anthem Blue Cross Blue Shield (Anthem) to administer a self-insurance plan for employee medical and pharmacy insurance. DPS's contingent liability is limited to an annual stop loss amount of \$100,000 per participant. The escrow balance of \$2,761,517 is the balance of premiums paid net of claims received by Anthem and is included on the Statement of Net Position as prepaid expenses. Estimated claims incurred but not paid as of June 30, 2014 for this self-insurance plan was \$446,097.

The DPS carries commercial coverage for all other risks or losses. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. Fiscal year are as follows:

			<u>Beginning of Year</u>	<u>Claims and Reserves</u>	<u>Claim Payments</u>	<u>End of Year</u>
Health insurance	2014	\$	446,097	\$ 5,765,837	\$ 5,765,837	\$ 446,097
	2013	\$	475,805	\$ 4,613,449	\$ 4,643,157	\$ 446,097

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 25. Subsequent Events

Subsequent to year end, the City issued Series 2014A General Obligation Public Improvement Bonds in the amount of \$2,953,000 and Series 2014B General Obligation Refunding Bonds in the amount of \$5,679,000. The 2014A proceeds will be used to finance various City capital improvement projects and to pay the costs of bond issuance. The Series 2014B Bonds were issued to advance refund the outstanding principal of the City's General Obligation Public Improvement Bonds, Series 2005, maturing on the years 2017 through 2025 and to pay the costs of bond issuance.

Note 26. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

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

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

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF DANVILLE, VIRGINIA

SCHEDULES OF FUNDING PROGRESS – LOCAL PENSIONS
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
Employees' Retirement System – City of Danville						
June 30, 2014	\$ 194,075,656	\$ 187,932,189	\$ (6,143,467)	103.30 %	\$ 40,449,816	(15.19)%
June 30, 2013	\$ 176,071,124	\$ 180,257,415	\$ 4,186,291	97.68 %	\$ 38,430,014	10.89 %
June 30, 2012	\$ 174,103,211	\$ 206,452,918	\$ 32,349,707	84.33 %	\$ 38,206,170	84.67 %
Entering Retirement In Phases – Danville Public Schools						
June 30, 2014	\$ -	\$ 9,633,850	\$ 9,633,580	- %	\$ 20,429,573	47.16 %

CITY OF DANVILLE, VIRGINIA

SCHEDULES OF FUNDING PROGRESS – VIRGINIA RETIREMENT SYSTEM
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
City of Danville – Constitutional Employees						
June 30, 2013	\$ 17,774,337	\$ 22,391,315	\$ 4,616,978	79.38 %	\$ 4,670,944	98.84 %
June 30, 2012	\$ 17,361,147	\$ 22,657,732	\$ 5,296,585	76.62 %	\$ 4,502,140	117.65 %
June 30, 2011	\$ 18,045,088	\$ 21,956,499	\$ 3,911,411	82.19 %	\$ 4,550,101	85.95 %
Danville Public Schools – Nonprofessional Employees						
June 30, 2013	\$ 5,941,759	\$ 7,214,282	\$ 1,272,523	82.36 %	\$ 1,948,731	65.30 %
June 30, 2012	\$ 5,702,375	\$ 7,199,779	\$ 1,497,404	79.20 %	\$ 1,809,238	82.76 %
June 30, 2011	\$ 5,700,193	\$ 6,918,158	\$ 1,217,965	82.39 %	\$ 1,842,908	66.09 %

**OTHER
SUPPLEMENTARY INFORMATION**

COMBINING STATEMENTS NONMAJOR GOVERNMENTAL FUNDS

- **Special Revenue Fund** – used to account for specific revenues that are legally restricted to expenditures for specified purposes.
- **Virginia Department of Transportation Fund (VDOT)** – is a special revenue fund that accounts for revenue derived from the Virginia Department of Transportation. These revenues are legally restricted for qualifying expenditures related to street and bridge design, construction, safety, and maintenance.
- **Economic Development Fund** – is a special revenue fund that accounts for the financial resources used for the growth and development of a diversified economic base in the City through state, federal, and local grants.
- **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.

CITY OF DANVILLE, VIRGINIA

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue Funds			Permanent Fund	
	Special Revenue	VDOT	Economic Development	Cemetery Maintenance	Total
ASSETS					
Cash and investments	\$ 1,236,088	\$ 1,342,858	\$ 1,289,594	\$ 2,734,092	\$ 6,602,632
Receivables, net	14,200	-	114,197	-	128,397
Due from other governments	623,334	-	-	-	623,334
Total assets	<u>\$ 1,873,622</u>	<u>\$ 1,342,858</u>	<u>\$ 1,403,791</u>	<u>\$ 2,734,092</u>	<u>\$ 7,354,363</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 497,621	\$ 395,408	\$ 165,147	\$ -	\$ 1,058,176
Total liabilities	<u>497,621</u>	<u>395,408</u>	<u>165,147</u>	<u>-</u>	<u>1,058,176</u>
Deferred inflows of resources:					
Unavailable revenue	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,200</u>
Total deferred inflows of resources	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,200</u>
Fund balances:					
Nonspendable					
Cemetery maintenance	-	-	-	2,734,092	2,734,092
Restricted					
Special revenue	<u>1,361,801</u>	<u>947,450</u>	<u>1,238,644</u>	<u>-</u>	<u>3,547,895</u>
Total fund balances	<u>1,361,801</u>	<u>947,450</u>	<u>1,238,644</u>	<u>2,734,092</u>	<u>6,281,987</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,873,622</u>	<u>\$ 1,342,858</u>	<u>\$ 1,403,791</u>	<u>\$ 2,734,092</u>	<u>\$ 7,354,363</u>

CITY OF DANVILLE, VIRGINIA

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

	Special Revenue Funds			Permanent Fund	
	Special Revenue	VDOT	Economic Development	Cemetery Maintenance	Total
REVENUES					
Miscellaneous	\$ 3,364	\$ -	\$ -	\$ 25,175	\$ 28,539
Contributions	353,508	-	-	-	353,508
Revenue from use of money and property	-	1,052	101,345	-	102,397
Intergovernmental	3,339,246	9,765,845	3,071,452	-	16,176,543
Total revenues	3,696,118	9,766,897	3,172,797	25,175	16,660,987
EXPENDITURES					
General government	70,301	-	268,119	-	338,420
Judicial administration	12,582	-	-	-	12,582
Public safety	365,155	-	-	-	365,155
Public works	306,207	10,294,403	-	-	10,600,610
Health and welfare	3,367,720	-	-	-	3,367,720
Parks, recreation, and cultural	595,017	-	-	-	595,017
Community development	39,748	-	6,047,443	-	6,087,191
Total expenditures	4,756,730	10,294,403	6,315,562	-	21,366,695
Excess (deficiency) of revenues over expenditures	(1,060,612)	(527,506)	(3,142,765)	25,175	(4,705,708)
OTHER FINANCING SOURCES					
Transfers in	1,301,210	-	1,832,792	-	3,134,002
Transfers out	(312,802)	-	(101,345)	-	(414,147)
Total other financing sources	988,408	-	1,731,447	-	2,719,855
Net change in fund balance	(72,204)	(527,506)	(1,411,318)	25,175	(1,985,853)
FUND BALANCES – Beginning	1,434,005	1,474,956	2,649,962	2,708,917	8,267,840
FUND BALANCES – Ending	\$ 1,361,801	\$ 947,450	\$ 1,238,644	\$ 2,734,092	\$ 6,281,987

COMBINING STATEMENTS NONMAJOR ENTERPRISE FUNDS

- **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 service for the City, Danville Public Schools, as well as certain businesses and homes.

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF NET POSITION – NONMAJOR ENTERPRISE FUNDS
June 30, 2014

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
ASSETS					
Current assets					
Cash and investments	\$ 219,743	\$ 899,843	\$ 301,944	\$ 1,009,689	\$ 2,431,219
Receivables, net	530	123,716	-	30,509	154,755
Due from other governments	376,296	-	-	-	376,296
Inventory	-	-	-	241,582	241,582
Total current assets	<u>596,569</u>	<u>1,023,559</u>	<u>301,944</u>	<u>1,281,780</u>	<u>3,203,852</u>
Noncurrent assets					
Net pension asset	-	107,055	-	-	107,055
Capital assets:					
Non-depreciable	-	509,232	-	-	509,232
Depreciable	<u>3,543,206</u>	<u>163,997</u>	<u>-</u>	<u>5,770,117</u>	<u>9,477,320</u>
Total noncurrent assets, net	<u>3,543,206</u>	<u>780,284</u>	<u>-</u>	<u>5,770,117</u>	<u>10,093,607</u>
Total assets	<u>4,139,775</u>	<u>1,803,843</u>	<u>301,944</u>	<u>7,051,897</u>	<u>13,297,459</u>
LIABILITIES					
Current liabilities					
Accounts payable	29,248	57,245	3,103	89,502	179,098
Accrued interest	9	186	-	-	195
Escrow deposit	-	-	-	20,000	20,000
Long-term liabilities – due within one year	<u>27,210</u>	<u>159,389</u>	<u>12,571</u>	<u>-</u>	<u>199,170</u>
Total current liabilities	<u>56,467</u>	<u>216,820</u>	<u>15,674</u>	<u>109,502</u>	<u>398,463</u>
Long-term liabilities – due in more than one year	5,155	1,457,542	-	3,362	1,466,059
Net pension liability	<u>676</u>	<u>-</u>	<u>22,737</u>	<u>6,542</u>	<u>29,955</u>
Total noncurrent liabilities	<u>5,831</u>	<u>1,457,542</u>	<u>22,737</u>	<u>9,904</u>	<u>1,496,014</u>
Total liabilities	<u>62,298</u>	<u>1,674,362</u>	<u>38,411</u>	<u>119,406</u>	<u>1,894,477</u>
NET POSITION					
Net investment in capital assets	3,542,608	661,332	-	5,770,117	9,974,057
Unrestricted	<u>534,869</u>	<u>(531,851)</u>	<u>263,533</u>	<u>1,162,374</u>	<u>1,428,925</u>
Total net position	<u>\$ 4,077,477</u>	<u>\$ 129,481</u>	<u>\$ 263,533</u>	<u>\$ 6,932,491</u>	<u>\$ 11,402,982</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION – NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2014**

