

DANVILLE
VIRGINIA
CITY GOVERNMENT
COMPREHENSIVE
ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR
JULY 1, 2015 TO JUNE 30, 2016

CITY OF DANVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016



Prepared by:

The Department of Finance
City of Danville, Virginia



CITY OF DANVILLE, VIRGINIA

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INTRODUCTORY SECTION





City of Danville Virginia

November 30, 2016

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, 2016.

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 42,544.

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

The City of Danville continued to pursue its strategic redevelopment of the River District during fiscal year 2016. This central district of the city has been a target for renewal for well over 30 years since the relocation of retail establishments to enclosed malls and distributed strip shopping centers essentially disrupted commercial activity in the district. Over the years, a variety of plans for the River District were developed, none of which made a meaningful impact on either traffic or taxable properties. Finally, around 2008, the concept of the River District was formalized and set in motion. The portion of the city now called “River District” consists of the former Central Business District and the Tobacco-Warehouse District. The Dan River, which flows adjacent to the district, has become a featured asset, and with renewed emphasis from the City government and support from by Industrial Development Authority of Danville (IDA), the River District is experiencing a renaissance; it has achieved palpable vitality. Residential properties are booming; commercial growth is sustainable; specialty retail has a renewed vigor. The City has been assisted in its efforts to revitalize downtown by a number of entities, and it has integrated this assistance into fully implemented programs where cooperative activity has supplanted competitive, “for credit” projects. The result has exceeded most expectations. The activity in the River District during fiscal year 2016 is as follows:

- The focus of development in the former Tobacco-Warehouse District has moved from Bridge Street to Craghead Street. This is consistent with redevelopment activity which is being driven by the private sector. Specialty commercial projects are filling voids in the City’s overall quality of life improvements, and a craft brewery has already been publicly announced. Other projects include specialty restaurants and a grocery retailer.
- The City of Danville, working with the Danville Redevelopment and Housing Authority, created a Community Development Entity which was successful in getting an award of \$20 million in New Market Tax Credits. This award, in its entirety, was applied to the River District Tower development project, which will convert the vacant and rapidly deteriorating Dan River Inc. Research Building into a new home for the Danville Orthopedic Clinic and training activities for the Danville Regional Medical Center, plus some retail and commercial tenancy in the building. The total cost of this project is estimated to be \$25 million. It is located in the center of the River District with high visibility throughout the district.
- Main Street has seen specialty retail development of a consistently higher caliber of merchandise. This activity along Main Street will be ongoing, and as the economy of the City improves, the merchandise along the street will continue to be upgraded. Projects have already provided some additional residential space to the street, thereby enhancing activity and census in the district.
- Through the auspices of the Industrial Development Authority, Union Street is also being targeted for revitalization. The IDA has purchased four under-utilized properties along North Union Street, and has potential activity underway for redevelopment along South Union Street. Discussion is currently underway with a potential developer who will provide a specialty retail shop that will fill an existing void in the City and a restaurant operation that will be unique to the dining scene in Danville. The upstairs apartments being planned for these buildings will provide a very good view of the Dan River.
- Major parking facilities are being designed for the district. The implementation of these plans is still a couple of years away from realization, but a thorough design study has identified a parking deck design that will provide significant parking, while also providing both aesthetic appeal and additional commercial space.
- A public park on property adjacent to the Martin Luther King Bridge is being planned at this time. The Industrial Development Authority of Danville owns the real estate, and the City is managing the planning process for the park.

- Through the offices of the Danville Regional Foundation, an investment group, Watershed Ventures, has been funded and begun to purchase properties in the River District that can be adapted for new uses. The Foundation's goal is to get a reasonable return on its investment in these properties, and the Watershed Ventures group provides the rehabilitation expertise for historic properties as an investment vehicle. The River District will be the beneficiary of this collaboration between the Danville Regional Foundation and the Watershed Ventures group. Once again, collaboration is proving to be a route to successful adaptive reuse of Danville's historic buildings.
- The two largest remaining properties in the River District, which have not yet been identified for refurbishing, are the White Mill and the Masonic Temple building. Both of these properties are currently under active consideration for redevelopment.

Industrial development has seen progress during the most recent fiscal year, and the City has successfully developed several relationships that provide excellent opportunities for ongoing industrial development. The City has seen successful expansion or modernization projects underway at several existing businesses, including Telvista, Goodyear, Sky Valley Foods, Essel Propack, and Japan Tobacco. There are serious discussions regarding expansion of EBI and IKEA Factory, and as IKEA expands its U. S. marketing presence, we can anticipate growth of these suppliers to the retailer. Other important highlights in the City's economy for fiscal year 2016 are as follows:

- Precision machining has been a key strategic issue for attracting advanced manufacturing businesses to the community. This is an effort that involved Danville Public Schools, Danville Community College, and the Institute for Advanced Learning and Research. Just as with the River District project, we are utilizing a variety of organizations and funding sources to enable us to implement a world class training program that will motivate advanced manufacturers to capitalize on a structured and ongoing source of trained workers who are in short supply across the nation. Major progress has been made in the attraction of companies who are responding to these efforts. Two major new employer announcements have been made in recent months – Overfinch and SGS/Kyocera. Both of these companies are located in the United Kingdom, and they have both stated that the sustainable supply of precision metal workers through the local training program is the primary reason for their location in Danville.
- Strategically, the Office of Economic Development is working with Danville Community College and a local business to develop an information technology (IT) workforce training program analogous to the precision machining program. Evaluation is continuing to determine which university is best for an affiliation with this effort. There are significant economic development opportunities in the IT field, and Danville's strategy is to develop workforce solutions that can take advantage of the highly sophisticated IT communication infrastructure that exists through Mid-Atlantic Broadband. Our experience verifies the concept that refurbished historical buildings are very attractive to "techies," and we have adequate historical spaces that we can retrofit to meet the requirements of IT service businesses.
- Projects which have been under development for several years continue to look promising for Danville. An Israeli company is very close to announcing the location of its first U. S. facility in Cane Creek Centre, and Engineered Biopharmaceuticals, which began its development efforts in the Dan River Business Development Center, is moving closer to commercialization of several major product lines that are made using its pioneering low temperature freeze drying technology.

Economic development in Danville enjoys very broadly based support. City Council continues to be a strong supporter of the public effort to reinvigorate our economy. The Danville Regional Foundation, which is a private sector group that administers a \$200+ million fund from a hospital conversion sale, is very valuable to this effort also. The business community is committed to development in a variety of ways including both financial and political support at the local and state levels. There is every indication that this kind of collaborative support will continue, and we can realistically forecast a positive future for Danville's economic wellbeing.

The demographics of the City are challenging. More well-paying jobs and continued growth of advanced manufacturing and higher technology applications in the community will positively address both demographics and population decline. There are specific programs in place through organizations, including the Chamber of Commerce and the Danville Regional Foundation, to nurture and grow the younger cross section of people in the community to build future civic infrastructure and provide solid leadership in future years. Danville's future is bright!

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 \$18,223,030; Sewer and Wastewater Capital Improvements of \$1,300,000; Water and Gas Capital Improvements of \$2,665,000; Electric and Telecom Capital Improvements of \$3,440,000; and Transportation Capital Improvements of \$1,325,000.

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. In FY2016, the AVRC building was acquired by the Industrial Development Authority of Danville, Virginia (IDA) to up-fit the building to accommodate Overfinch's operations in the United States. Overfinch has signed a lease-to-purchase contract with the IDA which will ultimately transfer ownership to Overfinch assuming that the business operation is successful. 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 USA, and it has just announced that it will add a new production line to its factory.

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 Industrial 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 park 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 Berry Hill Industrial Park, 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. RIFA 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. RIFA has now obtained the necessary permits from federal and state regulatory agencies to begin grading of a large site.

Utility Financial Solutions completed a comprehensive biennial rate study for fiscal years 2016/2017 and a cost of service study for all five Utility funds. An overall 3.5% utility rate increase was approved for FY2016 for the Wastewater fund. The electric power cost adjustment remained flat throughout the fiscal year and the purchase gas adjustment trended with the gas commodity cost.

The Electric division completed rebuilding the Brantley to Airside substation transmission line adding additional capacity for future industrial growth. Also replaced in FY2016 was the 69kv/12.5kv Brantley substation transformer. The previous transformer had been in service for over fifty years. The City also received a new mobile substation which allows for substations to be taken off-line for maintenance and replacement activities.

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 \$911,917 in 2016, which was passed on to customers.

During FY 2016, the Water & Gas Division installed new gas mains on all or portions of 32 streets by City crews. New water mains or main segments were installed on 4 streets by City crews.

At the City's Northside Wastewater Treatment Plant (NSWWTP), Phase III construction has been completed. Phase III included modifying or reworking the high rate primary clarifiers (HRPC) in lieu of installing grit removal facilities. The NSWWTP has also refurbished all four final clarifiers to replace the deteriorated scum baffle, weir, center turn table, sludge removal units and baffles to prevent short circuiting. The NSWWTP has a rated capacity of 20 million gallons per day (MGD) and the current usage is about 7.4 MGD.

In an effort to determine the cause of the two significant taste and odor issues experienced in 2015 in the raw and treated water drawn from Dan River, Virginia Tech obtained a grant from the US Fish and Wildlife Federation to perform sampling of the Smith and Dan Rivers. The study, which commenced in August 2016, was requested by the City of Danville and the Halifax County Service Authority will not be completed until late fall of 2017 or early 2018. The Danville water treatment plant is in the preliminary stages of installing continuous solids removal equipment in the four settling basins to assist with the reduction of trihalomethanes and the release of other matter into the water column. The water treatment plant capacity is 18 MGD and current production is about 5 MGD.

The nDanville fiber to the home expansion continued connecting homes in FY 2016 and finished approximately 239 homes, in addition to the 250 homes completed in FY2015. 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 three service providers and is continuing to grow as commercial and residential customers sign up for service. The three 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, 2015. This was the thirtieth 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,



Kenneth F. Larking
City Manager



Michael L. Adkins
Director of Finance



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

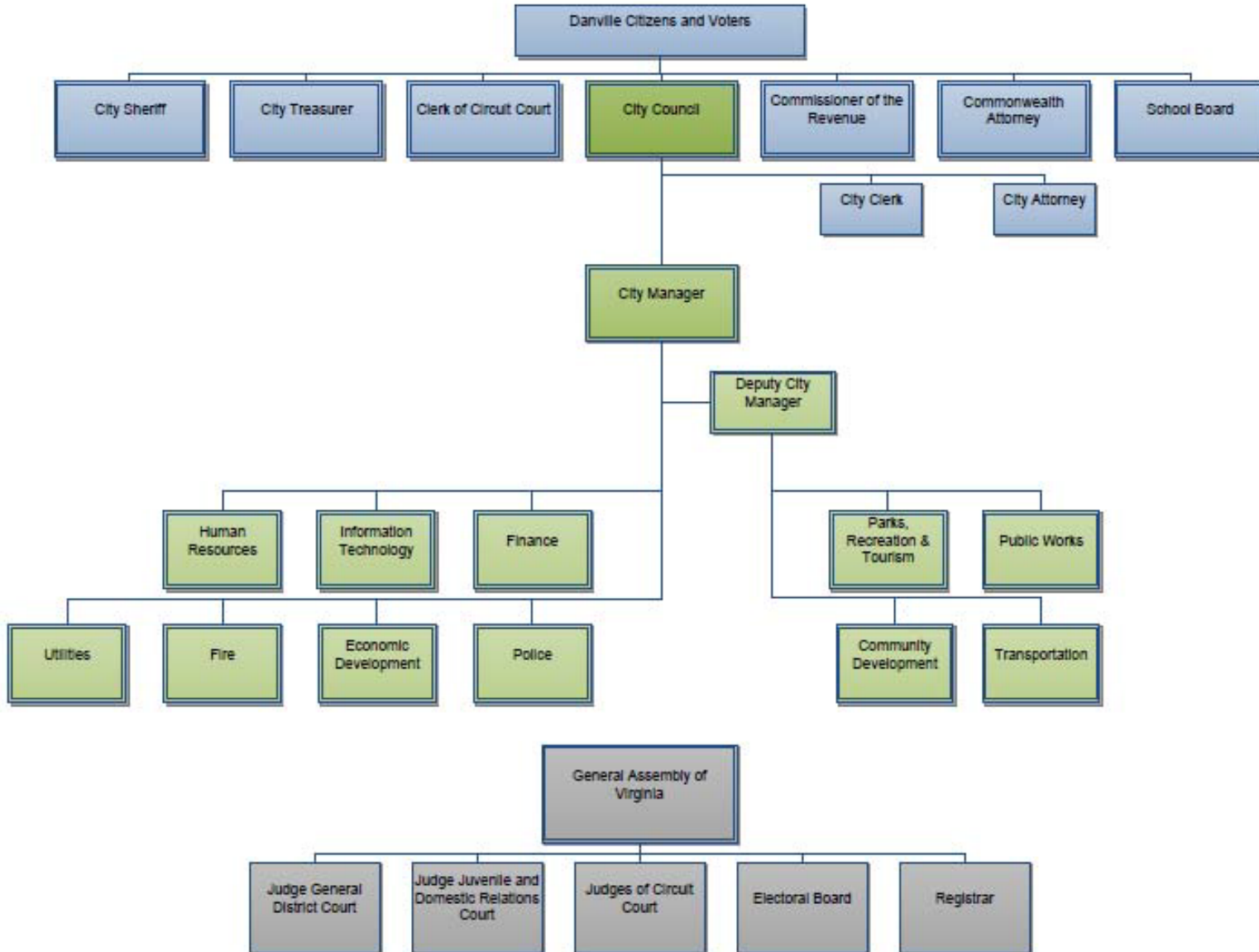
June 30, 2015

A handwritten signature in black ink, reading "Jeffrey R. Emen". The signature is written in a cursive, flowing style.