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 379,865	\$ 4,006,715	\$ 721,129	\$ 1,417,935	\$ 6,525,644
OPERATING EXPENSES					
Services	1,699,155	3,754,291	886,585	588,833	6,928,864
Depreciation	391,524	16,091	-	261,165	668,780
Total operating expenses	2,090,679	3,770,382	886,585	849,998	7,597,644
Operating income (loss)	<u>(1,710,814)</u>	<u>236,333</u>	<u>(165,456)</u>	<u>567,937</u>	<u>(1,072,000)</u>
NONOPERATING REVENUES (EXPENSES)					
Sales income	4,800	-	115,500	-	120,300
Recovered costs	25,775	41,343	-	30,674	97,792
Gain (loss) on sale of capital assets	(14,275)	1,000	-	4,812	(8,463)
Other income	-	-	-	33,679	33,679
Federal and state grants	1,242,559	-	-	-	1,242,559
In-kind contributions	231,360	-	-	-	231,360
Interest income	370	8,491	27,489	8,750	45,100
Net increase in the fair value of investments	392	8,997	29,123	9,269	47,781
Interest expense	(46)	(916)	-	-	(962)
Total nonoperating revenues	1,490,935	58,915	172,112	87,184	1,809,146
Income (loss) before contributions and transfers	<u>(219,879)</u>	<u>295,248</u>	<u>6,656</u>	<u>655,121</u>	<u>737,146</u>
Transfers and capital contributions					
Capital contribution	98,566	-	-	-	98,566
Transfer in from other funds	192,600	-	88,540	-	281,140
Transfer out to general fund	-	-	-	(302,000)	(302,000)
Total transfers and capital contributions	291,166	-	88,540	(302,000)	77,706
Change in net position	71,287	295,248	95,196	353,121	814,852
Net position – beginning, as restated	4,006,190	(165,767)	168,337	6,579,370	10,588,130
Net position – ending	<u>\$ 4,077,477</u>	<u>\$ 129,481</u>	<u>\$ 263,533</u>	<u>\$ 6,932,491</u>	<u>\$ 11,402,982</u>

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS Year Ended June 30, 2014

	<u>Transportation</u>	<u>Sanitation</u>
OPERATING ACTIVITIES		
Received from customers	\$ 410,700	\$ 4,055,642
Payments to suppliers for goods and services	(1,036,587)	(2,121,012)
Payments to employees for services	(449,169)	(1,253,455)
Payments to internal service funds for goods and services	(4,800)	(525,567)
Net cash provided by (used in) operating activities	<u>(1,079,856)</u>	<u>155,608</u>
NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	192,600	-
Transfers in other funds	-	-
Interfund borrowing	(406,415)	-
Increase in due to other fund	-	-
Operating grants received	1,734,116	-
Net cash provided by (used in) noncapital financing activities	<u>1,520,301</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(325,254)	-
Principal payments on long-term debt	(79)	(1,562)
Interest payments on long-term debt	(48)	(964)
Proceeds from sale of capital assets	5,338	1,000
Contributed capital	98,566	-
Net cash used in capital and related financing activities	<u>(221,477)</u>	<u>(1,526)</u>
INVESTING ACTIVITIES		
Interest on investments	370	8,492
Net activity in investment securities	405	9,258
Net cash provided by investing activities	<u>775</u>	<u>17,750</u>
Net increase (decrease) in cash and investments	219,743	171,832
CASH AND CASH EQUIVALENTS		
Beginning	-	728,011
Ending	<u>\$ 219,743</u>	<u>\$ 899,843</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,710,814)	\$ 236,333
Adjustments:		
Depreciation charged to operations	391,524	16,091
Nonoperating revenue, net	30,574	41,344
Postclosure landfill expense	-	(90,000)
In-kind contributions	231,360	-
Change in noncash employee benefits charged to operations	(23,300)	(43,521)
Changes in assets and liabilities:		
Decrease in receivables	262	7,582
Increase in inventory	-	-
Increase (decrease) in accounts payable	538	(12,221)
Net cash provided (used) by operating activities	<u>\$ (1,079,856)</u>	<u>\$ 155,608</u>

EXHIBIT 19

Cemetery Operations	Tele- communications	Total
\$ 837,153	\$ 1,494,030	\$ 6,797,525
(289,541)	(217,962)	(3,665,102)
(525,729)	(236,923)	(2,465,276)
(100,820)	-	(631,187)
(78,937)	1,039,145	35,960
88,540	-	281,140
-	(302,000)	(302,000)
-	-	(406,415)
-	-	-
-	-	1,734,116
88,540	(302,000)	1,306,841
-	(840,264)	(1,165,518)
-	-	(1,641)
-	-	(1,012)
-	4,812	11,150
-	-	98,566
-	(835,452)	(1,058,455)
27,489	8,749	45,100
29,123	9,269	48,055
56,612	18,018	93,155
66,215	(80,289)	377,501
235,729	1,089,978	2,053,718
\$ 301,944	\$ 1,009,689	\$ 2,431,219
\$ (165,456)	\$ 567,937	\$ (1,072,000)
-	261,165	668,780
115,500	64,353	251,771
-	-	(90,000)
-	-	231,360
(31,217)	(15,077)	(113,115)
-	11,966	19,810
-	78,066	78,066
2,236	70,735	61,288
\$ (78,937)	\$ 1,039,145	\$ 35,960

COMBINING STATEMENTS INTERNAL SERVICE FUNDS

- **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.

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS
June 30, 2014

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
Current assets				
Cash and investments	\$ 183,431	\$ -	\$ 4,917,281	\$ 5,100,712
Cash and investments – held by fiscal agents	-	-	60,000	60,000
Receivables, net	13,855	2,189	-	16,044
Inventories	-	134,325	-	134,325
Total current assets	197,286	136,514	4,977,281	5,311,081
Noncurrent assets				
Net pension asset	19,276	3,281	-	22,557
Capital assets depreciable, net	2,323,182	11,427	-	2,334,609
Total noncurrent assets	2,342,458	14,708	-	2,357,166
Total assets	2,539,744	151,222	4,977,281	7,668,247
LIABILITIES				
Current liabilities				
Accounts payable	48,949	4,568	77,504	131,021
Accrued interest	305	-	-	305
Due to other funds	-	73,874	-	73,874
Long-term liabilities – due within one year	28,465	2,382	-	30,847
Total current liabilities	77,719	80,824	77,504	236,047
Noncurrent liabilities				
Long-term liabilities – due in more than one year	18,813	-	-	18,813
Total noncurrent liabilities	18,813	-	-	18,813
Total liabilities	96,532	80,824	77,504	254,860
NET POSITION				
Net investment in capital assets	2,302,783	11,427	-	2,314,210
Unrestricted	140,429	58,971	4,899,777	5,099,177
Total net position	\$ 2,443,212	\$ 70,398	\$ 4,899,777	\$ 7,413,387

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES – INTERNAL SERVICE FUNDS
Year Ended June 30, 2014**

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 3,323,583	\$ 301,213	\$ 2,706,973	\$ 6,331,769
OPERATING EXPENSES				
Operations	2,644,680	291,602	2,706,973	5,643,255
Depreciation	616,175	12,966	-	629,141
Total operating expenses	3,260,855	304,568	2,706,973	6,272,396
Operating income (loss)	62,728	(3,355)	-	59,373
NONOPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of capital assets	101,332	(641)	-	100,691
Recoveries and rebates	54	-	58,046	58,100
Net increase in the fair value of investments	1,079	-	43,836	44,915
Interest income	1,018	-	41,377	42,395
Interest expense	(1,495)	-	-	(1,495)
Total nonoperating revenues (expenses)	101,988	(641)	143,259	244,606
Change in net position	164,716	(3,996)	143,259	303,979
Net position – beginning	2,278,496	74,394	4,756,518	7,109,408
Net position – ending	\$ 2,443,212	\$ 70,398	\$ 4,899,777	\$ 7,413,387

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS
Year Ended June 30, 2014

	Motorized Equipment	Central Services	Insurance	Total
OPERATING ACTIVITIES				
Received from customers	\$ 3,309,783	\$ 300,095	\$ 2,765,019	\$ 6,374,897
Payments to suppliers for goods and services	(1,939,429)	(209,924)	(2,655,550)	(4,804,903)
Payments to employees for services	(683,279)	(98,342)	-	(781,621)
Payments to internal service funds for goods and services	(48,843)	(6,701)	-	(55,544)
Net cash provided by (used in) operating activities	<u>638,232</u>	<u>(14,872)</u>	<u>109,469</u>	<u>732,829</u>
NONCAPITAL FINANCING ACTIVITIES				
Interfund borrowing	-	14,872	-	14,872
Net cash provided by noncapital financing activities	<u>-</u>	<u>14,872</u>	<u>-</u>	<u>14,872</u>
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(680,082)	-	-	(680,082)
Principal payments on long-term debt	(1,586)	-	-	(1,586)
Interest payments on long-term debt	(1,574)	-	-	(1,574)
Proceeds from sale of capital assets	148,696	-	-	148,696
Net cash used in capital and related financing activities	<u>(534,546)</u>	<u>-</u>	<u>-</u>	<u>(534,546)</u>
INVESTING ACTIVITIES				
Interest on investments	1,018	-	41,377	42,395
Net activity in investment	<u>1,506</u>	<u>-</u>	<u>43,836</u>	<u>45,342</u>
Net cash provided by investing activities	<u>2,524</u>	<u>-</u>	<u>85,213</u>	<u>87,737</u>
Net increase in cash and investments	106,210	-	194,682	300,892
CASH AND CASH EQUIVALENTS				
Beginning	<u>77,221</u>	<u>-</u>	<u>4,782,599</u>	<u>4,859,820</u>
Ending	<u>\$ 183,431</u>	<u>\$ -</u>	<u>\$ 4,977,281</u>	<u>\$ 5,160,712</u>
RECONCILIATION TO EXHIBIT 20				
Cash and investments	\$ 183,431	\$ -	\$ 4,917,281	\$ 5,100,712
Cash and investments – held by fiscal agent	-	-	60,000	60,000
	<u>\$ 183,431</u>	<u>\$ -</u>	<u>\$ 4,977,281</u>	<u>\$ 5,160,712</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 62,728	\$ (3,355)	\$ -	\$ 59,373
Adjustments:				
Depreciation charged to operations	616,175	12,966	-	629,141
Nonoperating revenue, net	54	-	58,046	58,100
Change in noncash employee benefits charged to operations	(27,552)	(3,702)	-	(31,254)
Changes in assets and liabilities:				
Decrease in accounts receivable	(13,855)	(1,118)	-	(14,973)
Increase in inventory	-	(7,722)	-	(7,722)
Increase (decrease) in accounts payable	682	(11,941)	51,423	40,164
Net cash provided by (used in) operating activities	<u>\$ 638,232</u>	<u>\$ (14,872)</u>	<u>\$ 109,469</u>	<u>\$ 732,829</u>

AGENCY FUND

- **Veterans' Memorial Fund** – the City acts as custodian of monies donated to the Veterans' Memorial in Danville, Virginia.

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
VETERANS' MEMORIAL FUND
Year Ended June 30, 2014**

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash	\$ 6,014	\$ -	\$ 4,941	\$ 1,073
Liabilities				
Amounts held for others	\$ 6,014	\$ -	\$ 4,941	\$ 1,073

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 say about the government’s overall financial health.

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Financial Trends 141

These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.

Revenue Capacity 144

These schedules contain information to help the reader assess the government’s most significant local revenue sources, such as property taxes and charges for utility services.

Debt Capacity 152

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.

Demographic and Economic Information 156

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.

Operating Information 158

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.

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

TABLE 1

CITY OF DANVILLE, VIRGINIA

NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Invested in capital assets, net of related debt	\$ 21,592,954	\$ 24,811,422	\$ 28,858,705	\$ 29,933,932	\$ 37,094,092	\$ 43,276,891	\$ 42,918,073	\$ 43,916,141	\$ 45,906,197	\$ 63,746,102
Restricted	6,573,688	8,602,821	10,031,903	8,229,657	10,207,310	10,668,601	15,329,590	15,892,978	20,156,434	9,769,912
Unrestricted	38,433,286	40,651,729	47,172,244	50,143,933	46,202,951	48,669,847	52,970,198	53,538,232	59,020,475	55,442,221
Total governmental activities net position	<u>\$ 66,599,928</u>	<u>\$ 74,065,972</u>	<u>\$ 86,062,852</u>	<u>\$ 88,307,522</u>	<u>\$ 93,504,353</u>	<u>\$ 102,615,339</u>	<u>\$ 111,217,861</u>	<u>\$ 113,347,351</u>	<u>\$ 125,083,106</u>	<u>\$ 128,958,235</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 158,570,378	\$ 162,072,054	\$ 172,325,000	\$ 189,153,872	\$ 190,621,794	\$ 197,322,894	\$ 205,342,317	\$ 215,409,229	\$ 229,150,139	\$ 241,435,018
Unrestricted	49,700,791	56,630,976	63,346,923	63,414,573	76,607,266	84,048,958	88,396,611	86,331,002	84,923,475	84,302,763
Total business-type activities net position	<u>\$ 208,271,169</u>	<u>\$ 218,703,030</u>	<u>\$ 235,671,923</u>	<u>\$ 252,568,445</u>	<u>\$ 267,229,060</u>	<u>\$ 281,371,852</u>	<u>\$ 293,738,928</u>	<u>\$ 301,740,231</u>	<u>\$ 314,073,614</u>	<u>\$ 325,737,781</u>
Primary government										
Invested in capital assets, net of related debt	\$ 180,163,332	\$ 186,883,476	\$ 201,183,705	\$ 219,087,804	\$ 227,715,886	\$ 240,599,785	\$ 248,260,390	\$ 259,325,370	\$ 275,056,336	\$ 305,181,120
Restricted	6,573,688	8,602,821	10,031,903	8,229,657	10,207,310	10,668,601	54,706,266	51,555,636	20,156,434	9,769,912
Unrestricted	88,134,077	97,282,705	110,519,167	113,558,506	122,810,217	132,718,805	101,990,133	104,206,576	143,943,950	139,744,984
Total primary government net position	<u>\$ 274,871,097</u>	<u>\$ 292,769,002</u>	<u>\$ 321,734,775</u>	<u>\$ 340,875,967</u>	<u>\$ 360,733,413</u>	<u>\$ 383,987,191</u>	<u>\$ 404,956,789</u>	<u>\$ 415,087,582</u>	<u>\$ 439,156,720</u>	<u>\$ 454,696,016</u>

TABLE 2

CITY OF DANVILLE, VIRGINIA

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 11,563,702	\$ 10,706,147	\$ 10,978,148	\$ 16,703,620	\$ 17,366,229	\$ 11,190,407	\$ 11,513,535	\$ 26,522,291	\$ 27,448,521	\$ 10,985,447
Judicial administration	4,506,834	4,803,342	5,218,767	4,853,835	4,680,120	4,677,118	4,895,286	5,349,323	6,115,877	6,210,609
Public safety	23,709,019	25,172,041	24,929,011	25,809,136	27,871,098	27,905,805	27,211,372	27,119,838	29,449,843	26,273,320
Public works	12,961,903	11,832,496	10,844,833	12,423,465	18,044,882	13,746,621	10,468,862	12,690,486	10,251,460	10,114,068
Health and welfare	10,751,310	12,285,520	12,844,409	13,743,677	14,011,832	13,662,743	12,236,155	11,614,813	11,413,162	11,250,069
Parks, recreation, cultural	5,456,588	5,009,150	5,367,886	5,666,299	5,834,463	5,831,486	6,227,105	5,235,582	5,573,523	5,247,916
Community development	7,893,276	7,392,661	11,796,198	4,133,310	4,127,674	4,429,763	3,862,302	4,715,326	3,395,882	21,838,752
Education	17,932,956	20,143,175	16,903,673	22,343,504	19,762,967	21,190,425	29,939,742	21,382,291	21,303,585	20,646,479
Interest on long-term debt	1,886,516	1,665,956	1,617,511	6,732,839	6,988,805	6,447,064	12,513,650	7,235,159	1,339,765	1,552,148
Nondepartmental	3,861,787	-	-	-	-	-	-	-	-	-
Total governmental activities expenses	100,523,891	99,010,488	100,500,436	112,409,685	118,688,070	109,081,432	118,868,009	121,865,109	116,291,618	114,118,808
Business-type activities:										
Wastewater	6,162,912	6,464,670	6,561,949	6,975,203	6,696,533	6,912,126	6,954,269	6,761,973	6,411,408	6,328,929
Water	4,545,575	4,598,119	4,739,464	5,035,842	5,299,264	5,676,850	5,407,252	5,541,327	5,562,611	5,352,732
Gas	22,305,387	31,008,668	23,320,491	28,436,785	29,694,406	21,633,916	20,911,099	17,955,882	19,464,631	22,819,175
Electric	41,008,206	61,160,771	72,817,037	75,313,686	84,712,087	92,884,951	95,215,780	89,185,930	89,532,367	113,273,134
Nonmajor	4,901,655	5,393,641	5,836,847	6,313,481	6,586,104	6,711,765	6,787,829	7,085,616	7,007,241	7,612,881
Total business-type activities expenses	78,923,735	108,625,869	113,275,788	122,074,997	132,988,394	133,819,608	135,276,229	126,530,728	127,978,258	155,386,851
Total primary government expenses	<u>\$ 179,447,626</u>	<u>\$ 207,636,357</u>	<u>\$ 213,776,224</u>	<u>\$ 234,484,682</u>	<u>\$ 251,676,464</u>	<u>\$ 242,901,040</u>	<u>\$ 254,144,238</u>	<u>\$ 248,395,837</u>	<u>\$ 244,269,876</u>	<u>\$ 269,505,659</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 5,000,863	\$ 5,103,657	\$ 5,685,591	\$ 5,727,677	\$ 6,071,953	\$ 6,838,951	\$ 6,171,322	\$ 313,908	\$ 1,015,444	\$ 27,316
Judicial administration	487,228	576,841	1,489,794	618,268	652,091	717,847	1,044,237	3,592,835	3,004,455	3,498,685
Public safety	242,548	219,838	231,309	312,503	201,788	253,638	223,330	182,461	217,675	10,935
Public works	-	-	-	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-	-	-
Parks, recreation, cultural	213,037	202,418	210,182	224,462	232,848	310,103	68,083	23,218	31,155	419,975
Community development	-	-	-	83,151	-	-	-	-	-	315
Education	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	32,700,459	36,552,849	38,205,373	41,172,782	43,012,678	39,784,055	39,799,066	41,329,002	45,271,317	19,523,936
Capital grants and contributions	2,905,657	1,596,539	4,055,930	2,139,975	6,580,922	5,887,846	4,654,262	8,702,174	7,927,634	18,332,445
Total governmental activities program revenues	41,549,792	44,252,142	49,878,179	50,278,818	56,752,280	53,792,440	51,960,300	54,143,598	57,467,680	41,813,607

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Program Revenues (Continued)										
Business-type activities:										
Charges for services:										
Wastewater	6,059,995	7,528,176	7,805,221	8,362,522	9,306,293	9,511,518	9,812,296	9,862,984	9,373,746	9,410,786
Water	5,075,326	6,117,848	7,012,772	7,142,932	6,930,045	6,480,696	6,230,140	5,897,749	5,714,753	7,345,579
Gas	25,211,996	33,414,367	26,290,132	32,949,771	32,501,486	27,060,176	24,700,569	21,475,496	23,474,585	26,497,854
Electric	53,740,565	72,751,817	88,910,376	90,181,855	98,949,812	106,248,337	109,022,347	102,304,323	100,176,098	125,670,235
Nonmajor	3,568,492	5,433,299	5,602,965	5,719,119	5,782,975	5,731,883	5,857,175	6,103,392	5,975,111	6,525,644
Operating grants and contributions	299,476	500,546	355,921	405,673	500,537	826,340	2,101,602	1,584,669	1,390,628	1,473,919
Capital grants and contributions	1,074,434	3,333,743	1,741,248	2,735,406	2,317,309	1,524,609	1,511,920	226,283	318,635	268,697
Total business-type activities program revenues	95,030,284	129,079,796	137,718,635	147,497,278	156,288,457	157,383,559	159,236,049	147,454,896	146,423,556	177,192,714
Total primary government program revenues	<u>\$ 136,580,076</u>	<u>\$ 173,331,938</u>	<u>\$ 187,596,814</u>	<u>\$ 197,776,096</u>	<u>\$ 213,040,737</u>	<u>\$ 211,175,999</u>	<u>\$ 211,196,349</u>	<u>\$ 201,598,494</u>	<u>\$ 203,891,236</u>	<u>\$ 219,006,321</u>
Net (expense)/revenue										
Governmental activities	\$ (58,974,099)	\$ (54,758,346)	\$ (50,622,257)	\$ (62,130,867)	\$ (61,935,790)	\$ (55,288,992)	\$ (66,907,709)	\$ (67,721,511)	\$ (58,823,938)	\$ (72,305,201)
Business-type activities	16,106,549	20,453,927	24,442,847	25,422,281	23,300,063	23,563,951	23,959,820	20,924,168	18,445,298	21,805,863
Total primary government net expense	<u>\$ (42,867,550)</u>	<u>\$ (34,304,419)</u>	<u>\$ (26,179,410)</u>	<u>\$ (36,708,586)</u>	<u>\$ (38,635,727)</u>	<u>\$ (31,725,041)</u>	<u>\$ (42,947,889)</u>	<u>\$ (46,797,343)</u>	<u>\$ (40,378,640)</u>	<u>\$ (50,499,338)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 24,540,038	\$ 25,453,656	\$ 25,930,246	\$ 26,590,389	\$ 26,487,289	\$ 26,464,571	\$ 25,869,256	\$ 26,720,274	\$ 26,758,831	\$ 27,868,180
Sales taxes	6,941,295	7,326,695	7,598,276	8,071,419	7,800,856	7,662,498	7,745,308	8,109,198	8,101,954	8,082,871
Business licenses	3,777,830	4,889,518	4,572,218	4,989,707	4,474,854	4,419,042	4,677,012	4,704,465	5,512,860	5,833,099
Utility taxes	4,237,844	4,246,590	2,654,769	994,536	1,013,694	985,162	997,935	972,637	984,613	991,780
Hotel and meals taxes	4,334,822	4,499,854	5,165,368	5,495,291	5,488,960	6,629,741	7,008,520	7,335,791	7,595,830	7,442,989
Recordation and bank stock taxes	982,914	1,109,217	946,397	948,038	862,181	978,498	957,247	901,985	870,757	930,744
Auto license and recordation taxes	983,762	895,776	1,034,967	1,047,044	1,055,948	1,159,830	1,095,474	1,086,443	1,090,372	1,120,071
Noncategorical state and federal aid	-	-	-	-	-	-	-	-	-	6,038,488
Investment income	758,666	701,529	885,861	1,626,835	1,327,296	683,469	591,487	986,545	521,402	1,641,092
Miscellaneous	3,183,697	775,157	1,047,591	1,235,600	5,260,403	2,044,711	11,461,568	2,602,443	1,005,617	1,682,156
Transfers	10,405,773	12,326,398	12,783,444	13,376,678	13,361,140	13,372,456	13,411,864	16,431,220	17,234,663	14,548,860
Total governmental activities	60,146,641	62,224,390	62,619,137	64,375,537	67,132,621	64,399,978	73,815,671	69,851,001	69,676,899	76,180,330
Business-type activities:										
Investment income	1,471,314	1,481,092	3,452,939	2,610,753	2,023,614	1,440,386	1,373,048	1,954,386	874,230	1,583,234
Miscellaneous	1,961,662	823,241	1,856,551	2,240,166	2,698,079	2,510,911	446,072	1,553,969	2,145,633	2,823,930
Transfers	(10,405,773)	(12,326,398)	(12,783,444)	(13,376,678)	(13,361,141)	(13,372,456)	(13,411,864)	(16,431,220)	(17,234,663)	(14,548,860)
Total business-type activities	(6,972,797)	(10,022,065)	(7,473,954)	(8,525,759)	(8,639,448)	(9,421,159)	(11,592,744)	(12,922,865)	(14,214,800)	(10,141,696)
Total primary government	<u>\$ 53,173,844</u>	<u>\$ 52,202,325</u>	<u>\$ 55,145,183</u>	<u>\$ 55,849,778</u>	<u>\$ 58,493,173</u>	<u>\$ 54,978,819</u>	<u>\$ 62,222,927</u>	<u>\$ 56,928,136</u>	<u>\$ 55,462,099</u>	<u>\$ 66,038,634</u>