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.
James Buckner

LEGISLATIVE STAFF

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

ADMINISTRATIVE OFFICIALS

Kenneth F. Larking.....City Manager
Earl B. Reynolds..... Acting Deputy City Manager
Cynthia L. ThomassonBudget Director
Marc D. Adelman Director of Transportation Services
Michael L. Adkins Director of Finance
Richard I. Drazenovich..... Director of Public Works
Earl B. Reynolds, Jr.....Director of Community Development
Inez J. Rodenburg..... Director of Information Technology
David R. Eagle Fire Chief
Philip A. BroadfootChief of Police
Sara B. Weller Director of Human Resources
William O. SgriniaDirector of Parks, Recreation, and Tourism
Jason C. Grey Director of Utilities
Telly D. Tucker Director of Economic Development

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
Sheila A. Williamson-Branch.....City Treasurer

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

SCHOOL BOARD

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

Steven Gould
Sharon Dones
Cheryl Bryant

O. Renee' Hughes
Dr. Philip W. Campbell

SCHOOL ADMINISTRATIVE OFFICIALS

Dr. Kathy J. Osborne Interim Superintendent,
Assistant Superintendent for Administrative Services
Lori Cassada Clerk of School Board
Dr. Juliet C. Jennings Assistant Superintendent for Human Resource Services
Yvette Smith Assistant Superintendent for Instruction

EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES

City Employee Members

D. Joyce Obstler – Chairman – Assistant Director, Information Technology Department
Sandra M. Stevens – Lieutenant, Police Department
Robert E. Parham – HR Consultant, Human Resources Department

Citizen Members

Gus S. Dolianitis – Vice President, First Citizens Bank
Lenard D. Lackey, Jr. – Retired, Danville/Pittsylvania County Service Board
E. Linwood Wright – Vice-Chairman – Retired, Dan River, Inc.

Ex-Officio Members

Sherman M. Saunders

Kenneth F. Larking

Michael L. Adkins

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, 2016, 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 the *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, 2016, 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.

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 nonmajor 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

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 nonmajor 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 November 30, 2016 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
November 30, 2016



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 \$539,971,874 (total net position - government-wide). Of this amount, \$211,264,324 (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, 2016, was \$355,214,802, an increase of \$7,971,730 from the net position of \$347,243,072 at June 30, 2015. Of the net position, \$105,424,065 is reported as unrestricted, a \$1,210,727 increase from the unrestricted net position existing at June 30, 2015.
- As of June 30, 2016, the City's governmental activities for government-wide statements reported a net position of \$184,757,072, an increase of \$5,258,899 over a beginning net position of \$179,498,173. A net position of \$105,840,259 at June 30, 2016, 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 \$79,697,378, an increase of \$8,047,825 in comparison to the fund balance at June 30, 2015 of \$71,649,553. Forty-six percent of the total fund balance at June 30, 2016, \$36,907,387, 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 \$105,059,694 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 \$79,697,378 and an unassigned fund balance of \$36,907,387. Government-wide net position for governmental activities report a total net position of \$184,757,072 and an unrestricted net position of \$105,840,259.

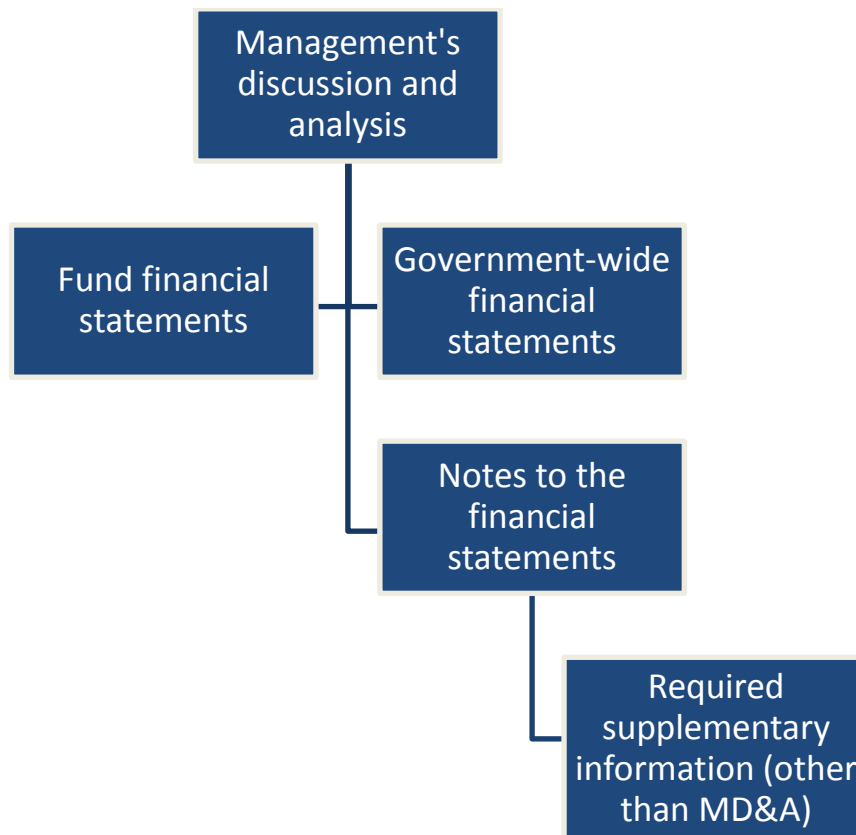
The conversion from fund balance, other than unassigned, to restricted net position can be shown as follows:

Non-spendable, restricted, committed, and assigned fund balance (fund statement)	\$ 42,789,991
Non-spendable inventory and prepaid items	(319,112)
Budget Stabilization, committed for fund statements	(3,000,000)
Encumbrances that do not meet GASB Statement 34 definition of restricted	<u>(24,603,316)</u>
Restricted net position - governmental activities	<u>\$ 14,867,563</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, 2016. 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: net investment in capital assets, 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 two fiduciary funds: a Pension Trust Fund; and an Agency fund, the Veterans Memorial Fund.

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

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

Notes to the financial statements

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

Government-wide Financial Analysis

City of Danville
Summary Statement of Net Position
June 30, 2016

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$135,768,633	\$144,873,362	\$125,075,094	\$125,406,272	\$260,842,727	\$270,279,634
Capital assets	98,679,166	94,714,103	298,445,932	294,584,735	397,125,098	389,298,838
Total assets	<u>\$234,447,799</u>	<u>\$239,587,465</u>	<u>\$423,521,026</u>	<u>\$419,991,007</u>	<u>\$657,968,825</u>	<u>\$659,578,472</u>
Deferred outflows	\$21,552,412	\$9,779,103	\$6,976,241	\$2,407,042	\$28,528,653	\$12,186,145
Long-term liabilities outstanding	\$51,589,735	\$53,928,651	\$58,631,988	\$59,550,751	\$110,221,723	\$113,479,402
Other liabilities	18,184,814	13,629,033	16,427,358	15,135,931	34,612,172	28,764,964
Total liabilities	<u>\$69,774,549</u>	<u>\$67,557,684</u>	<u>\$75,059,346</u>	<u>\$74,686,682</u>	<u>\$144,833,895</u>	<u>\$142,244,366</u>
Deferred inflows	\$1,468,590	\$2,310,711	\$223,119	\$468,295	\$1,691,709	\$2,779,006
Net position:						
Net investment in capital assets	\$64,049,250	\$62,317,615	\$249,790,737	\$243,029,734	\$313,839,987	\$305,347,349
Restricted for grants & contributions	8,870,139	6,528,727	-	-	8,870,139	6,528,757
Restricted for community development loans	3,208,407	3,217,743	-	-	3,208,407	3,217,743
Restricted for cemetery perpetual care	2,789,017	2,766,767	-	-	2,789,017	2,766,767
Unrestricted	<u>105,840,259</u>	<u>104,667,291</u>	<u>105,424,065</u>	<u>104,213,338</u>	<u>211,264,324</u>	<u>208,880,629</u>
Total net position	<u>\$184,757,072</u>	<u>\$179,498,173</u>	<u>\$355,214,802</u>	<u>\$347,243,072</u>	<u>\$539,971,874</u>	<u>\$526,741,245</u>

The City's combined net position at June 30, 2016 of \$539,971,874 represents an increase of \$13,230,629 from the combined net position at June 30, 2015. Thirty-nine percent of total net position (\$211,264,324) is unrestricted and available for providing services to the citizens of the City of Danville and satisfying creditors. Fifty-eight 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 three percent of net position (\$14,867,563) 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, 2016 was as follows: Unrestricted net position - 39%, Net investment in capital assets - 58%, Restricted for special projects (grants) and cemetery care - 3%. For the City as a whole, unrestricted net position increased \$2,383,695.

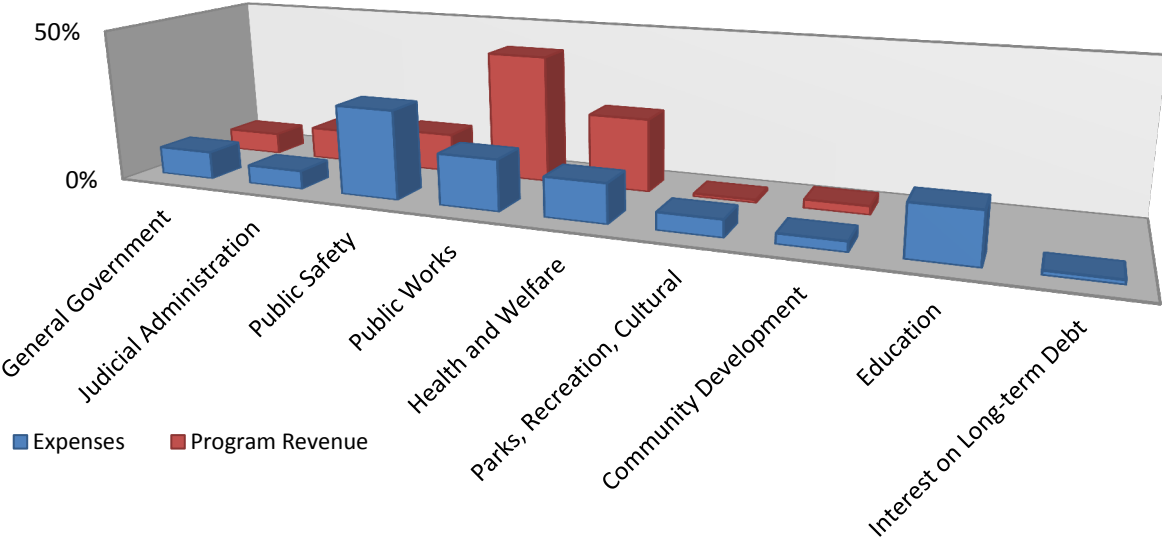
City of Danville
Changes in Net Position
Year Ended June 30, 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,330,918	\$ 3,896,965	\$ 154,457,341	\$ 164,386,142	\$ 158,788,259	\$ 168,283,107
Operating Grants and Contributions	17,700,275	19,065,751	1,869,938	1,742,109	19,570,213	20,807,860
Capital Grants and Contributions	17,651,513	11,661,581	1,488,142	29,772	19,139,655	11,691,353
General Revenues:						
Real Estate and Personal Property	28,516,172	27,726,602	-	-	28,516,172	27,726,602
Other Taxes (See Exhibit 2 for detail)	25,142,585	24,729,965	-	-	25,142,585	24,729,965
Interest on Investments	1,333,951	1,020,884	1,266,152	686,097	2,600,103	1,706,981
Non-categorical state and federal aid	4,399,809	5,939,560	-	-	4,399,809	5,939,560
Miscellaneous	1,267,625	3,955,518	1,176,615	2,230,591	2,444,240	6,186,109
Total Revenues	\$ 100,342,848	\$ 97,996,826	\$ 160,258,188	\$ 169,074,711	\$ 260,601,036	\$ 267,071,537
Expenses:						
General Government	\$ 9,990,115	\$ 8,772,098	\$ -	\$ -	\$ 9,990,115	\$ 8,772,098
Judicial Administration	6,632,827	5,879,586	-	-	6,632,827	5,879,586
Public Safety	31,831,428	28,403,082	-	-	31,831,428	28,403,082
Public Works	18,223,240	15,073,851	-	-	18,223,240	15,073,851
Health and Welfare	14,004,567	13,380,667	-	-	14,004,567	13,380,667
Parks, Recreation, and Culture	6,113,481	6,366,189	-	-	6,113,481	6,366,189
Community Development	3,581,479	6,255,078	-	-	3,581,479	6,255,078
Education (payment to school district)	17,849,211	18,342,352	-	-	17,849,211	18,342,352
Interest on Long Term Debt	1,489,001	1,382,842	-	-	1,489,001	1,382,842
Wastewater	-	-	6,531,704	6,447,892	6,531,704	6,447,892
Water	-	-	5,661,330	5,494,478	5,661,330	5,494,478
Gas	-	-	17,381,323	20,545,403	17,381,323	20,545,403
Electric	-	-	100,626,328	104,497,754	100,626,328	104,497,754
Transportation	-	-	2,365,976	2,379,059	2,365,976	2,379,059
Telecommunication	-	-	842,068	859,405	842,068	859,405
Sanitation	-	-	3,316,284	3,012,652	3,316,284	3,012,652
Cemetery Operations	-	-	930,045	864,257	930,045	864,257
Total Expenses	\$ 109,715,349	\$ 103,855,745	\$ 137,655,058	\$ 144,100,900	\$ 247,370,407	\$ 247,956,645
Subtotal Revenue over Expenses	\$ (9,372,501)	\$ (5,858,919)	\$ 22,603,130	\$ 24,973,811	\$ 13,230,629	\$ 19,114,892
Transfers	14,631,400	14,533,937	(14,631,400)	(14,533,937)	-	-
Increase in Net Position	5,258,899	8,678,018	7,971,730	10,439,874	13,230,629	19,114,892
Beginning Net Position	179,498,173	128,958,235	347,243,072	325,737,781	526,741,245	454,696,016
Effect of Restatements	-	41,864,920	-	11,065,417	-	52,930,337
Ending Net Position	\$ 184,757,072	\$ 179,498,173	\$ 355,214,802	\$ 347,243,072	\$ 539,971,874	\$ 526,741,245

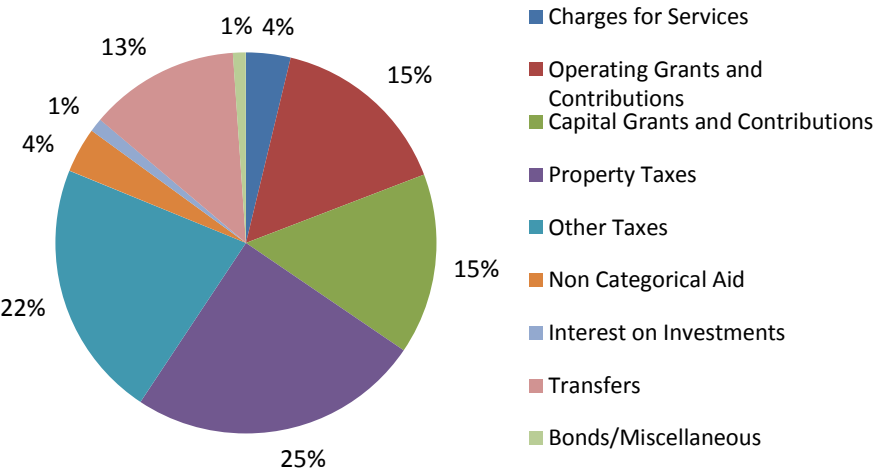
Governmental Activities

Governmental activities increased the City of Danville's net position by \$5,258,899. Revenues (including transfers) from governmental activities totaled \$115,274,248, with Property Taxes 25%, Other Taxes 22%, Operating Grants and Contributions 15%, Capital Grants and Contributions 15%, and Transfers 13%, representing 90% of the City's revenues. Expenses for governmental activities totaled \$109,715,349, of which 36% was supported from program revenues and the remaining 64% from general revenues. Expenses for Public Safety 29%, Education 16%, Community Development 3%, Health & Welfare 13%, General Government 9%, and Public Works 17%, make up 87% of the total governmental expenses for the fiscal year.

Expenses & Program Revenue - Governmental Activities



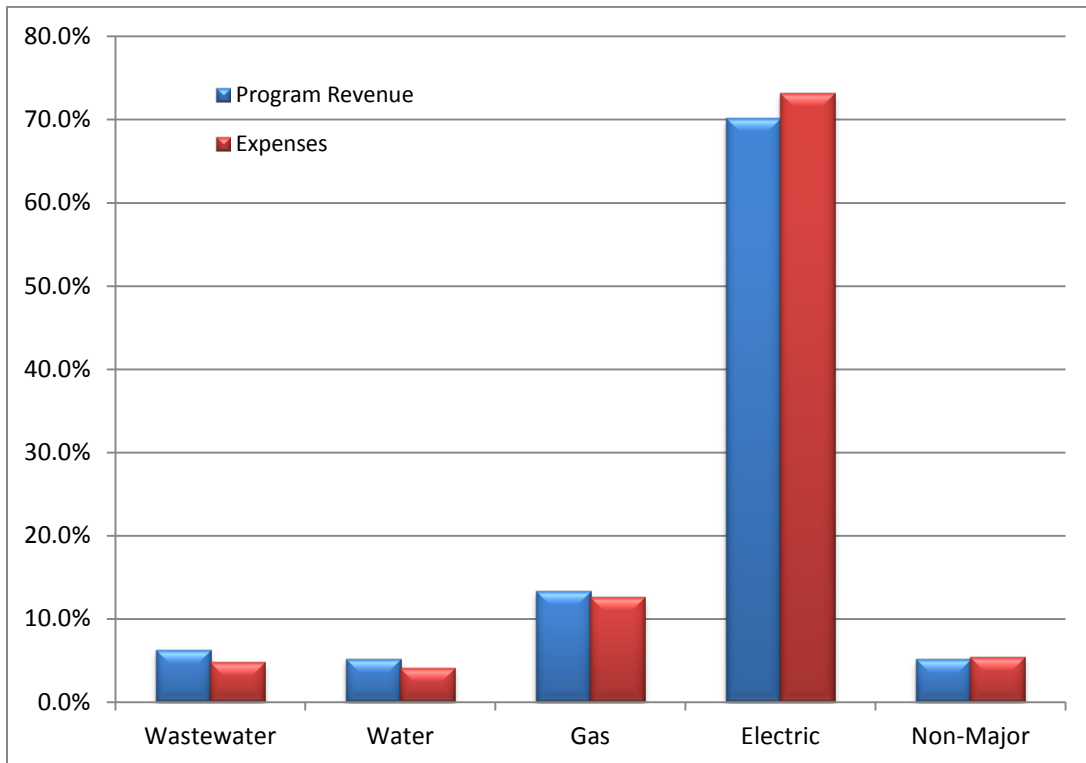
Revenue by Source - Governmental Activities



Business-type Activities

Business-type activities increased the City's net position by \$7,971,730 compared to last year's increase in net position of \$10,439,874. At June 30, 2016, total net position was \$355,214,802 of which \$249,790,737 represented investments in capital assets and \$105,424,065 was unrestricted. GASB Statement 34 requires that restricted assets have external restrictions imposed (grantors, contributions, and debt covenants). Revenues for business-type activities were \$160,258,188 of which 96% 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 4m.

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 \$79,697,378, an increase of \$8,047,825 when compared with the combined fund balance at June 30, 2015 of \$71,649,553. The fund balance in the Capital Projects Fund, also known as Construction In Progress (CIP), increased \$4,809,238. Of the \$10,529,802 expended in the CIP fund, \$5,432,130 was expended on blight removal and improvements to public buildings and grounds. Funds of \$1,931,193 were expended for streets and parking lot improvement and construction within the City's developing River District. \$2,552,907 was expended for economic development, equipment, and information technology upgrades, \$534,610 was expended for improvements at the municipal airport, and \$78,962 was expended for improvements to the Adult Detention center.

Forty-six percent (\$36,907,387) of the combined governmental funds balance is unassigned fund balance, which is available for spending at the government's discretion. Fifty percent (\$39,681,862) 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 four percent (\$3,108,129) of fund balance is not spendable as it represents inventories or prepaid expenses (\$319,112) and investments for the perpetual care of the municipal cemetery (\$2,789,017).

The General Fund, which is the chief operating fund of the City, reports a combined fund balance at June 30, 2016 of \$48,992,905. This is an increase of \$927,194 compared to last year's fund balance of \$48,065,711. The General Fund reported an unassigned fund balance of \$36,907,387, a decrease of \$141,521 from the June 30, 2015 unassigned fund balance of \$37,048,908. The adopted budget for the General Fund included drawing \$2,778,500 from fund balance in FY 2016. 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 54% of total fund expenditures. When transfers out of \$8,725,720 are added to expenditures, then unassigned fund balance is 37% percent of expenditures and transfers out. The following table represents General Fund support shown as transfers out:

Support of CIP Projects	\$4,117,461
Support of Regional Industrial Facility Authority	461,449
Support of Economic Development	2,872,060
Support of Grants	1,076,150
Support of Cemetery Operations	-
Support of Transportation	198,600
	<hr/>
	\$8,725,720

The increase in fund balance of \$927,194 was \$9,335,105 more than the final budgeted decrease of \$8,407,911. The actual increase resulted from \$8,177,200 unexpended budgeted expenditures and \$883,883 in additional revenue (including bond issuance items and transfers in). Unexpended budget of \$1,992,261 was encumbered at June 30, 2016.

Some key factors of unexpended appropriations are as follows:

- City Support of Public Schools had an unexpended balance of \$3,555,057. 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 2017.
- Community development expenditures came in under budget due to approximately \$370,000 unexpended for Social Services programs and approximately \$436,000 unexpended for Economic Development related programs.
- Savings in wages, related payroll taxes, and retirement contributions of approximately \$1.2 million were realized through vacancies in the General Fund in various departments.
- Expenditures that were encumbered and remained unexpended at June 30, 2016 amounted to nearly \$2 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 2016.