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Change in Net Position										
Governmental activities	\$ 1,172,542	\$ 7,466,044	\$ 11,996,880	\$ 2,244,670	\$ 5,196,831	\$ 9,110,986	\$ 6,907,962	\$ 2,129,490	\$ 10,852,961	\$ 3,875,129
Business-type activities	9,133,752	10,431,862	16,968,893	16,896,522	14,660,615	14,142,792	12,367,076	8,001,303	4,230,498	11,664,167
Total primary government	<u>\$ 10,306,294</u>	<u>\$ 17,897,906</u>	<u>\$ 28,965,773</u>	<u>\$ 19,141,192</u>	<u>\$ 19,857,446</u>	<u>\$ 23,253,778</u>	<u>\$ 19,275,038</u>	<u>\$ 10,130,793</u>	<u>\$ 15,083,459</u>	<u>\$ 15,539,296</u>

TABLE 3

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

Fiscal	Property	Other Local Taxes						Total	Grand
		Sales	Business	Utility	Hotel	Recordation	Auto License		
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
2009	26,487,289	7,800,856	4,474,854	1,013,694	5,488,960	862,181	1,055,948	20,696,493	47,183,782
2010	26,464,571	7,662,498	4,419,042	985,162	6,629,741	978,498	1,159,830	21,834,771	48,299,342
2011	25,869,256	7,745,308	4,677,012	997,935	7,008,520	957,247	1,095,474	22,481,496	48,350,752
2012	26,720,274	8,109,198	4,704,465	972,637	7,335,791	901,985	1,086,443	23,110,519	49,830,793
2013	26,758,831	8,101,954	5,512,860	984,613	7,595,830	870,757	1,090,372	24,156,386	50,915,217
2014	27,868,180	8,082,871	5,833,099	991,780	7,442,989	930,744	1,120,071	24,401,554	52,269,734

TABLE 4

CITY OF DANVILLE, VIRGINIA

FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Nonspendable/Restricted/Committed/Assigned	\$ 3,851,704	\$ 5,526,954	\$ 7,242,459	\$ 8,568,727	\$ 9,436,920	\$ 9,872,609	\$ 7,721,548	\$ 6,473,442	\$ 7,103,594	\$ 7,792,980
Unassigned	20,393,893	24,843,213	26,731,939	27,812,317	24,728,115	26,107,235	30,350,466	30,690,145	29,013,386	35,078,780
Total general fund	<u>\$ 24,245,597</u>	<u>\$ 30,370,167</u>	<u>\$ 33,974,398</u>	<u>\$ 36,381,044</u>	<u>\$ 34,165,035</u>	<u>\$ 35,979,844</u>	<u>\$ 38,072,014</u>	<u>\$ 37,163,587</u>	<u>\$ 36,116,980</u>	<u>\$ 42,871,760</u>
All other governmental funds										
Nonspendable/Restricted/Committed Community Development	\$ 1,128,246	\$ 968,016	\$ 662,725	\$ 510,543	\$ 470,193	\$ 439,347	\$ 264,537	\$ 55,793	\$ 25,623	\$ 7,625
Nonspendable/Restricted/Committed Capital Projects	3,533,438	3,212,561	4,931,135	4,479,245	6,479,604	6,934,477	12,422,706	13,154,663	17,421,894	13,911,991
Restricted – Special Revenue	2,430,437	691,607	602,405	704,385	652,711	691,804	1,145,379	1,109,613	1,434,005	1,361,801
Restricted – VDOT	-	-	-	-	-	-	-	-	1,474,956	947,450
Restricted – Economic Development	-	-	-	-	-	-	-	-	2,649,962	1,238,644
Nonspendable – Cemetery Maintenance	517,233	2,475,562	2,504,847	2,541,972	2,569,222	2,606,597	2,642,347	2,682,522	2,708,917	2,734,092
Total all other governmental funds	<u>\$ 7,609,354</u>	<u>\$ 7,347,746</u>	<u>\$ 8,701,112</u>	<u>\$ 8,236,145</u>	<u>\$ 10,171,730</u>	<u>\$ 10,672,225</u>	<u>\$ 16,474,969</u>	<u>\$ 17,002,591</u>	<u>\$ 25,715,357</u>	<u>\$ 20,201,603</u>

TABLE 5

CITY OF DANVILLE, VIRGINIA

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)**

	Fiscal Year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues											
Property taxes	\$ 23,289,443	\$ 24,540,038	\$ 25,453,656	\$ 25,930,246	\$ 26,556,332	\$ 27,085,091	\$ 26,898,585	\$ 26,150,093	\$ 27,284,133	\$ 27,848,904	\$ 27,754,056
Local taxes	20,358,825	21,258,467	22,963,374	21,971,995	21,546,035	20,696,492	21,834,771	22,481,496	23,110,519	23,413,891	24,396,546
Fines and forfeitures	487,400	430,796	505,328	541,399	560,327	564,204	614,983	597,250	589,063	539,186	520,154
Permits, privilege fees, and regulatory licenses	189,405	239,617	219,668	235,358	270,052	170,178	225,791	210,694	182,461	217,675	218,083
Revenue from use of money and property	680,314	1,185,015	957,075	2,194,319	2,013,713	2,753,033	1,331,257	1,296,328	1,530,398	945,900	1,553,782
Charges for services	3,555,551	3,689,094	3,511,114	3,770,733	3,562,920	3,679,665	3,543,026	3,536,954	3,572,557	2,561,408	3,411,896
Miscellaneous & Contributions	2,937,622	2,538,070	2,600,487	1,838,547	1,014,896	5,006,274	944,433	1,074,889	1,258,407	1,167,282	927,694
Recovered costs	4,129,121	4,032,607	4,194,578	5,173,681	4,951,992	5,270,698	5,166,640	5,502,072	5,779,290	6,003,288	6,313,810
Intergovernmental	28,431,487	29,972,172	28,728,127	34,136,326	35,080,153	39,894,367	37,863,690	36,122,952	40,497,593	46,347,841	43,438,861
Total revenues	84,059,168	87,885,876	89,133,407	95,792,604	95,556,420	105,120,002	98,423,176	96,972,728	103,804,421	109,045,375	108,534,882
Expenditures											
General government	7,121,782	7,815,842	6,024,273	9,211,810	9,753,673	7,809,264	6,362,187	5,459,861	9,349,502	12,894,894	7,848,419
Judicial administration	4,242,578	4,409,910	4,584,788	5,128,684	5,379,273	5,423,448	5,256,851	5,114,279	5,431,560	5,973,866	6,036,322
Public safety	23,402,433	23,392,708	22,423,516	24,673,695	25,657,267	27,704,661	27,249,668	26,797,585	26,649,896	25,235,947	26,889,959
Public works	10,483,502	11,117,739	10,277,641	10,407,920	12,114,049	19,096,899	11,528,184	11,784,512	14,686,446	13,623,926	12,463,018
Health and welfare	10,483,034	11,495,688	11,808,295	15,352,675	13,675,562	14,066,073	13,632,948	12,652,403	11,678,445	11,387,410	11,526,481
Education	19,453,244	18,772,404	18,219,735	17,370,028	19,918,463	17,538,766	17,931,496	19,608,733	22,462,199	22,380,145	18,724,575
Parks, recreation, and cultural	5,509,938	4,833,862	5,131,578	6,144,838	5,150,624	5,266,742	5,064,459	5,172,499	5,023,585	5,288,584	5,203,975
Community development	3,937,381	4,464,673	4,757,407	3,026,397	4,164,824	4,284,071	3,982,907	4,044,531	3,871,343	2,603,250	8,962,080
Nondepartmental	3,356,058	3,861,787	3,301,482	3,542,949	3,952,931	4,370,594	5,494,121	6,062,030	6,390,130	9,148,205	5,419,946
Capital outlay	5,876,051	1,878,935	3,298,494	2,993,314	1,544,060	7,704,522	10,482,170	9,063,568	11,687,731	7,786,891	22,187,029
Debt service											
Principal	3,812,362	3,516,046	3,438,597	4,181,152	4,242,206	4,275,988	1,410,402	992,617	4,911,916	2,990,346	1,226,188
Interest	2,461,084	1,886,516	1,654,538	1,567,139	1,438,487	1,654,426	1,086,885	916,047	2,323,243	1,340,152	1,129,392
Total expenditures	100,139,447	97,446,110	94,920,344	103,600,601	106,991,419	119,195,454	109,482,278	107,668,665	124,465,996	120,653,616	127,617,384
Ratio of debt service to total non-capital expenditures	6.7%	5.7%	5.6%	5.7%	5.4%	5.3%	2.5%	1.9%	6.4%	3.8%	2.2%
Excess of revenues over (under) expenditures	(16,080,279)	(9,560,234)	(5,786,937)	(7,807,997)	(11,434,999)	(14,075,452)	(11,059,102)	(10,695,937)	(20,661,575)	(11,608,241)	(19,082,502)
Other financing sources (uses)											
Transfers in	15,086,335	17,068,419	16,878,713	20,753,576	20,415,323	24,236,283	20,420,329	18,714,276	25,446,671	31,387,755	26,543,687
Transfers out	(4,206,351)	(6,362,647)	(4,552,315)	(7,987,982)	(7,038,645)	(10,875,142)	(7,045,923)	(5,302,412)	(9,015,451)	(14,153,092)	(11,994,827)
Bonds issued	8,647,271	-	-	-	-	-	-	-	3,849,550	-	4,123,367
Refunding bonds issued	23,490,000	-	-	-	-	12,227,851	-	9,721,943	-	8,266,227	-
Payments to refunded bond escrow agent	(32,147,294)	-	-	-	-	(11,793,964)	-	(4,542,956)	-	(6,226,490)	-
Total other financing sources (uses)	10,869,961	10,705,772	12,326,398	12,765,594	13,376,678	13,795,028	13,374,406	18,590,851	20,280,770	19,274,400	18,672,227
Net change in fund balances	\$ (5,210,318)	\$ 1,145,538	\$ 6,539,461	\$ 4,957,597	\$ 1,941,679	\$ (280,424)	\$ 2,315,304	\$ 7,894,914	\$ (380,805)	\$ 7,666,159	\$ (410,275)