Key factors of the additional revenue are as follows:

- General Property Tax collections were \$402,581 over budget. The primary components of this variance exist in the following areas:

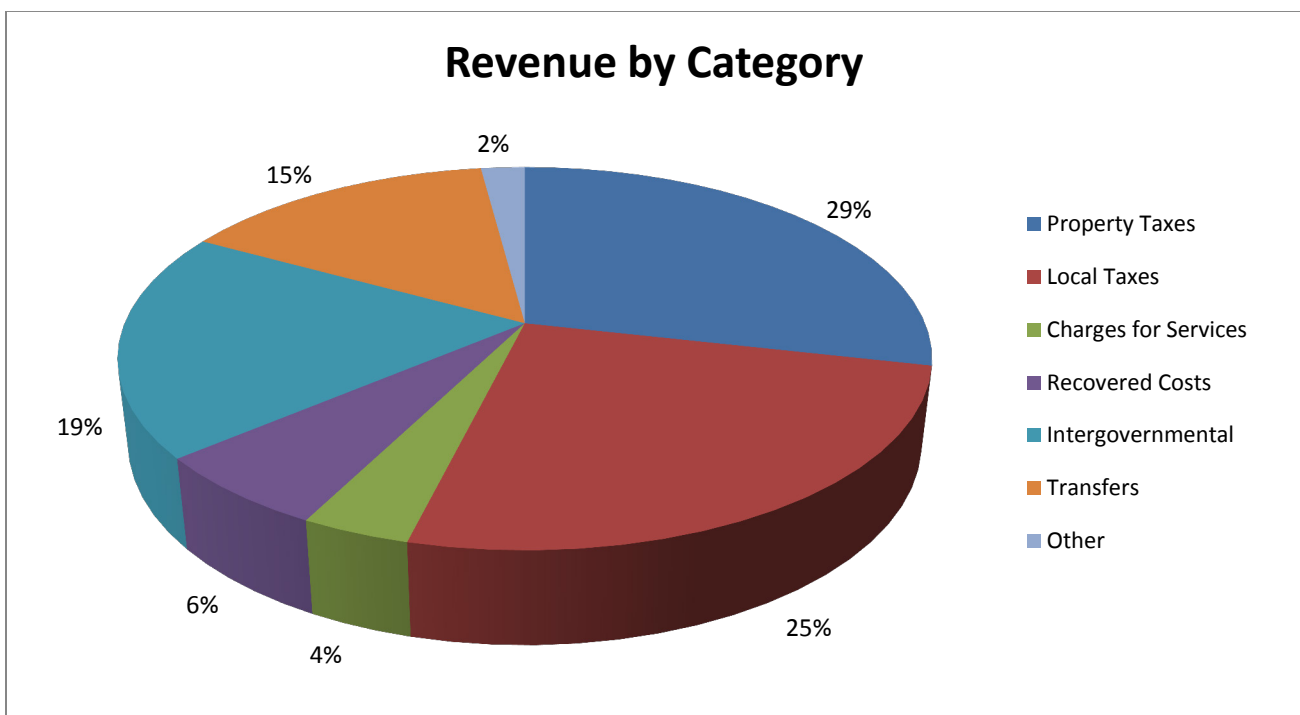
Real Estate	\$	(35,527)
Personal Property	\$	593,938
Public Service	\$	(55,927)
Penalties & Interest	\$	(99,903)

- Real Estate tax collections were very close to budget for FY 2016. Personal Property assessments were up about 2% in FY2016 compared to last year and experienced on track collections and also realized additional revenues in delinquent taxes due to increased efforts in collections. Collection of delinquent personal property taxes is pursued through utilization of the Virginia Debt Set-off Program, as well as the DMV Stop Program. Property taxes on public service entities and penalties and interest collections performed under budget for FY 2016.
- Other Local Taxes exceeded the final budget of \$24,064,380 by \$1,105,659. Almost every category of local tax revenue exceeded budgeted expectations, while others were close to budgeted expectations. The primary components of this positive variance relate to local sales tax, business licenses and prepared meals tax collections. The FY 2016 budget was conservative with respect to these consumer taxes and the continued improvement in the local economy contributed to the positive variance. Local Sales Taxes were collected at 105% of budget, Business Licenses were collected at 106% of budget, Hotel Taxes were at 104% of budget, and Prepared Meals Tax collections also outperformed estimates at 107% of budget. Areas contributing to the budget variance include:

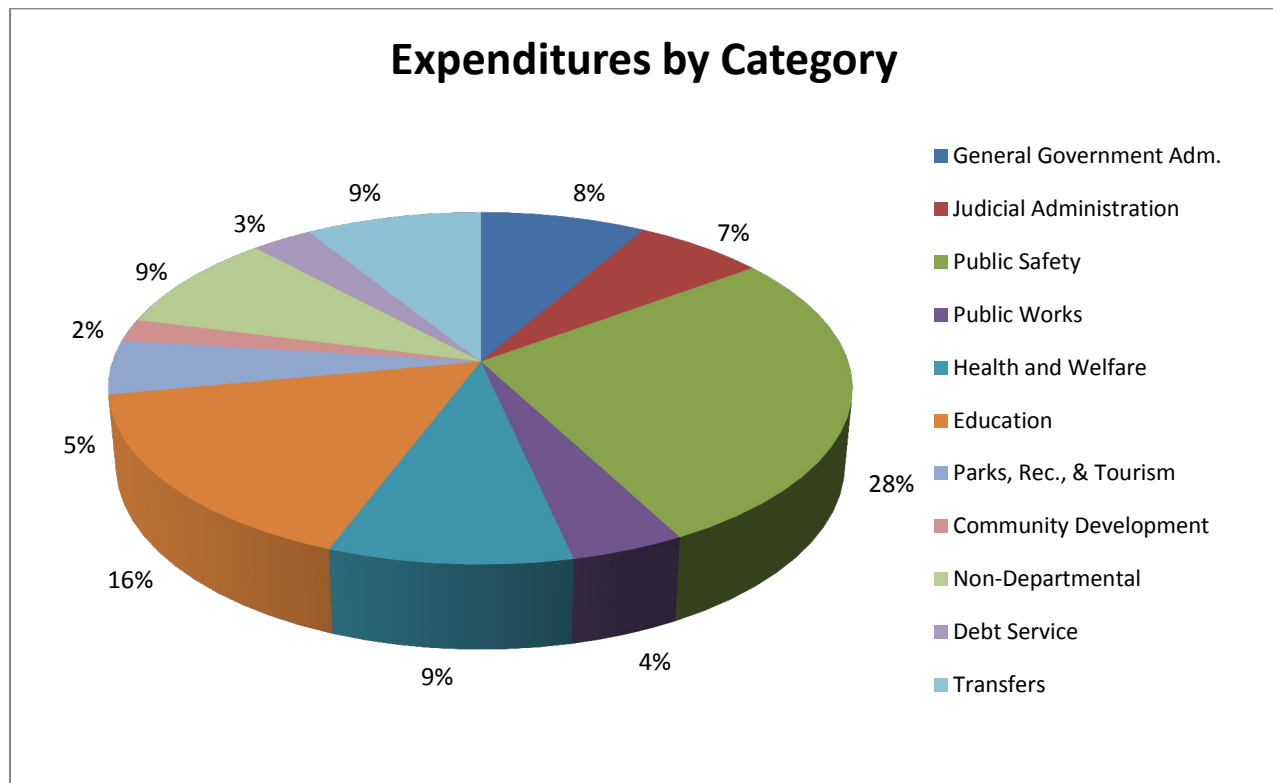
Local Sales Tax	\$ 91,312
Prepared Meals Tax	\$ 511,642
Business Licenses	\$ 306,678
Vehicle License & DMV Fees	\$ 77,017
Hotel & Lodging Tax	\$ 31,777
Others	\$ 87,233

- Revenue from all other categories performed closely to budgeted amounts for FY 2016.

The following graph depicts General Fund revenue by categories as a percent of total revenues for fiscal year ending June 30, 2016. Total revenues are \$99,284,065, including transfers in of \$14,830,000.



The next graph shows General Fund expenditures by category as a percent of total expenditures for fiscal year ending June 30, 2016. Total expenditures are \$98,699,153, including transfers out of \$8,725,720.



Enterprise Funds

Enterprise funds reported a combined ending net position of \$355,214,802; an increase of \$7,971,730 compared to a combined net position reported at June 30, 2015 of \$347,243,072. Each of the following enterprise funds contributed to the overall increase as follows: Wastewater Fund, 35% or \$2,818,374; Water Fund, 25% or \$1,906,269; Gas Fund, 10% or \$812,015; Electric Fund, 20%, or \$1,559,544; Transportation Fund, 1% or \$99,755; Sanitation Fund, 4% or \$356,912; Telecommunications Fund, 7% or \$540,620; and the Cemetery Operations Fund, (2%) or (\$121,759).

FY 2016 revenues from all sources combined, excluding contributed capital and transfers in, decreased \$8,956,421 when compared to the previous fiscal year ended June 30, 2015. The details of this net decrease in revenue result from the following:

Charges for Services	\$	(9,928,801)
Recovered Costs	\$	(377,842)
Jobbing Income	\$	(538,366)
Interest Income & Market Value Adjustment	\$	580,055
Grants	\$	76,955
Sales/Rental/Gain on Disposal/In-kind	\$	1,231,578

Charges for Services decreased in the Electric Fund by \$6,800,078 primarily due to the change in 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. The winter season of FY 2016 was milder than that of the previous fiscal year. Likewise, the cost of purchased power decreased

proportionately. The Water Fund experienced a slight decrease of \$58,417 in Charges for Services due to decreased consumption. A decrease of \$3,067,684 in gas revenue resulted from decreased consumption of approximately 17% overall in the residential, commercial, and industrial customer classes. The Wastewater Fund remained fairly constant with an increase of \$136,321 in charges for services. An overall 3.5% rate increase was implemented for the Wastewater Fund in FY 2016 as a result of the completed biennial rate study. Non-major Funds (Transportation, Sanitation, Cemetery, and Telecommunication) were stable with a combined decrease in revenues of \$138,943.

The increase in the interest income and market value adjustment category resulted from upward changes in the market value in the current fiscal year versus prior fiscal year. Income before contributions and transfers for all enterprise funds combined decreased \$2,340,909 from the prior year, primarily because of the decrease in Charges for Services. The increase in the Sales/Rental/Gain on Disposal/In-kind category was due to an in-kind contribution from the Virginia Department of Transportation of approximately \$1.4 million in the Electric Fund in FY2016 for the Highway 726 rebuild project.

The Utilities contributed \$14,830,000 in transfers to the General Fund for fiscal year ending June 30, 2016. Enterprise Funds' net position of \$355,214,802 includes \$105,424,065 unrestricted and \$249,790,737 net investment in capital assets.

General Budgetary Highlights

City of Danville
General Fund Budget
Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual
Revenues, Transfers, and Other Financial Sources			
Taxes	\$ 51,962,700	\$51,980,080	\$ 53,488,320
Intergovernmental	19,394,640	19,572,846	18,999,341
Transfers and Other	26,135,770	26,847,256	27,138,686
Total	97,493,110	98,400,182	99,626,347
Expenditures, Transfers, and Other Financial Uses			
Expenditures	93,782,400	98,150,633	89,973,433
Transfers and other	8,257,460	8,657,460	8,725,720
Total	102,039,860	106,808,093	98,699,153
Change in Fund Balance	\$ (4,546,750)	\$ (8,407,911)	\$ 927,194

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 \$3,111,162 and additional appropriations totaling \$1,657,071. \$907,071 of the additional appropriations had matching revenues and the remaining \$750,000 was appropriated from fund balance, represented as follows:

Appropriations with matching revenue:

Police & Commonwealth Attorney – Forfeited Funds	\$	67,131
Juvenile Detention – Electronic Monitoring	\$	59,010
Unanticipated Funding – Parks & Recreation	\$	71,473
Unanticipated Funding – Public Works	\$	19,673
Additional Funding – DMV Fees	\$	17,380
Police & Sheriff – Special Duty Pay	\$	396,635
Additional State Funding of Sheriff Department	\$	109,974
Additional Funding of Various City Departments	\$	30,206
Project Lifesaver	\$	2,500
General Obligation Bonds – Transfer to CIP Fund	\$	133,089

Appropriations from fund balance:

Funding for legal fees for various matters	\$	300,000
Funding for drainage work on Patton Street	\$	450,000

As explained on pages 4k and 4l, local tax revenues performed better than budget, providing a positive budget variance for FY 2016 revenues. The positive budget variance in expenditures resulted primarily from delayed transfers to the Danville City School System (\$3.5 million). The school funds have been encumbered and will be transferred during fiscal 2017 as needed. Budget savings were also realized through unexpended costs for various Social Services and Economic Development programs (\$806,000), personnel vacancies (\$1.2 million) and cost cutting measures taken in all City departments.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the City of Danville's capital assets investment for its governmental and business-type activities amounts to \$397,125,098 (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:

- Improvements exceeding \$5 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, \$570,000 was spent for improvements to School facilities and \$655,000

was spent to complete heating, ventilation, and air conditioning improvements to the Municipal Building. The City also spent \$1.6 million in its blight eradication efforts.

- Various improvements were made to the information technology infrastructure used by City departments, in the amount of \$563,000.
- Various improvements were made at the municipal airport in the amount of \$535,000.

City of Danville
Capital Assets (net of depreciation)
June 30, 2016

	Governmental Activities	Business-type Activities	Total
Land	\$ 19,615,342	\$ 1,459,666	\$ 21,075,008
Building & Improvements	33,233,147	254,865,686	288,098,833
Machinery & Equipment	8,389,768	22,845,305	31,235,073
Infrastructure	27,087,280	-	27,087,280
Construction in Progress	8,452,720	19,275,275	27,727,995
Subtotal	96,778,257	298,445,932	395,224,189
Assets Transferred from School Board	1,900,909	-	1,900,909
Total	\$ 98,679,166	\$ 298,445,932	\$ 397,125,098

Long-term debt

At the end of the current fiscal year, the City of Danville had total outstanding general obligation debt of \$90,895,372 and revenue bonded debt of \$953,940 for a total of \$91,849,312.

**City of Danville's Outstanding Debt
Bonds and Related Loans**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 40,706,731	\$ 35,910,736	\$ 50,188,641	\$ 50,508,516	\$ 90,895,372	\$ 86,419,252
Revenue Bonds	-	-	953,940	1,318,940	953,940	1,318,940
Total	\$ 40,706,731	\$ 35,910,736	\$ 51,142,581	\$ 51,827,456	\$ 91,849,312	\$ 87,738,192

During fiscal year 2016, the City of Danville issued \$20,410,000 in General Obligation Public Improvement and Refunding Bonds, Series 2015. The Series 2015 was issued to use proceeds of \$9,845,000 to finance capital expenditures for general governmental projects, such as capital expenditures for improvements to various public buildings and grounds and to pay the costs of issuing the bonds and to use proceeds of \$10,565,000 for an advance refunding of General Obligation Bond Series 2007 and Series 2009C, which was issued for capital expenditures.

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, 2016, debt to assessed value was 1.50%.

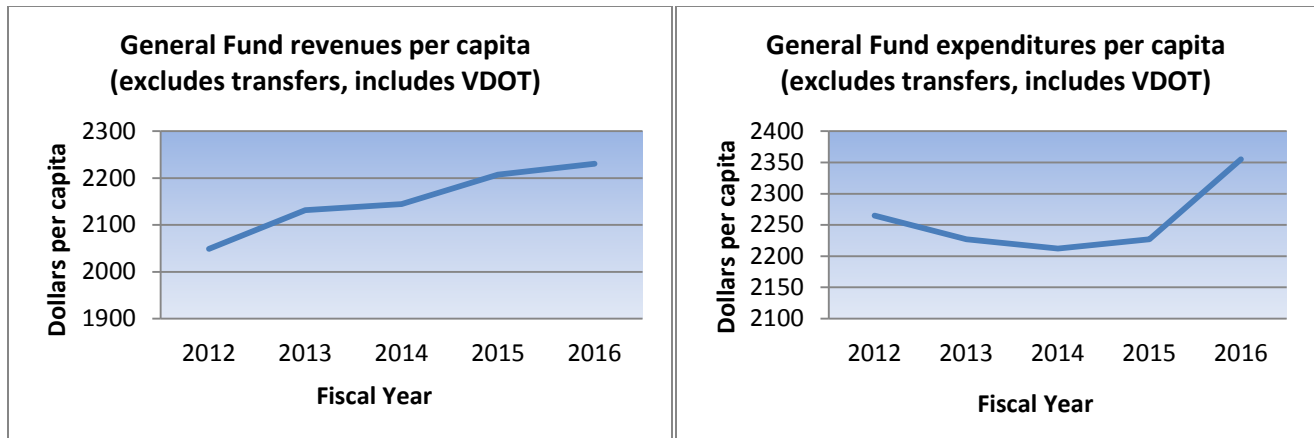
Additional information on the City of Danville's long-term debt can be found in note 12 of the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

- As of October 31, 2016, the average unemployment rate for the City of Danville was 5.7%, which is a decrease from a rate of 8.9% at October 31, 2015. This compares to the Commonwealth's average unemployment rate of 4.2% and the national average rate of 4.9% at October 31, 2016.
- Danville continues to make economic development a priority in its effort to reduce unemployment. In June 2014, Danville received word that its Community Development Entity 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. Successful deployment of the tax credits will potentially lead to additional allocations of credits for future projects.
- During fiscal year 2016, management continued its goal to stabilize utility rates for electric services charged to its consumers despite congestion charges incurred during the winter of 2014. 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 three years. There was an average 3.5% rate increase imposed for FY 2016 for wastewater, spread across customer classes, customer charges, and consumption rates.
- Danville has an estimated population of 42,544, based on the 2010 census. The most recent data shows per capita income of \$34,119 for the Danville Metropolitan Area and \$33,493 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 6.9% over the five year period. Expenditures remained relatively stable from 2015 to 2016, demonstrating management's efforts to contain costs despite ever increasing costs of goods and services. Danville's population has shown decreases up until FY 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



CITY OF DANVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Danville Public Schools	Industrial Development Authority
ASSETS					
Cash and investments (Note 2)					
Unrestricted	\$ 74,048,054	\$ 83,741,501	\$ 157,789,555	\$ 1,999,374	\$ 2,569,458
Restricted	6,376,198	2,909,294	9,285,492	-	1,377,443
Cash and investments – held by fiscal agents	85,000	-	85,000	-	-
Receivables, net (Note 4)	18,151,888	16,515,863	34,667,751	580,035	59,148
Due from primary government/component units (Note 9)	59,017	-	59,017	5,769,205	6,205,334
Due from other governments (Note 5)	6,881,255	898,986	7,780,241	3,003,621	-
Prepays and other	120,162	-	120,162	194,054	-
Inventories	328,724	2,699,002	3,027,726	36,225	-
Loans receivable, net (Note 7)	3,208,407	-	3,208,407	-	375,668
Power cost adjustment (Note 6)	-	11,381,208	11,381,208	-	-
Net pension asset (Note 17)	21,960,197	5,850,963	27,811,160	-	-
Internal balances	181,386	(181,386)	-	-	-
Due from component unit, long-term (Note 9)	1,026,026	-	1,026,026	-	-
Net investment in sales-type leases (Note 10)	-	-	-	-	7,181,620
Property held for sale	3,342,319	-	3,342,319	-	1,292,430
Capital assets: (Note 11)					
Non-depreciable	28,068,062	20,734,941	48,803,003	2,176,690	10,426,455
Depreciable, net	70,611,104	277,710,991	348,322,095	5,365,694	22,012,617
Total assets	234,447,799	422,261,363	656,709,162	19,124,898	51,500,173
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pension plans (Note 16)	21,552,412	5,536,610	27,089,022	4,596,291	-
Deferred loss on refunding	-	1,439,631	1,439,631	-	-
Total deferred outflows of resources	21,552,412	6,976,241	28,528,653	4,596,291	-
LIABILITIES					
Accounts payable	3,628,078	11,001,590	14,629,668	561,307	360,242
Accrued payroll and related liabilities	1,316,542	-	1,316,542	3,993,897	-
Accrued interest	547,059	683,644	1,230,703	-	143,796
Due to primary government/component unit (Note 9)	11,974,539	-	11,974,539	-	59,017
Due to other governments (Note 5)	391,240	-	391,240	-	-
Refundable deposits	327,356	3,482,461	3,809,817	-	567,137
Long-term liabilities:					
Net pension liability (Notes 18 and 19)	2,690,895	-	2,690,895	53,916,739	-
Due within one year (Note 12)	6,616,360	6,581,627	13,197,987	2,092,432	9,038,313
Due in more than one year (Note 12)	42,282,480	52,050,361	94,332,841	3,383,933	21,791,924
Total liabilities	69,774,549	73,799,683	143,574,232	63,948,308	31,960,429
DEFERRED INFLOWS OF RESOURCES					
Prepaid taxes (Note 14)	868,558	-	868,558	-	-
Deferred inflows of resources related to pension plans (Note 16)	576,671	-	576,671	9,748,489	-
Deferred gain on refunding	23,361	-	23,361	-	-
Natural gas cost adjustment (Note 6)	-	223,119	223,119	-	-
Total deferred inflows of resources	1,468,590	223,119	1,691,709	9,748,489	-
NET POSITION					
Net investment in capital assets	64,049,250	249,790,737	313,839,987	7,542,384	8,413,177
Restricted for:					
Expendable:					
Debt service	-	-	-	-	588,105
Grants and contributions	8,870,139	-	8,870,139	-	-
Community development loans	3,208,407	-	3,208,407	-	-
Cemetery perpetual care	2,789,017	-	2,789,017	-	-
Nonexpendable:					
Unrestricted	105,840,259	105,424,065	211,264,324	(57,517,992)	10,538,462
Total net position	\$ 184,757,072	\$ 355,214,802	\$ 539,971,874	\$ (49,975,608)	\$ 19,539,744

EXHIBIT 2

CITY OF DANVILLE, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

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	\$ 9,990,115	\$ 51,135	\$ 1,492,703	\$ 1,244,286	\$ (7,201,991)		\$ (7,201,991)		
Judicial administration	6,632,827	3,621,618	566,064	-	(2,445,145)		(2,445,145)		
Public safety	31,831,428	56,145	5,015,975	-	(26,759,308)		(26,759,308)		
Public works	18,223,240	207,137	-	16,407,227	(1,608,876)		(1,608,876)		
Health and welfare	14,004,567	-	9,510,040	-	(4,494,527)		(4,494,527)		
Parks, recreation, and cultural	6,113,481	394,883	-	-	(5,718,598)		(5,718,598)		
Community development	3,581,479	-	1,115,493	-	(2,465,986)		(2,465,986)		
Education	17,849,211	-	-	-	(17,849,211)		(17,849,211)		
Interest on long-term debt	1,489,001	-	-	-	(1,489,001)		(1,489,001)		
Total governmental activities	109,715,349	4,330,918	17,700,275	17,651,513	(70,032,643)		(70,032,643)		
Business-type activities:									
Wastewater	6,531,704	9,833,682	-	28,883		3,330,861	3,330,861		
Water	5,661,330	8,193,551	-	30,000		2,562,221	2,562,221		
Gas	17,381,323	20,923,374	-	-		3,542,051	3,542,051		
Electric	100,626,328	109,239,372	-	1,429,259		10,042,303	10,042,303		
Transportation	2,365,976	360,753	1,869,938	-		(135,285)	(135,285)		
Telecommunications	842,068	1,641,145	-	-		799,077	799,077		
Sanitation	3,316,284	3,596,721	-	-		280,437	280,437		
Cemetery operations	930,045	668,743	-	-		(261,302)	(261,302)		
Total business-type activities	137,655,058	154,457,341	1,869,938	1,488,142		20,160,363	20,160,363		
Total primary government	\$ 247,370,407	\$ 158,788,259	\$ 19,570,213	\$ 19,139,655	(70,032,643)	20,160,363	(49,872,280)		
Component units:									
Danville Public Schools	\$ 67,136,605	\$ 354,615	\$ 27,040,686	\$ -	-	-	-	\$ (39,741,304)	\$ -
Industrial Development Authority	5,935,584	1,330,005	2,453,908	-	-	-	-	-	(2,151,671)
Total component units	\$ 73,072,189	\$ 1,684,620	\$ 29,494,594	\$ -	-	-	-	(39,741,304)	(2,151,671)
General revenues:									
Real estate and personal property taxes					28,516,172	-	28,516,172	-	-
Other taxes:									
Sales and use					8,491,311	-	8,491,311	-	-
Business and other licenses					5,300,860	-	5,300,860	-	-
Utility					965,139	-	965,139	-	-
Hotel and meals					8,242,667	-	8,242,667	-	-
Recordation and bank stock					992,111	-	992,111	-	-
Auto license and recordation					1,150,497	-	1,150,497	-	-
Contributions from City					-	-	-	16,486,116	-
Noncategorical state and federal aid					4,399,809	-	4,399,809	24,540,436	-
Investment income					1,333,951	1,266,152	2,600,103	165,055	455,290
Gain on sale of assets					58,367	69,526	127,893	-	-
Miscellaneous					1,209,258	1,107,089	2,316,347	411,203	810,397
Transfers					14,631,400	(14,631,400)	-	-	-
Total general revenues and transfers					75,291,542	(12,188,633)	63,102,909	41,602,810	1,265,687
Change in net position					5,258,899	7,971,730	13,230,629	1,861,506	(885,984)
Net position – beginning, as restated (Note 26)					179,498,173	347,243,072	526,741,245	(51,837,114)	20,425,728
Net position – ending					\$ 184,757,072	\$ 355,214,802	\$ 539,971,874	\$ (49,975,608)	\$ 19,539,744