TABLE 6

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
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
2008-09	98,949,807	32,455,492	9,306,293	6,930,045	147,641,637
2009-10	106,248,337	27,060,176	9,511,518	6,480,696	149,300,727
2010-11	109,022,347	24,700,569	9,812,296	6,230,140	149,765,352
2011-12	102,304,323	21,475,496	9,862,984	5,897,749	139,540,552
2012-13	100,176,098	23,474,585	9,373,746	5,714,753	138,739,182
2013-14	125,670,235	26,497,854	9,410,786	7,345,579	168,924,454

TABLE 7

CITY OF DANVILLE, VIRGINIA

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
General Government Administration	97	97	98	98	102	102	99	95	95	99
Judicial Administration	95	98	98	97	97	97	97	99	98	110
Public Safety	403	403	403	406	406	406	408	394	392	392
Public Works	110	110	111	111	111	111	111	106	105	103
Health, Welfare & Social Services	100	100	101	101	101	101	101	98	99	99
Park, Recreational and Cultural	49	49	49	49	49	49	51	49	49	49
Community Development	18	18	18	19	19	19	18	17	17	17
Total General Fund	872	875	878	881	885	885	885	858	855	869
Wastewater Fund	11	11	11	11	11	11	11	11	11	11
Water Fund	16	16	16	16	16	16	19	18	18	18
Gas Fund	56	55	55	55	55	56	54	53	52	51
Electric Fund	115	116	114	114	114	113	106	99	99	100
Telecommunications Fund	-	-	2	2	4	4	4	4	4	4
Transportation Fund	17	17	16	16	16	17	17	18	18	18
Central Services Fund	4	4	4	4	4	3	3	3	3	3
Motorized Equipment Fund	22	22	22	22	20	20	20	19	19	19
Sanitation Fund	57	53	53	46	43	43	43	37	30	28
Cemetery Fund	16	16	16	16	16	16	16	16	16	15
Total Other Funds	314	310	309	302	299	299	293	278	270	267
Total	1,186	1,185	1,187	1,183	1,184	1,184	1,178	1,136	1,125	1,136

Source: City Council Approved Budget – Authorized Positions

TABLE 8

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

Fiscal Year	Assessed Value of Real Property (1)	Assessed Value of Personal Property (2)	Assessed Value of Machinery and Tools (2)	Assessed Value of Mobile Homes (2)	Assessed Value of Public Service Corp. (2)	Assessed Value of Aircraft (2)	Total Assessed Value
2005	\$ 1,864,447,500	\$ 257,033,492	\$ 90,504,892	\$ 4,977,283	\$ 52,021,885	\$ 4,306,540	\$ 2,273,291,592
2006	1,953,694,100	277,466,101	82,870,885	4,548,776	51,149,212	3,135,840	2,372,864,914
2007	2,067,848,400	291,749,737	79,708,821	4,261,308	50,697,018	3,394,102	2,497,659,386
2008	2,089,774,400	302,143,014	79,506,859	4,229,328	50,798,716	4,858,771	2,531,311,088
2009	2,252,885,600	272,726,836	84,884,957	4,347,353	45,683,587	4,218,048	2,664,746,381
2010	2,267,080,000	275,696,657	84,694,634	4,232,127	50,738,735	4,433,349	2,686,875,502
2011	2,235,675,600	279,862,350	86,749,356	4,286,745	49,939,634	4,448,493	2,660,962,178
2012	2,257,904,600	297,930,560	91,384,107	4,070,257	46,789,855	4,259,000	2,702,338,379
2013	2,232,454,800	301,421,189	89,409,088	3,889,155	46,254,322	2,488,700	2,675,917,254
2014	2,245,455,200	303,862,061	85,276,081	3,157,546	46,364,169	5,596,700	2,689,711,757

Rate for all years shown:

See note (3) below	\$3.00 per \$100	\$1.50 per \$100	See note (3) below	See note (4) below	\$0.30 per \$100
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(1) Real property assessed on a fiscal year basis.

(2) Personal property assessed on a calendar year basis.

(3) Real property and mobile home tax rates:

2005 – 2008 \$0.77 per \$100

2009 – 2014 \$0.73 per \$100

(4) Public Service Corp. – Real Property rate as in note (3), Personal Property rate is \$3.00 per \$100.

TABLE 9

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

Taxpayer	2014			2005		
	Total Assessed Value	Rank	Percentage of Total Assessed Value (1)	Total Assessed Value	Rank	Percentage of Total Assessed Value
Danville Regional Medical Center LLC	\$ 76,046,500	1	3.39%	\$ 64,649,000	1	3.47%
Goodyear Tire and Rubber Company	28,906,700	2	1.29%	32,478,200	3	1.74%
Daniel Group Inc.	18,734,100	3	0.83%	17,004,100	5	0.91%
NAP Coleman Marketplace LLC	18,156,800	4	0.81%			
JTI Leaf Services US LLC	16,045,400	5	0.71%			
Danville Mall LLC (Piedmont Mall LLC)	12,831,600	6	0.57%	22,646,900	4	1.21%
Nestle USA Inc. (formerly Carnation Co.)	11,019,200	7	0.49%	9,807,500	8	0.53%
Sams Real Estate Business Trust	10,564,900	8	0.47%			
Industrial Development Authority of Danville	10,329,000	9	0.46% (2)			
Wal-Mart Real Estate Business Trust	10,240,900	10	0.46%	8,702,300	10	0.47%
EBI LLC	9,941,600	11	0.44%			
Marshall, Robert & Margaret D. (Rev Trust)	7,450,900	12	0.33%			
Lorillard Tobacco Company	7,184,500	13	0.32%	8,666,800	11	0.46%
Dan Shopping Center Inc	7,173,400	14	0.32%			
MJRW Inc.	6,858,700	15	0.31%	9,321,600	9	0.50%
Dan River Inc.				47,480,400	2	2.55%
Southern Processors				16,023,300	6	0.86%
Dibrell Brothers Inc.				11,355,800	7	0.61%
Finlay Interests 5 LTD				7,677,200	13	0.41%
Belk Stores of Virginia				7,443,800	14	0.40%
Medical Facilities of America XXII				7,327,800	15	0.39%
	<u>\$ 251,484,200</u>		<u>11.20%</u>	<u>\$ 270,584,700</u>		<u>14.51%</u>

(1) Total 2014 Assessed Real Estate Value is \$2,245,455,200 for the City of Danville.

(2) Industrial Development Authority of Danville includes Esselpropack only in Fiscal Year 2014.

TABLE 10

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

Fiscal Year	Tax Rate Per \$100	Original Levy (1)	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Collected in Year of Levy (1)	Uncollected at End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due (1)	Collections & Adjustments in Subsequent Years (1)	Total Collections & Adjustments Thru June 30, 2014	Uncollected Balance At June 30, 2014	Percentage of Original Levy Collected At June 30, 2014
2005	\$ 0.77	\$ 14,356,246	\$ 13,540,558	94.32 %	\$ 815,688	5.68 %	\$ 776,415	\$ 14,316,973	\$ 39,273	99.73 %
2006	0.77	15,043,445	14,242,460	94.68	800,985	5.32	758,883	15,001,343	42,102	99.72
2007	0.77	15,922,433	14,964,100	93.98	958,333	6.02	906,718	15,870,818	51,615	99.68
2008	0.77	15,980,915	15,126,749	94.66	854,166	5.34	789,722	15,916,471	64,444	99.60
2009	0.73	16,320,733	15,419,024	94.48	901,709	5.52	827,580	16,246,604	74,129	99.55
2010	0.73	16,415,615	15,475,506	94.27	940,109	5.73	833,607	16,309,113	106,502	99.35
2011	0.73	16,156,634	15,134,880	93.68	1,021,754	6.32	895,735	16,030,615	126,019	99.22
2012	0.73	16,321,848	15,319,292	93.86	1,002,556	6.14	826,828	16,146,120	175,728	98.92
2013	0.73	16,165,990	15,204,912	94.05	961,078	5.95	622,761	15,827,673	338,317	97.91
2014	0.73	16,241,177	15,223,541	93.73	1,017,636	6.27	-	15,223,541	1,017,636	93.73

(1) Real Estate taxes are assessed on a fiscal year basis with 1st half taxes due December 5th and 2nd half taxes due June 5th.

TABLE 11

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

Year	Tax Rate Per \$100 (5)	Original Levy (1)	Collections & Adjustments Thru End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Collected in Year of Levy (1)	Uncollected at End of Month in which 2nd Half Tax Due (1)	Percentage of Original Levy Uncollected at End of Month in which 2nd Half Tax Due (1)	Collections & Adjustments in Subsequent Years (1)	Total Collections & Adjustments Thru June 30, 2014	Uncollected Balance At June 30, 2014 (2)	Percentage of Original Levy Collected At June 30, 2014
2005	\$ 3.00	\$ 9,112,715	\$ 8,826,339	96.86 %	\$ 286,376 (3)	3.14 %	\$ 286,376	\$ 9,112,715	\$ -	100.00 %
2006	3.00	9,581,768	9,238,435	96.42	343,333 (3)	3.58	343,333	9,581,768	-	100.00
2007	3.00	9,722,045	9,391,605	96.60	330,440 (3)	3.40	330,440	9,722,045	-	100.00
2008	3.00	10,114,292	9,837,085	97.26	277,207 (3)	2.74	277,207	10,114,292	-	100.00
2009	3.00	9,360,208	9,123,802	97.47	236,405 (3)	2.53	111,789	9,235,591	124,616	98.67
2010	3.00	9,708,729	9,527,123	98.13	181,606 (3)	1.87	90,132	9,617,255	91,474	99.06
2011	3.00	9,516,667	9,315,272	97.88	201,395 (3)	2.12	110,166	9,425,438	91,229	99.04
2012	3.00	10,330,962	10,139,346	98.15	191,616 (3)	1.85	68,965	10,208,311	122,651	98.81
2013	3.00	10,210,303	9,944,695	97.40	265,608 (3)	2.60	-	9,944,695	265,608	97.40
2014	3.00	10,560,822	3,622,870	34.30	6,937,952 (4)	65.70	-	3,622,870	6,937,952	34.30

(1) Beginning on January 1, 1999, the City has levied taxes on a calendar year basis with 1st half taxes due June 5th and 2nd half taxes due December 5th.

(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 5th 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; therefore, are shown as uncollected at June 30.

(5) Personal property tax rate shown is for personal property which is the largest portion of the tax levy. However, data includes:

Machinery & Tools (\$1.50 per \$100)
Mobile Home (\$0.73 per \$100)
Aircraft (\$0.30 per \$100)

TABLE 12

CITY OF DANVILLE, VIRGINIA

RATIOS 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	
		Real and Personal Property	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities	General Fund Supported	Self- Sustaining Utilities
2005	45,900	\$ 2,273,291,592	\$ 35,666,775	\$ 38,760,768	1.57 %	1.71 %	\$ 777.05	\$ 844.46
2006	46,143	2,372,864,914	32,105,970	43,351,471	1.35	1.83	695.79	939.50
2007	45,586	2,497,659,386	28,488,092	43,782,006	1.14	1.75	624.93	960.43
2008	45,385	2,531,311,088	24,819,277	39,043,156	0.98	1.54	546.86	860.27
2009	45,152	2,664,746,381	22,068,904	45,342,667	0.83	1.70	488.77	1,004.22
2010	43,055	2,686,875,502	21,223,853	56,278,408	0.79	2.09	492.95	1,307.13
2011	42,918	2,660,962,178	29,882,557	58,776,721	1.12	2.21	696.27	1,369.51
2012	43,332	2,702,338,379	31,756,730	55,924,755	1.18	2.07	732.87	1,290.61
2013	43,400	2,675,917,254	31,523,096	57,637,832	1.18	2.15	726.34	1,328.06
2014	42,912	2,689,711,757	34,600,414	56,448,682	1.29	2.10	806.31	1,315.45

TABLE 13

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

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Bond Debt Per Capita	Ratio of Bond Debt to Danville MSA Personal Income (1)
	General Obligation Bonds	Lease Revenue Bonds	Capital Leases	Revenue Bonds	General Obligation Bonds	Capital Leases			
2005	\$ 35,666,775	\$ 11,841,989	\$ -	\$ 6,990,317	\$ 31,770,451	\$ -	\$ 86,269,532	\$ 1,880	3.10 %
2006	32,105,970	11,047,929	-	6,349,929	37,001,542	-	86,505,370	1,875	3.10
2007	28,488,092	10,230,059	-	5,708,574	38,073,432	-	82,500,157	1,810	3.00
2008	24,819,277	9,394,098	-	5,133,548	33,909,608	-	73,256,531	1,614	2.70
2009	22,068,904	8,535,748	-	4,575,890	40,766,777	-	75,947,319	1,682	2.70
2010	21,223,853	7,651,912	-	4,011,631	52,266,777	-	85,154,172	1,978	3.00
2011	29,882,557	3,681,077	-	3,440,544	55,336,177	-	92,340,355	2,152	2.90
2012	31,756,730	-	-	2,862,396	53,062,359	-	87,681,485	2,023	2.70
2013	31,523,096	-	-	2,276,945	55,360,887	-	89,160,928	2,054	2.70
2014	34,600,414	-	-	1,683,940	54,764,742	-	91,049,096	2,122	2.70

(1) Danville MSA includes Danville and Pittsylvania County.

TABLE 14

CITY OF DANVILLE, VIRGINIA

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assessed Value:										
Real Property	\$ 1,864,447,500	\$ 1,953,694,100	\$ 2,067,848,400	\$ 2,089,774,400	\$ 2,252,885,600	\$ 2,267,080,000	\$ 2,235,675,600	\$ 2,257,904,600	\$ 2,232,454,800	\$ 2,245,455,200
Public Service – Real Property	51,432,100	50,633,290	50,191,401	50,416,709	45,331,826	50,347,484	49,603,302	46,416,815	45,836,076	46,088,538
Total Assessed value	1,915,879,600	2,004,327,390	2,118,039,801	2,140,191,109	2,298,217,426	2,317,427,484	2,285,278,902	2,304,321,415	2,278,290,876	2,291,543,738
Debt Limit Per State (10% of Assessed Value – Real Property)	191,587,960	200,432,739	211,803,980	214,019,111	229,821,743	231,742,748	228,527,890	230,432,142	227,829,088	229,154,374
Gross bond debt	74,427,543	75,457,441	72,270,098	63,862,433	67,411,571	77,502,261	88,659,278	87,657,729	89,137,171	90,094,568
Less bond debt not applicable to limit: Revenue Bonds	6,990,317	6,349,929	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396	2,276,945	1,683,940
Total debt not applicable to limit	6,990,317	6,349,929	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396	2,276,945	1,683,940
Total net debt applicable to state limit	67,437,226	69,107,512	66,561,524	58,728,885	62,835,681	73,490,630	85,218,734	84,795,333	86,860,226	88,410,628
Legal debt margin per state	\$ 124,150,734	\$ 131,325,227	\$ 145,242,456	\$ 155,290,226	\$ 166,986,062	\$ 158,252,118	\$ 143,309,156	\$ 145,636,809	\$ 140,968,862	\$ 140,743,746
Total net debt applicable to the limit as a percentage of debt limit	35.20%	34.48%	31.43%	27.44%	27.34%	31.71%	37.29%	36.80%	38.13%	38.58%
Total net debt applicable to the limit as a percentage of assessed value	3.52%	3.45%	3.14%	2.74%	2.73%	3.17%	3.73%	3.68%	3.81%	3.86%

TABLE 15

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
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
2009	151,047,640	112,334,067	38,713,573	557,658	194,366	752,024	51.48
2010	152,152,488	113,953,671	38,198,817	564,259	173,348	737,607	51.79
2011	152,286,825	115,389,621	36,897,204	571,087	152,103	723,190	51.02
2012	142,677,853	105,695,821	36,982,032	578,148	130,624	708,772	52.18
2013	140,480,644	105,273,005	35,207,639	585,451	108,903	694,354	50.71
2014	170,599,462	131,792,691	38,806,771	593,005	86,932	679,937	57.07

(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.

TABLE 16

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

Year	Population (1)	Danville MSA Per Capita Income (2)	Median Age (3)	Percentage of Population with Bachelor's Degree or Higher (4)	School Enrollment (5)	Danville MSA Personal Income (thousands of \$) (6)	Percentage of Unemployment Rate (7)
2005	45,900	\$ 26,414	40.5	13.9 %	7,114	\$ 2,788,486	10.80 %
2006	46,143	27,082	40.5	13.9	6,951	2,788,486	10.60
2007	45,586	27,544	40.5	13.9	6,904	2,788,486	7.20
2008	45,385	28,803	40.5	13.9	6,606	2,763,550	8.90
2009	45,152	29,789	40.5	13.9	6,303	2,855,919	14.40
2010	43,055	29,789	40.5	13.9	6,237	2,855,919	13.50
2011	42,918	30,092	42.6	15.7	6,120	3,184,116	12.00
2012	43,332	30,587	42.6	16.2	6,076	3,253,086	11.10
2013	43,400	31,297	42.6	16.8	6,362	3,307,949	11.00
2014	42,912	32,775	42.6	16.8	6,362	3,467,733	9.80

(1) Source: Weldon Cooper Center for Public Services, University of Virginia estimated population for 2003 - 2009 & 2011-2014. US Census Bureau actual count for 2010.

(2) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
 Danville MSA includes Danville and Pittsylvania County.

(3) Source: U.S. Census Bureau. Profile of Selected Social characteristics.

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

(5) Source: 2002-2003 through National Center for Education Statistics.
 2004-2011 through Weldon Cooper Center for Public Services, University of Virginia.
 2012-2014 provided by Danville City Schools.

(6) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce
 Danville MSA includes Danville and Pittsylvania County.

(7) Source: Virginia Employment Commission, June 2014.

NOTE: Data is most current available at June 30. Prior years is previously published data.

TABLE 17**CITY OF DANVILLE, VIRGINIA****PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago**

Employer	2014			2005		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees (1)	Rank	Percentage of Total City Employment (2)
City of Danville	2,381	1	13.96%	2,453	1	12.93%
Goodyear Tire & Rubber Co.	2,250	2	13.20%	2,400	2	12.65%
Danville Regional Health System	1,294	3	7.59%	1,795	4	9.46%
Telvista	780	4	4.57%			
Nestle Refrigerated Food	600	5	3.52%	479	6	2.52%
Averett University	550	6	3.23%			
EBI	550	7	3.23%			
Wal-Mart	474	8	2.78%	625	5	3.29%
Food Lion	376	9	2.21%	387	7	2.04%
Swedwood	375	10	2.20%			
Danville Community College				325	10	1.71%
CIT Commercial				330	9	1.74%
VF Playwear				345	8	1.82%
Dan River, Inc.				2,372	3	12.50%

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

(2) Source: Virginia Employment Commission – employed civilian labor force for June 2014 (17,050) and June 2005 (18,973).