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

CITY OF DANVILLE, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUNDS
June 30, 2016**

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and investments	\$ 49,967,820	\$ 8,472	\$ 7,785,720	\$ 11,377,125	\$ 69,139,137
Cash and investments – restricted	-	-	6,376,198	-	6,376,198
Cash and investments – held by fiscal agents	35,000	-	-	-	35,000
Receivables, net					
Taxes	11,140,062	-	-	-	11,140,062
Accounts	4,395,825	-	-	140,977	4,536,802
Other	1,126,356	-	1,345,616	-	2,471,972
Due from other funds	404,442	-	-	-	404,442
Due from component unit	1,085,043	-	-	-	1,085,043
Due from other governments	3,064,696	127,300	2,611,074	1,078,185	6,881,255
Prepays	120,162	-	-	-	120,162
Inventories	198,950	-	-	-	198,950
Loans receivable, net	-	3,208,407	-	-	3,208,407
Total assets	<u>\$ 71,538,356</u>	<u>\$ 3,344,179</u>	<u>\$ 18,118,608</u>	<u>\$ 12,596,287</u>	<u>\$ 105,597,430</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 998,426	\$ 53,681	\$ 1,253,213	\$ 1,163,198	\$ 3,468,518
Accrued payroll and related liabilities	1,316,542	-	-	-	1,316,542
Due to other funds	-	82,091	-	-	82,091
Due to component unit	5,733,953	-	35,252	-	5,769,205
Due to other governments	168,274	-	222,966	-	391,240
Refundable deposits	327,356	-	-	-	327,356
Total liabilities	<u>8,544,551</u>	<u>135,772</u>	<u>1,511,431</u>	<u>1,163,198</u>	<u>11,354,952</u>
Deferred inflows of resources:					
Unavailable/unearned revenue	<u>14,000,900</u>	<u>-</u>	<u>530,000</u>	<u>14,200</u>	<u>14,545,100</u>
Fund balances:					
Nonspendable	319,112	-	-	2,789,017	3,108,129
Restricted	240,267	-	6,376,198	8,629,872	15,246,337
Committed	6,909,065	-	6,747,024	-	13,656,089
Assigned	4,617,074	3,208,407	2,953,955	-	10,779,436
Unassigned	36,907,387	-	-	-	36,907,387
Total fund balances	<u>48,992,905</u>	<u>3,208,407</u>	<u>16,077,177</u>	<u>11,418,889</u>	<u>79,697,378</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 71,538,356</u>	<u>\$ 3,344,179</u>	<u>\$ 18,118,608</u>	<u>\$ 12,596,287</u>	<u>\$ 105,597,430</u>

CITY OF DANVILLE, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total fund balances – governmental funds \$ 79,697,378

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	\$ 258,471,654	
Property held for sale	3,342,319	
Accumulated depreciation	<u>(159,792,488)</u>	
		102,021,485

Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Net pension asset	21,960,197	
Deferred outflows of resources related to pensions	21,552,412	
Deferred inflows of resources related to pensions	(576,671)	
Net pension liability	<u>(2,690,895)</u>	
		40,245,043

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	8,978,780	
Amounts due from the IDA	1,085,043	
Other receivables	<u>3,612,719</u>	
		13,676,542

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	8,134,683	
Less: internal service fund capital assets	(2,561,803)	
Less: internal service fund net pension asset	(424,883)	
Less: internal service fund deferred outflows of resources related to pension	(402,056)	
Add: internal service fund accrued interest	253	
Add: internal service fund long-term liabilities	<u>45,687</u>	
		4,791,881

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

Long-term liabilities	(48,898,840)	
Due to component unit – IDA	(6,205,334)	
Accrued interest	(547,059)	
Deferred gain on refunding and other	<u>(24,023)</u>	
		<u>(55,675,256)</u>

Total net position – governmental activities \$ 184,757,072

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2016**

	General	Community Development	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES					
Property taxes	\$ 28,318,281	\$ -	\$ -	\$ -	\$ 28,318,281
Other local taxes	25,170,039	-	-	-	25,170,039
Fines and forfeitures	448,600	-	-	-	448,600
Permits, privilege fees, and regulatory licenses	292,979	-	-	-	292,979
Revenue from use of money and property	1,247,227	-	11,940	21,578	1,280,745
Charges for services	3,643,700	-	-	-	3,643,700
Miscellaneous	75,629	438,220	-	127,384	641,233
Contributions	-	-	1,669,676	684,643	2,354,319
Recovered costs	6,258,268	-	3,928	-	6,262,196
Intergovernmental	18,999,342	1,113,893	2,649,835	14,648,108	37,411,178
Total revenues	84,454,065	1,552,113	4,335,379	15,481,713	105,823,270
EXPENDITURES					
Current:					
General government	8,226,128	-	1,574,337	34,793	9,835,258
Judicial administration	6,484,207	-	-	115,973	6,600,180
Public safety	26,980,813	-	1,409,353	392,231	28,782,397
Public works	4,261,326	-	5,511,660	10,277,683	20,050,669
Health and welfare	9,075,251	-	-	4,026,130	13,101,381
Education	16,033,378	-	463,755	-	16,497,133
Parks, recreation, and cultural	4,898,583	-	414,611	680,100	5,993,294
Community development	2,019,270	1,562,670	1,156,086	1,602,313	6,340,339
Nondepartmental	8,963,385	-	-	-	8,963,385
Debt service:					
Principal	1,639,111	-	-	-	1,639,111
Interest	1,391,981	-	-	-	1,391,981
Total expenditures	89,973,433	1,562,670	10,529,802	17,129,223	119,195,128
Deficiency of revenues over expenditures	(5,519,368)	(10,557)	(6,194,423)	(1,647,510)	(13,371,858)
OTHER FINANCING SOURCES (USES):					
Bond issuance	-	-	6,380,545	-	6,380,545
Premium on bonds	137,142	-	65,456	-	202,598
Proceeds from capital lease	205,140	-	-	-	205,140
Transfers in	14,830,000	-	4,578,910	3,969,460	23,378,370
Transfers out	(8,725,720)	-	(21,250)	-	(8,746,970)
Total other financing sources	6,446,562	-	11,003,661	3,969,460	21,419,683
Net change in fund balances	927,194	(10,557)	4,809,238	2,321,950	8,047,825
FUND BALANCES – Beginning	48,065,711	3,218,964	11,267,939	9,096,939	71,649,553
FUND BALANCES – Ending	\$ 48,992,905	\$ 3,208,407	\$ 16,077,177	\$ 11,418,889	\$ 79,697,378

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, 2016**

Net change in fund balances – total governmental funds \$ 8,047,825

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	\$ 11,650,717	
Book value of capital assets disposed	(49,392)	
Depreciation	(7,773,570)	
		3,827,755

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 and capital leases	1,639,111	
Bond proceeds	(6,380,545)	
Capital lease issued	(205,140)	
Premiums on new bonds issued	(202,598)	
Amortization of premium	77,939	
Change in other bond related items	(201,414)	
Change in reimbursement agreements	87,004	
Change in accrued interest	(59,654)	
		(5,245,297)

Change in pension related assets, liabilities, and deferred inflows/outflows. (4,185,731)

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.

Change in obligation to IDA	477,333	
Change in Tobacco Commission obligation payable	1,286,250	
Change in workers' compensation	585,315	
Change in compensated absences	(89,999)	
		2,258,899

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 579,607

The net loss of internal service funds is reported with governmental activities. (24,159)

Total change in net position – governmental activities \$ 5,258,899

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2016**

	Budgeted Amounts			Variances with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 27,915,700	\$ 27,915,700	\$ 28,318,281	\$ 402,581
Other local taxes	24,047,000	24,064,380	25,170,039	1,105,659
Fines and forfeitures	488,800	509,837	448,600	(61,237)
Permits, privilege fees, and regulatory licenses	221,030	221,030	292,979	71,949
Revenue from use of money and property	950,340	994,585	1,247,227	252,642
Charges for services	3,360,840	3,451,286	3,643,700	192,414
Miscellaneous	125,000	255,891	75,629	(180,262)
Recovered costs	6,159,760	6,584,627	6,258,268	(326,359)
Intergovernmental	19,394,640	19,572,846	18,999,342	(573,504)
Total revenues	82,663,110	83,570,182	84,454,065	883,883
EXPENDITURES				
Current:				
General government	8,081,370	8,663,003	8,226,128	436,875
Judicial administration	6,396,270	6,834,453	6,484,207	350,246
Public safety	26,001,930	28,172,041	26,980,813	1,191,228
Public works	4,424,080	4,640,551	4,261,326	379,225
Health and welfare	8,606,110	8,546,183	9,075,251	(529,068)
Education	17,399,860	19,346,545	16,033,378	3,313,167
Parks, recreation, and cultural	4,995,600	5,429,795	4,898,583	531,212
Community development	3,753,640	3,856,942	2,019,270	1,837,672
Nondepartmental	11,089,140	9,493,661	8,963,385	530,276
Debt service:				
Principal	1,634,000	1,635,570	1,639,111	(3,541)
Interest	1,400,400	1,398,800	1,391,981	6,819
Bond issuance costs	-	133,089	-	133,089
Total expenditures	93,782,400	98,150,633	89,973,433	8,177,200
Excess (deficiency) of revenues over expenditures	(11,119,290)	(14,580,451)	(5,519,368)	9,061,083
OTHER FINANCING SOURCES (USES):				
Premium on bonds	-	-	137,142	137,142
Proceeds from capital lease	-	-	205,140	205,140
Transfers in	14,830,000	14,830,000	14,830,000	-
Transfers out	(8,257,460)	(8,657,460)	(8,725,720)	(68,260)
Total other financing sources	6,572,540	6,172,540	6,446,562	274,022
Net change in fund balance	\$ (4,546,750)	\$ (8,407,911)	\$ 927,194	\$ 9,335,105