TABLE 18

CITY OF DANVILLE, VIRGINIA

OPERATING INDICATORS AND CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

Date of Incorporation: 1830
Form of Government: Council / Manager
Area in Square Miles: 44

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of Employees (Full & Part-Time)	1,173	1,219	1,212	1,237	1,267	1,258	1,235	1,222	1,220	1,233
<u>Name of Government Facilities and Services:</u>										
Miles of streets	315	315	316	316	318	318	318	318	318	318
Number of street lights	8,703	8,485	8,483	8,804	8,804	8,822	8,822	8,827	8,827	8,827
<u>Culture and Recreation:</u>										
Recreation Centers	12	12	12	10	10	10	8	8	8	8
Number of parks	10	10	10	10	11	11	11	12	12	12
Park Acreage	349	349	349	466	575	575	575	680	680	680
Number of trails	8	8	8	8	8	8	8	6	6	6
Trail Mileage	18	25	25	28	28	28	38	41	41.5	41.5
Number of athletic fields	23	23	23	31	31	31	31	22	22	22
Athletic field acreage	45	45	45	49	49	49	49	46	46	46
Number of playgrounds	24	24	24	22	20	20	21	16	14	14
Playground acreage	88	74	74	74	74	74	74	64	64	64
Number of outdoor basketball courts	10	10	10	12	10	10	10	10	10	10
Number of tennis courts	19	19	19	21	21	21	21	19	19	19
<u>Fire Protection:</u>										
Number of stations	7	7	7	7	7	7	7	7	7	7
Number of fire personnel and officers	123	123	123	123	123	123	123	122	123	123
Number of calls answered	4,734	4,860	5,002	5,143	5,176	5,836	6,326	6,432	6,609	6,703
Number of inspections conducted	3,170	2,821	2,152	1,030	1,569	929	997	1,042	1,541	1,043
<u>Police Protection:</u>										
Number of stations	3	3	3	3	2	2	2	2	2	2
Number of police officers	137	137	137	137	136	136	133	133	133	133
Number of police vehicles and trailers	12	40	53	53	53	53	54	56	56	56
Number of law violations:										
Criminal arrests	7,075	7,253	7,434	5,840	7,427	7,603	8,183	9,188	8,994	7,911
Traffic violations	5,498	6,127	6,571	7,896	8,276	9,476	8,190	7,447	6,224	7,251
Parking violations	1,178	2,132	2,515	1,813	1,599	2,042	2,374	2,537	1,504	1,390

(Continued)

TABLE 18

CITY OF DANVILLE, VIRGINIA

OPERATING INDICATORS AND CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<u>Sewerage System:</u>										
Miles of sanitary sewers	384	384	386	386	386	371	385	385	386	386
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	16,883	16,651	16,589	16,665	16,665	16,511	16,511	16,663	16,335	16,235
Average daily treatment										
– Million Gallons per Day (MGD)	10.54	6.26	5.46	5.95	6.71	6.81	6.47	6.70	6.51	7.34
Maximum daily capacity of treatment plant – MGD	24	24	24	24	24	24	24	24	20	20
<u>Water System:</u>										
Miles of water mains	312	312	317	319	319	319	331	337	340	342
Active number of service connections	17,956	17,880	17,826	17,942	19,029	17,734	17,426	17,837	17,712	17,780
Number of fire hydrants	1,945	1,951	1,967	2,029	2,050	2,056	2,065	2,073	2,081	2,107
Average daily consumption – MGD	6.76	6.38	6.39	4.76	5.79	5.28	5.40	5.30	4.93	5.19
Maximum daily capacity of treatment plant – MGD	18	18	18	18	18	18	18	18	18	18
<u>Electric Distribution System:</u>										
Square Miles of service	500	500	500	500	500	500	500	500	500	500
Number of distribution stations	14	14	14	14	14	17	17	17	17	17
<u>Facilities and services not included in the primary government:</u>										
<u>Education:</u>										
Number of preschools	-	1	1	1	1	1	1	1	2	2
Number of elementary schools	10	9	9	9	9	9	9	9	8	6
Number of middle schools	3	3	3	3	3	3	3	3	3	2
Number of high schools	2	2	2	2	2	2	2	2	2	2
Number of alternative schools	1	1	1	1	1	1	1	1	1	1
Number of preschool instructors	-	21	18	19	22	21	21	21	21	21
Number of elementary school instructors	276	255	250	251	254	252	251	251	228	223
Number of middle school instructors	136	134	137	144	134	127	125	125	123	111
Number of high school instructors	188	186	183	182	174	172	175	175	167	152
<u>Facilities and services not included in the reporting entity:</u>										
<u>Hospitals:</u>										
Number of hospitals	1	1	1	1	1	1	1	1	1	1
Number of patient beds	350	350	350	350	290	290	290	290	250	250

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits for Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, (both issued by the Auditor of the Public Accounts of the Commonwealth of Virginia), 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 (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider Items 14-01 through 14-07 as described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Item 14-08 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instances of noncompliance or other matters identified as Items 14-IVA and 14-2VA in the accompanying schedule of findings and questioned costs, that are required to be reported under *Government Auditing Standards*.

City of Danville, Virginia's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
January 27, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Danville, Virginia's (the "City") compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the City'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Danville, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2014-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance (Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
January 27, 2015
(except for CFDA #20.509, as to
which the date is November 11, 2015)

CITY OF DANVILLE, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Comprehensive Services Act

Uniform Disposition of Unclaimed Property Act

Sheriff Internal Controls

State Agency Requirements

Education

Social Services

Urban Highway Maintenance

Virginia Retirement Systems

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Restated to Reflect the Addition of CFDA #20.509 as a Major Program)
Year Ended June 30, 2014**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency and seven material weaknesses** related to the audit of the financial statements were reported.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **One material weakness** relating to the audit of the major federal award programs was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **one audit finding relating to major programs**.
7. The major programs of the City are:

Name of Program	CFDA #
Supplemental Nutrition Assistance Program	10.561
Community Development Block Grant Program, Entitlement Grants	14.218
Airport Improvement Program	20.106
Formula Grants for Rural Areas	20.509
Title I – Educationally Deprived Children – Local Education Agencies	84.010
Special Education Cluster – Special Education – Grants to States	84.027
Special Education Cluster – Special Education – Preschool Grants	84.173
Temporary Assistance for Needy Families (TANF) Block Grant	93.558
Adoption Assistance – Title IV-E	93.659
Medical Assistance Program	93.778

8. The **threshold for** distinguishing Type A and B programs was **\$608,504**.
9. The City of Danville was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

14-01: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties in such a way that no one employee will have access to both physical assets and the related accounting records, or to all phases of a transaction. At the City, Schools and IDA we noted several instances where duties are not fully segregated.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-01: Segregation of Duties (Material Weakness) (Continued)

Recommendation:

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

Management's Response:

Management will take actions to effectively segregate duties or implement compensating controls where complete segregation is not feasible.

14-02: Audit Adjustments (Material Weakness)

Condition:

We proposed several adjustments at the City, the Schools, and the IDA, which were material in amount and are presumed to indicate a material weakness in internal control. We also proposed a significant number of new disclosures in the current year.

Recommendation:

Management should maintain detailed supporting schedules and consult appropriate specialists where appropriate. Financial information maintained in departments other than the finance department should be fully reconciled to finance department records, and authority/responsibility should be accorded to the finance department as needed to ensure that reconciliations and controls are appropriate. Management should monitor and ensure disclosure of significant contingencies and contractual obligations.

Management's Response:

Management will develop and maintain additional supporting schedules where needed to ensure complete and accurate financial reporting. The Finance Department will have the required authority to ensure reconciliation and controls are appropriate in other departments and will ensure contingencies and contractual obligations are fully considered for proper disclosure.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-03: Overtime Compensation – (Material Weakness)

Condition:

During fiscal year 2014 the City identified several instances where certain hourly employees allegedly overstated the work time submitted on their time sheets. Several employees were charged with fraud and either resigned or were terminated. There appear to have been at least two points where a key control was either absent or ineffective: the first was where a department supervisor approved timesheets reflecting overtime that management now believes may have been misreported. The second is that no monitoring appears to have provided a timely warning of unusual amounts of overtime compensation.

Recommendation:

We recommend that management begin monitoring the ratio of overtime to total payroll, both on an individual employee basis and at the fund level. We also recommend that supervisors receive training that emphasizes the importance of understanding and evaluating the time sheets submitted by employees, both to ensure that the supervisors have an understanding of the hours worked by the employees as well as to aid them in identifying unusual overtime compensation as it is occurring. Strengthening controls both at the payroll-transaction level and at the monitoring/oversight level can reduce the risk of fraud and maximize the efficient use of City resources.

Management's Response:

Management will develop overtime reports and require appropriate review within each department during each payroll cycle. The Finance Department will also review overtime and monitor the ratio of overtime to total payroll.

14-04: Inventory Physical Controls and Counts – (Material Weakness)

Condition:

We noted that physical controls over inventories do not sufficiently limit access. Subsequent to year end certain employees were charged with selling surplus materials and keeping the proceeds for personal use.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-04: Inventory Physical Controls and Counts – (Material Weakness) (Continued)

Recommendation:

Significant inventory items should be held in secure environments where access is limited to authorized individuals in order to enhance accountability and to minimize the opportunity for misappropriation of inventory. This should include surplus or scrap materials or any capital assets which are being disposed of by the City.

Management's Response:

Management will assess the control over inventory and implement necessary refinements to ensure access to inventory is appropriately secure, minimizing the risk of misappropriation.

14-05: Low Income Housing Loans Receivable – (Material Weakness)

Condition:

We noted that the accounting and controls over these loans exists nearly entirely in the community development department rather than in the finance department. In obtaining our understanding and auditing these loans, we noted that loans are issued with the approval of a very small committee; there is not a reliable reconciliation process between the finance department and the community development department; the mortgage software/reporting system is under the control of one individual, and others are unfamiliar with it; there does not appear to be a reliable process to monitor and ensure that "forgiveness loans" are being reduced appropriately and at the proper periods; and loan statements are not mailed regularly.

Recommendation:

We recommend that the membership of the committee be expanded to include knowledgeable individuals, possibly from other departments, who are not otherwise involved in the processing of the loans. Management should endeavor to increase the depth of the committee. We also recommend that reconciliations be regularly provided to the finance department, and that they include all cash collections/disbursements. We recommend that others be cross-trained to use the mortgage software, that loan statements be mailed at least quarterly, and that "forgiveness loan" write-downs be reviewed and approved at least quarterly.

Management's Response:

Management will expand the loan committee membership to include individuals from other departments with appropriate knowledge. The Finance Department will work with the Community Development Department to establish processes for controls over cash receipts, payment posting, loan forgiveness, and reconciliation to the general ledger. Management will also initiate needed cross-training.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-06: Accounting for Grants – (Material Weakness)

Condition:

We noted that the understanding of grant agreements was not uniformly documented, and that there is not an overall process to monitor compliance with grant agreements. This was also evidenced as management worked to prepare the schedule of expenditures of federal awards (SEFA) for the current year, and in planning the current year audit, we noted that the prior year SEFA had not reported the school nutrition program. Management and the prior auditor have restated/resubmitted the prior year SEFA and data collection form to the Federal Audit Clearing House.

Recommendation:

We recommend that management develop a process that ensures that all federal grants are monitored in such a way that a full inventory of such grants can be readily accessed, and not simply manually prepared at the end of the year. We also recommend that a process be implemented to ensure that there is monitoring and oversight of each grant – in other words, compliance and reporting requirements at the grant level should not simply be performed by one individual without review from others with the appropriate knowledge and understanding of the grant requirements

Management's Response:

Management will establish procedures to ensure all federal grants are monitored, creating a readily available inventory of grants. Appropriate grant reviews will be established.

14-07: Procurement – (Material Weakness)

Condition:

We noted a blanket purchase order in the Electric Fund appears to have been used for several years' worth of construction/maintenance work that possibly should have been broken into several projects and subjected to the full bid process. We also noted an instance where the bid which initially appeared to be the low bid was not accepted for a significant contract – although the bid file did contain documentation supporting the conclusion that another contractor appeared to be the lowest bidder, we did not note that the conclusion was formally documented by both the department head and the procurement department. Finally, we noted that the City does not have a firm policy regarding the frequency for which contracts should be put out to bid.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-07: Procurement – (Material Weakness) (Continued)

Recommendation:

We recommend that management clarify current procurement policies and provide additional oversight to prevent fraud or inefficient use of resources. We recommend that the City monitor the use of blanket purchase orders to ensure that they are not being used to avoid the bid process. For situations where a low bidder is not selected, we recommend that the bid file contain memoranda signed by both the department head and the procurement department head, and that any such analysis be reviewed and approved by the finance department. If the results are unclear management should consult with legal counsel.

Management's Response:

Management will establish a Procurement Administrative Policy and Procedure to clarify proper procurement processes including, but not limited to, blanket purchase orders and documentation of the bidding process.

14-08: Purchase Cards and Charge Accounts – (Significant Deficiency)

Condition:

The purchase card access controls have not been structured in such a way that ensures that the transactions of each card will be reviewed and approved by appropriate personnel – there appear to be instances where review/approval of transactions is provided by the individual card user. Although it is understood that the original receipts, etc. will be reviewed at the time each transaction is approved, this documentation is not retained in a central location.

Recommendation:

We recommend that management ensure that each transaction will be reviewed by an individual other than the card user, and that individual should be in a position with adequate authority and knowledge to provide substantive review. We recommend retaining original receipts and other supporting documentation, complete with initials and dates indicating that the *card user* has reviewed the transaction and considers it a legitimate City transaction, and that the *reviewer/approver* has reviewed the supporting information, understands the transaction, and agrees that it is a legitimate transaction.

Management's Response:

Management will identify and correct instances where appropriate transaction reviews are absent.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

14-1VA: Annual Review of System Access – Department of Social Services

Condition:

The Virginia Department of Social Services requires all local departments of social services to review the system access granted to all users at least annually to determine that access aligns with current individual job functions and responsibilities. We noted in our testing that this review did not occur on four of the five employees selected.

Recommendation:

All users' system access should be reviewed annually as required.

Management's Response:

The auditee concurs with the recommendation.

14-2VA: Procurement and Conflicts of Interest

Condition:

As discussed at Item 14-07, we noted instances where controls over procurement should be strengthened. We also noted instances where a vendor/service provider provided gifts or entertainment to city employees who were in positions to influence purchase decisions. We also were made aware of other instances where City employees engaged in transactions where an objective party might have concluded that interests were conflicted. The City continues to review these instances.

Recommendation:

We recommend that City management review current City policies and provide training to ensure that all procurement laws are fully followed. Situations where an objective party might question whether a conflict of interest exists should be fully reviewed and approved in advance by senior City management who are fully separated from any conflict.

Management's Response:

Management will establish a Procurement Administrative Policy and Procedure to clarify proper procurement processes including, but not limited to, blanket purchase orders and documentation of the bidding process.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2014-001: Community Development Block Grant – CFDA 14.218

Condition:

The Federal Funding Accountability and Transparency Act (FFATA) reporting requirements for subrecipients were not properly followed and reports were not submitted.

Recommendation:

City personnel responsible for grant administration should stay abreast of compliance requirements.

Management's Response:

The auditee concurs with the finding and will submit required FFATA reports in the future.

2014-002: Community Development Block Grant Loans – CFDA 14.218 (Material Weakness)

Condition:

We noted that the accounting and controls over these loans exists nearly entirely in the community development department rather than in the finance department. In obtaining our understanding and auditing these loans, we noted that loans are issued with the approval of a very small committee; there is not a reliable reconciliation process between the finance department and the community development department; the mortgage software/reporting system is under the control of one individual, and others are unfamiliar with it; there does not appear to be a reliable process to monitor and ensure that “forgiveness loans” are being reduced appropriately and at the proper periods; and loan statements are not mailed regularly.

Recommendation:

We recommend that the membership of the committee be expanded to include knowledgeable individuals, possibly from other departments, who are not otherwise involved in the processing of the loans. Management should endeavor to increase the depth of the committee. We also recommend that reconciliations be regularly provided to the finance department, and that they include all cash collections/disbursements. We recommend that others be cross-trained to use the mortgage software, that loan statements be mailed at least quarterly, and that “forgiveness loan” write-downs be reviewed and approved at least quarterly.

Management's Response:

Management will expand the loan committee membership to include individuals from other departments with appropriate knowledge. The Finance Department will work with the Community Development Department to establish processes for controls over cash receipts, payment posting, loan forgiveness, and reconciliation to the general ledger. Management will also initiate needed cross-training.

SCHEDULE 1**CITY OF DANVILLE, VIRGINIA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal Catalog Number	Federal Expenditures
<u>Primary Government</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Supplemental Nutrition Assistance Program	10.561	\$ 702,277
National School Lunch Program	10.555	49,282
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
Special Programs for the Aging – Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	48,200
Family Preservation and Support	93.556	30,927
Temporary Assistance for Needy Families (TANF) Block Grant	93.558	703,277
Refugee and Entrant Assistance State – Administered Programs	93.566	3,930
Low Income Energy Assistance	93.568	77,667
Child Care Development Fund	93.596	103,706
Chafee Education and Training Vouchers Program (ETV)	93.599	5,070
Child Welfare Services	93.645	5,227
Foster Care – Title IV-E	93.658	480,817
Adoption Assistance – Title IV-E	93.659	195,937
Social Services Block Grant	93.667	507,879
Independent Living	93.674	9,252
Children's Insurance Program	93.767	20,129
Medical Assistance Program	93.778	601,072
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Payments:		
Community Development Block Grant Program, Entitlement Grants	14.218	602,986
Home Investment Partnership Program	14.239	749,549
DEPARTMENT OF JUSTICE		
Direct payments:		
Bulletproof Vest Partnership	16.607	12,658
Passed through Commonwealth of Virginia:		
Department of Criminal Justice Services:		
Juvenile Accountability Block Grants	16.523	10,156
State Criminal Alien Assistance Program	16.606	4,806
Byrne Memorial Justice Assistance Grant	16.738	17,153

(Continued)

SCHEDULE 1**CITY OF DANVILLE, VIRGINIA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal Catalog Number	Federal Expenditures
<u>Primary Government (Continued)</u>		
DEPARTMENT OF LABOR		
Passed through Commonwealth of Virginia: Virginia Community College System (VCCS): WIA Youth Activities	17.259	\$ 40,367
DEPARTMENT OF HOMELAND SECURITY		
Direct Payments: Disaster Grants – Public Assistance (Presidentially Declared Distaters)	97.036	90,939
DEPARTMENT OF TRANSPORTATION		
Direct payments: Highway Planning and Construction	20.205	232,733
Federal Transit: Formula Grants for Rural Areas	20.509	772,219
New Freedom Program	20.521	50,981
Passed through Commonwealth of Virginia: Department of Motor Vehicles: Alcohol Impaired Driving Grants	20.600	14,073
Acohol Impaired Driving Countermeasures Incentive Grants I	20.601	8,234
Occupant Protection Incentive Grants	20.602	900
DEPARTMENT OF THE INTERIOR		
Passed through Commonwealth of Virginia: Historic Preservation Fund Grants-In-Aid	15.904	3,750
DEPARTMENT OF ENERGY		
Passed through Commonwealth of Virginia: Weatherization Assistance for Low-Income Persons	81.042	806
FEDERAL AVIATION ADMINISTRATION		
Direct Payments: Department of Aviation: Airport Improvement Program	20.106	5,769,206
FEDERAL EMERGENCY MANAGEMENT AGENCY		
Direct Payments: Department of Homeland Security: Emergency Communications	97.042	29,642
Passed through Commonwealth of Virginia: Department of Emergency Services: Homeland Security	97.073	18,514
Department of Emergency Management: State Homeland Security Program Grant	97.067	10,041

(Continued)

SCHEDULE 1**CITY OF DANVILLE, VIRGINIA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal Catalog Number	Federal Expenditures
<u>Component Unit – Danville Schools</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program	10.555	\$ 2,116,439
National School Breakfast Program	10.553	730,491
ARRA CNP RA – National School Lunch Program Equipment	10.579	
Fresh Fruit and Vegetables	10.582	167,558
DEPARTMENT OF EDUCATION		
Passed through Commonwealth of Virginia:		
Title I – Educationally Deprived Children – LEA	84.010	2,715,673
Adult Education – State Grant Program	84.002	141,468
Title IV-B – Elementary and Secondary Education Act of 1965	84.287	11,555
Title VI-B – Special Education	84.027	1,336,710
Special Education Preschool Grants	84.173	38,724
Education Technology State Grants, Recovery Act	84.386	4,759
English Language Acquisition State Grants	84.365	15,932
Title II – Part A Funds	84.367	394,510
Basic Grants to States	84.048	179,021
School Improvements Grants, Recovery Act	84.388	234,237
Total		<u>\$ 20,071,439</u>
		<u>Donated Food Received</u>
<u>Primary Government</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Social Services:		
W. W. Moore, Jr. Detention Home (Commodities)	10.555	\$ 2,822
<u>Component Unit – Danville Schools</u>		
DEPARTMENT OF AGRICULTURE		
Passed through Commonwealth of Virginia:		
Department of Education:		
National School Lunch Program (Commodities)	10.555	209,200
Total		<u>\$ 212,022</u>

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards 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.

Subrecipients

The City provided the following amounts to subrecipients during fiscal year 2014:

<u>Program Title</u>	<u>CFDA</u>	<u>Amount</u>
Department of Housing and Urban Development Home Investment Partnership Program	14.239	\$ 54,520