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS
June 30, 2016**

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
ASSETS							
Current assets							
Cash and investments	\$ 7,294,697	\$ 9,293,551	\$ 12,466,538	\$ 51,794,263	\$ 2,892,452	\$ 83,741,501	\$ 4,908,917
Cash and investments – held by fiscal agents	-	-	-	-	-	-	50,000
Receivables, net	1,166,504	479,333	1,466,287	13,025,771	377,968	16,515,863	3,052
Due from other funds	-	-	149,857	195,512	-	345,369	-
Due from other governments	-	-	-	-	898,986	898,986	-
Inventories	-	397,639	500,242	1,579,847	221,274	2,699,002	129,774
Total current assets	8,461,201	10,170,523	14,582,924	66,595,393	4,390,680	104,200,721	5,091,743
Noncurrent assets							
Cash and investments – restricted	-	-	-	2,909,294	-	2,909,294	-
Due from other funds	-	-	316,212	416,696	-	732,908	-
Power cost adjustment	-	-	-	11,381,208	-	11,381,208	-
Net pension asset	294,613	782,046	588,986	2,680,095	1,505,223	5,850,963	424,883
Capital assets:							
Non-depreciable	1,996,919	1,098,552	14,944	17,092,794	531,732	20,734,941	-
Depreciable, net	51,987,966	33,408,909	40,073,699	141,498,560	10,741,857	277,710,991	2,561,803
Total noncurrent assets	54,279,498	35,289,507	40,993,841	175,978,647	12,778,812	319,320,305	2,986,686
Total assets	62,740,699	45,460,030	55,576,765	242,574,040	17,169,492	423,521,026	8,078,429
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows related to pension plans	278,786	740,026	557,342	2,536,103	1,424,353	5,536,610	402,056
Deferred loss on refunding	174,896	152,639	112,930	999,166	-	1,439,631	-
Total deferred outflows of resources	453,682	892,665	670,272	3,535,269	1,424,353	6,976,241	402,056

(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, 2016**

	Enterprise Funds						Internal Service Funds
	Wastewater	Water	Gas	Electric	Nonmajor Enterprise Funds	Total	
LIABILITIES							
Current liabilities							
Accounts payable	\$ 608,840	\$ 90,134	\$ 920,619	\$ 9,113,423	\$ 268,574	\$ 11,001,590	\$ 158,897
Accrued interest	96,767	86,602	31,182	468,930	163	683,644	253
Due to other funds	345,369	-	-	-	181,386	526,755	140,965
Refundable deposits	-	-	-	3,462,461	20,000	3,482,461	-
Long-term liabilities – due within one year	1,091,188	938,402	245,532	4,082,331	224,174	6,581,627	31,134
Total current liabilities	2,142,164	1,115,138	1,197,333	17,127,145	694,297	22,276,077	331,249
Noncurrent liabilities							
Due to other funds	732,908	-	-	-	-	732,908	-
Long-term liabilities – due in more than one year	5,149,766	4,738,475	1,810,093	38,939,932	1,412,095	52,050,361	14,553
Total noncurrent liabilities	5,882,674	4,738,475	1,810,093	38,939,932	1,412,095	52,783,269	14,553
Total liabilities	8,024,838	5,853,613	3,007,426	56,067,077	2,106,392	75,059,346	345,802
DEFERRED INFLOWS OF RESOURCES							
Natural gas cost adjustment	-	-	223,119	-	-	223,119	-
Total deferred inflows of resources	-	-	223,119	-	-	223,119	-
NET POSITION							
Net investment in capital assets	48,005,608	29,107,699	38,203,481	123,209,497	11,264,452	249,790,737	2,547,591
Unrestricted	7,163,935	11,391,383	14,813,011	66,832,735	5,223,001	105,424,065	5,587,092
	<u>\$ 55,169,543</u>	<u>\$ 40,499,082</u>	<u>\$ 53,016,492</u>	<u>\$ 190,042,232</u>	<u>\$ 16,487,453</u>	<u>\$ 355,214,802</u>	<u>\$ 8,134,683</u>

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2016**

	Enterprise Funds				Nonmajor Enterprise Funds	Total	Internal Service Funds
	Wastewater	Water	Gas	Electric			
OPERATING REVENUES							
Charges for services	\$ 9,833,682	\$ 8,193,551	\$ 20,923,374	\$ 109,239,372	\$ 6,267,362	\$ 154,457,341	\$ 6,220,303
OPERATING EXPENSES							
Purchased power and gas	-	-	12,408,914	81,847,277	-	94,256,191	-
Production	-	-	-	686,203	-	686,203	-
Transmission	2,633,470	1,598,005	-	1,421,083	-	5,652,558	-
Engineering	-	328,514	532,277	806,124	-	1,666,915	-
Distribution	1,055,313	475,263	576,495	2,022,218	-	4,129,289	-
Services	78,465	31,233	24,549	-	6,592,853	6,727,100	-
Depreciation	1,950,617	1,722,506	1,543,146	7,686,780	780,078	13,683,127	600,213
Meters/regulators	-	110,943	150,703	298,215	-	559,861	-
General and administrative	582,490	1,198,626	2,081,795	5,266,481	-	9,129,392	5,791,767
Total operating expenses	6,300,355	5,465,090	17,317,879	100,034,381	7,372,931	136,490,636	6,391,980
Operating income (loss)	3,533,327	2,728,461	3,605,495	9,204,991	(1,105,569)	17,966,705	(171,677)
NONOPERATING REVENUES (EXPENSES)							
Sales income	1,046	37,531	(274,348)	-	104,400	(131,371)	-
Jobbing income, net	55,366	23,576	2,276	(343,145)	-	(261,927)	-
Recovered costs	21,874	27,287	706	756,381	22,064	828,312	33,887
Gain (loss) on sale of capital assets	-	17,354	14,710	23,462	(66,865)	(11,339)	58,367
Other income	-	-	361,312	235,100	75,663	672,075	-
Federal and state grants	-	-	-	-	1,593,394	1,593,394	-
In-kind contributions	28,883	30,000	-	1,429,259	276,544	1,764,686	-
Net change in the fair value of investments	12,518	23,201	19,723	93,803	10,543	159,788	7,400
Interest income	82,469	152,399	153,915	648,250	69,331	1,106,364	48,758
Interest expense	(231,349)	(196,240)	(63,444)	(591,947)	(577)	(1,083,557)	(894)
Total nonoperating revenues (expenses)	(29,193)	115,108	214,850	2,251,163	2,084,497	4,636,425	147,518
Income before contributions and transfers	3,504,134	2,843,569	3,820,345	11,456,154	978,928	22,603,130	(24,159)
Transfers in	-	-	-	-	198,600	198,600	-
Transfers out	(685,760)	(937,300)	(3,008,330)	(9,896,610)	(302,000)	(14,830,000)	-
Total	(685,760)	(937,300)	(3,008,330)	(9,896,610)	(103,400)	(14,631,400)	-
Change in net position	2,818,374	1,906,269	812,015	1,559,544	875,528	7,971,730	(24,159)
Total net position – beginning	52,351,169	38,592,813	52,204,477	188,482,688	15,611,925	347,243,072	8,158,842
Total net position – ending	\$ 55,169,543	\$ 40,499,082	\$ 53,016,492	\$ 190,042,232	\$ 16,487,453	\$ 355,214,802	\$ 8,134,683

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, 2016**

	Enterprise Funds		
	Wastewater	Water	Gas
OPERATING ACTIVITIES			
Received from customers	\$ 9,687,484	\$ 8,338,111	\$ 20,723,990
Received from interfund services	-	-	-
Payments to suppliers for goods and services	(3,425,019)	(3,072,992)	(14,824,716)
Payments to employees for services	(614,932)	(1,281,894)	(1,028,597)
Payments to internal service funds for goods and services	(180,908)	84,495	127,307
Net cash provided by operating activities	<u>5,466,625</u>	<u>4,067,720</u>	<u>4,997,984</u>
NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	-	-
Transfers to other funds	(685,760)	(937,300)	(3,008,330)
Interfund borrowing	-	-	-
Nonoperating grants received	(279)	-	144,094
Operating grants received	55,366	-	-
Net cash provided by (used in) noncapital financing activities	<u>(630,673)</u>	<u>(937,300)</u>	<u>(2,864,236)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(2,246,966)	(749,971)	(1,646,109)
Principal payments on long-term debt	(1,414,516)	(775,556)	(156,700)
Proceeds from bond refunding	44,527	-	-
Escrow payments to refunding trust	-	-	-
Interest payments on long-term debt	(265,628)	(70,192)	33,825
Proceeds from sale of capital assets	(42,412)	(24,320)	(24,172)
Contributed capital	28,882	30,000	-
Net cash used in capital and related financing activities	<u>(3,896,113)</u>	<u>(1,590,039)</u>	<u>(1,793,156)</u>
INVESTING ACTIVITIES			
Interest on investments	82,469	152,399	153,915
Net activity in investment securities	12,518	(129,439)	(93,207)
Net cash provided by investing activities	<u>94,987</u>	<u>22,960</u>	<u>60,708</u>
Net increase (decrease) in cash and investments	1,034,826	1,563,341	401,300
CASH AND CASH EQUIVALENTS			
Beginning	6,259,871	7,730,210	12,065,238
Ending	<u>\$ 7,294,697</u>	<u>\$ 9,293,551</u>	<u>\$ 12,466,538</u>
RECONCILIATION TO EXHIBIT 8			
Cash and investments	\$ 7,294,697	\$ 9,293,551	\$ 12,466,538
Cash and investments – held by fiscal agents	-	-	-
Cash and investments – restricted	-	-	-
	<u>\$ 7,294,697</u>	<u>\$ 9,293,551</u>	<u>\$ 12,466,538</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	
\$ 115,884,927	\$ 6,069,790	\$ 160,704,302	\$ -
-	-	-	6,219,558
(86,408,888)	(2,616,731)	(110,348,346)	(4,986,691)
(5,273,985)	(2,883,662)	(11,083,070)	(696,651)
(115,472)	(514,252)	(598,830)	(21,120)
24,086,582	55,145	38,674,056	515,096
-	198,600	198,600	-
(9,896,610)	(302,000)	(14,830,000)	149,219
-	99,600	99,600	458
-	-	143,815	-
-	1,483,021	1,538,387	-
(9,896,610)	1,479,221	(12,849,598)	149,677
(10,931,463)	(1,836,802)	(17,411,311)	(919,399)
(2,271,929)	(1,716)	(4,620,417)	(2,669)
3,500,000	164,632	3,709,159	-
-	-	-	-
(558,264)	(593)	(860,852)	(924)
17,323	(69,729)	(143,310)	178,651
1,429,259	-	1,488,141	-
(8,815,074)	(1,744,208)	(17,838,590)	(744,341)
648,250	66,890	1,103,923	6,974
77,189	12,984	(119,955)	14,181
725,439	79,874	983,968	21,155
6,100,337	(129,968)	8,969,836	(58,413)
48,603,220	3,022,420	77,680,959	4,967,330
\$ 54,703,557	\$ 2,892,452	\$ 86,650,795	\$ 4,908,917
\$ 51,794,263	\$ 2,892,452	\$ 83,741,501	\$ 4,908,917
-	-	-	50,000
2,909,294	-	2,909,294	-
\$ 54,703,557	\$ 2,892,452	\$ 86,650,795	\$ 4,958,917

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
Year Ended June 30, 2016**

	Enterprise Funds		
	Wastewater	Water	Gas
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,533,327	\$ 2,728,461	\$ 3,605,495
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation charged to operations	1,950,617	1,722,506	1,543,146
Pension expense net of employer contributions	(28,745)	92,704	37,065
Recoveries, rebates, and other	-	-	(36,977)
In-kind contributions	-	-	-
Nonoperating revenue, net	21,875	88,394	126,923
Change in noncash employee benefits charged to operations	-	(20,839)	2,221
(Increase) decrease in receivables	(146,198)	144,560	(199,383)
Increase (decrease) in reserve for uncollectibles	43,008	32,011	64,636
(Increase) decrease in inventories	-	7,523	86,291
Increase (decrease) in accounts payable	92,741	(727,600)	(231,433)
Increase (decrease) in refundable deposits	-	-	-
Change in deferred revenue	-	-	-
Due to other funds	-	-	-
Net cash provided by operating activities	<u>\$ 5,466,625</u>	<u>\$ 4,067,720</u>	<u>\$ 4,997,984</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Non-cash transactions			
Capitalized interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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	
\$ 9,204,991	\$ (1,105,569)	\$ 17,966,705	\$ (171,677)
7,686,780	780,078	13,683,127	600,213
38,730	110,495	250,249	40,062
932,666	6,424	902,113	-
-	276,545	276,545	-
(282,940)	96,103	50,355	33,887
(232,619)	(36,095)	(287,332)	2,714
6,398,385	(197,412)	5,999,952	(745)
343,066	-	482,721	-
240,430	69,799	404,043	(5,187)
(436,371)	(17,405)	(1,320,068)	15,829
193,464	-	193,464	-
-	(90,000)	(90,000)	-
-	162,182	162,182	-
<u>\$ 24,086,582</u>	<u>\$ 55,145</u>	<u>\$ 38,674,056</u>	<u>\$ 515,096</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2016**

	Pension Trust Funds Employees' Retirement Plan	Agency Veterans' Memorial Fund
ASSETS		
Cash	\$ 9,329	\$ 3,403
Accrued interest and dividends	3,311	-
Investments – at fair value:		
Common stocks and common stock funds	118,974,385	-
Corporate bonds and bond funds	37,166,570	-
Foreign stock funds	27,702,960	-
U.S. Government bonds	18,279,015	-
Real estate	12,245,587	-
Real estate – timberland and timberland funds	7,041,909	-
Temporary cash investments	7,370,970	-
Private equity funds	3,419,312	-
Total investments	232,200,708	-
Total assets	232,213,348	3,403
LIABILITIES		
Accounts payable	177,468	-
Amounts held for others	-	3,403
Total liabilities	177,468	3,403
NET POSITION – RESTRICTED FOR PENSION AND OTHER POST- EMPLOYMENT BENEFITS		
Held in trust	\$ 232,035,880	\$ -

CITY OF DANVILLE, VIRGINIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION –
PENSION TRUST FUNDS
Year Ended June 30, 2016**

	Employees’ Retirement Plan
	<hr/>
ADDITIONS	
Contributions	
Employer contributions	\$ 2,937,843
	<hr/>
Investment earnings	
Net increase in fair value of investments	288,335
Interest	52,449
Dividends	954,847
	<hr/>
Total investment income	1,295,631
Less – investment expenses	<hr/> (650,379)
	<hr/>
Net investment income	645,252
	<hr/>
Total additions	<hr/> 3,583,095
	<hr/>
DEDUCTIONS	
Benefits paid to participants	11,601,476
Refunds of contributions	21,697
Administrative expenses	125,429
	<hr/>
Total deductions	<hr/> 11,748,602
	<hr/>
Change in net position	(8,165,507)
Net position held in trust for pension and other post-employment benefits – beginning	<hr/> 240,201,387
Net position held in trust for pension and other post-employment benefits – ending	<hr/> \$ 232,035,880
	<hr/>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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. The Schools are fiscally dependent on the City and are prohibited from issuing bonded debt without approval of City council. The City is legally obligated to provide financial support to the Schools by State Law of the Commonwealth of Virginia. Annually the State superintendent provides the City with the amount of the Required Local Effort (RLE). 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, 2016

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, 2016, the City provided \$299,870 in funding for DPCS.

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, 2016 the City provided approximately \$750,000 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.

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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.

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 Trust Funds: The Pension Trust Funds account for assets held by the City in a trustee capacity for the City's Employee Retirement Plan.

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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 and fair value**

Investments are stated at fair value. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and are described as follows.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

- **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.

- **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 the Schools 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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

- **Property Held For Sale**

Property held for sale by the City and 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 \$1,876,145 of which \$729,077 was capitalized.

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

	<u>City</u>	<u>DPS</u>	<u>IDA</u>
Buildings	40 years	40 years	40 years
Furniture and other equipment	3-20 years	5-10 years	15-40 years
Infrastructure	20-50 years	-	-

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

- **Pensions**

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

- **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 four items that qualify for reporting in this category: One item is the deferred loss on bond refunding, which results from a 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 second is the net difference between the projected and actual investment earnings on the pension plan assets. This difference is recognized in pension expense over a closed five year period. The third arises from changes in the expected and actual experience in the pension plan. The fourth item consists of contributions subsequent to the measurement date for the VRS pension, which will be applied to the net pension liability in the next fiscal year.

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 seven such 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 bond 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 primarily results from collections of property taxes levied to fund future years. The fifth is the net difference between projected and actual earnings on the VRS pension plan investments. This difference will be recognized in pension expense over a closed five year period. The sixth item consists of differences between expected and actual experience for economic or demographic factors in the total pension liability measurement. The seventh is the change in proportionate share of the teacher cost sharing pension plan at the Schools.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 \$150,000 in stop loss coverage per individual occurrence. There is no aggregate stop loss coverage.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 participant and approximately 120% in aggregate.

- d. Workers' Compensation**

- The City is self-insured for all workers' compensation claims. Liabilities related to reported claims are estimated on a case-by-case review of all outstanding claims by an independent claims agent.

- **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.

- **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).

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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 including subsequent ordinances appropriating funds and amending budgets. Although budgets lapse for legal purposes, they are intended to reflect Council's commitment of resources.

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 of 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.

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

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.

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 five years from the date of purchase.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

Investments (Continued)

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.

The City's investments consist of the following:

	Fair Value	Weighted Average Maturity (Years)
Municipal taxable bonds	\$ 12,475,353	1.64
Municipal non-taxable bonds	505,880	2.49
Corporate bonds	13,398,790	1.11
Corporate foreign bonds	2,516,255	1.01
U.S. Government bonds	25,092,590	6.89
Certificates of deposit	52,500,000	3.59
LGIP	5,082,418	N/A
SNAP	9,285,492	N/A
	<u>\$ 120,856,778</u>	

City investments by credit rating consist of the following:

Rating (Moody's or S&P)	Fair Value
A	\$ 999,560
AA	4,886,211
AA-	7,500,058
AA+	38,568,599
AAA	2,034,440
AAM	14,367,910
Unrated	52,500,000
	<u>\$ 120,856,778</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, 2016

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk: (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	\$ 46,207,227	\$ 1,167,898	\$ 3,730,421
Cash on hand	11,042	1,175	-
Bonds	53,988,868	-	-
Certificates of deposit	52,500,000	-	-
LGIP	5,082,418	830,301	-
SNAP	9,285,492	-	216,480
	<u>\$ 167,075,047</u>	<u>\$ 1,999,374</u>	<u>\$ 3,946,901</u>
Statement of net position:			
Cash and investments – unrestricted	\$ 157,789,555	\$ 1,999,374	\$ 2,569,458
Cash and investments – restricted	9,285,492	-	1,377,443
	<u>\$ 167,075,047</u>	<u>\$ 1,999,374</u>	<u>\$ 3,946,901</u>

Restricted cash consists of unspent bond proceeds, except for \$1,160,963 in the IDA restricted for debt service.

Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Corporate bonds	\$ -	\$ 13,398,790	\$ -	\$ 13,398,790
Corporate foreign bonds	-	2,516,255	-	2,516,255
Municipal bonds	-	12,981,233	-	12,981,233
U.S. Government bonds	-	25,092,590	-	25,092,590
	<u>\$ -</u>	<u>\$ 53,988,868</u>	<u>\$ -</u>	<u>\$ 53,988,868</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments

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, as amended. 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. The fair value of the real estate investment and the real estate – timberland investment is based on an independent appraisal. 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.

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	30%
Bonds	30%
International Equities	10%
Emerging Markets	10%
Real Estate	10%
Real Estate – Timber	5%
Private Equity	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. As the portfolio grows, additional specialties may be used in addition to the ones above. The aggregation of domestic and international equities will be considered as part of the total equity allocation and real estate will be considered as part of the bond allocation for these purposes.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.80%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

Interest Rate Risk:

The System had the following investments and maturities subject to interest rate risk as of June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>More than 10</u>
Non-government backed CMOs	\$ 537,112	\$ -	\$ 537,112
Temporary cash investments	7,370,970	-	-
		<u>\$ -</u>	<u>\$ 537,112</u>
Bond funds – maturity not determined	54,908,473		
Total – subject to interest rate risk	<u>\$ 62,816,555</u>		

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

Temporary cash investments	\$ 7,370,970
Corporate bonds and bond funds	37,166,570
U.S. Government bonds	18,279,015
	<u>\$ 62,816,555</u>

The System's investment policy does not limit investment maturities.

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, 2016 is as follows:

<u>Rating</u>	<u>Fair Value</u>
Standard & Poor's "D"	\$ 350,133
U.S. Government guaranteed	18,279,015
Not rated – bond funds	44,187,407
	<u>\$ 62,816,555</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

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%.

Unfunded Commitments:

The System had non-marketable alternative investments that have associated unfunded commitments at June 30, 2016. These investments were in private equity and real estate, which had a fair value of \$3,419,312 and \$12,245,587, respectively and unfunded commitments of \$8,379,194 and \$16,922,130, respectively at June 30, 2016.

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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

Fair Value:

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Investments by fair value level				
Equity securities				
Domestic equity	\$ 118,974,386	\$ -	\$ -	\$ 118,974,386
International equity	27,702,960	-	-	27,702,960
Total equity securities	146,677,346	-	-	146,677,346
Debt securities				
Corporate bonds	-	36,629,458	-	36,629,458
Government bonds	-	18,279,015	-	18,279,015
Collateralized mortgage obligation	-	537,112	-	537,112
Total debt securities	-	55,445,585	-	55,445,585
Real estate				
Real estate funds	-	-	12,245,587	12,245,587
Real estate funds – timberland	-	-	7,041,909	7,041,909
Total real estate funds	-	-	19,287,496	19,287,496
Total investments by fair value level	<u>\$ 146,677,346</u>	<u>\$ 55,445,585</u>	<u>\$ 19,287,496</u>	<u>221,410,427</u>
Investments measured at the net asset value (NAV)				
Private equity funds				3,419,312
Total investments measured at NAV				<u>3,419,312</u>
Total investment measured at fair value				<u>\$ 224,829,739</u>

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments (Continued)

Employees' Retirement System Investments (Continued)

Fair Value:

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Corporate bonds and collateralized mortgage obligations classified in Level 2 of the fair value hierarchy are valued using bid prices.

Government bonds classified in Level 2 of the fair value hierarchy are valued on the basis of evaluated prices provided by independent pricing services when such prices are believed to reflect the fair value of such securities. Such prices may be determined by taking into account a security's price, yield, maturity, call feature, rating, institutional-size trading in similar groups of securities and developments related to specific securities.

Real estate funds classified in Level 3 of the fair value hierarchy are valued using appraisals from independent appraisers which determine the value using the cost approach, sales comparison approach or income approach.

Real estate – timberland fund investments classified in Level 3 of the fair value hierarchy are valued using appraisals from independent appraisers, using various different valuation methods, including the income approach, cost basis approach, and discounted cash flow method. In most cases, a combination of these methods is used.

Investments Measured at the NAV

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Private equity funds	\$ 3,419,312	\$ 8,379,194	Not eligible	N/A
Total investments measured at the NAV	<u>\$ 3,419,312</u>	<u>\$ 8,379,194</u>		

Private equity funds. This type includes three closed-end commingled funds that take private ownership of companies. The fair values of the investments have been determined using the NAV per share (or its equivalent) of the ERS's ownership interest in partners' capital. These investments can never be redeemed with the funds. All of the investments are generally considered to be illiquid investments. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will have life from six to twelve years from inception. It is also possible for the investments to be sold in the secondary market.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 2016 was \$0.73 per \$100 of assessed value.

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, 2016 includes amounts not yet received from the January 1, 2016 levy due June 5, 2016. Personal property taxes are billed in equal semi-annual installments due June 5 and December 5. The tax rate for fiscal year 2016 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:

			Component Units	
	Governmental Activities	Business-Type Activities	Danville Public Schools	Industrial Development Authority
Receivables				
Taxes and licenses	\$ 13,279,474	\$ -	\$ -	\$ -
Accounts	127,303	18,294,735	-	59,148
Demolition	4,072,038	-	-	-
Public works	760,973	-	-	-
Juvenile detention	232,084	-	-	-
Accrued interest	1,126,356	-	-	-
Duke energy settlement	1,345,616	-	-	-
Incentive grant funds recoverable	2,558,750	-	-	-
Miscellaneous	475,237	-	580,035	-
	23,977,831	18,294,735	580,035	59,148
Less: allowance for doubtful accounts	(5,825,943)	(1,778,872)	-	-
Net receivables	<u>\$ 18,151,888</u>	<u>\$ 16,515,863</u>	<u>\$ 580,035</u>	<u>\$ 59,148</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 786,360	\$ -	\$ -
Taxiway intersection	213,962	-	-
MLK pavilion trail	637,660	-	-
CDBG grant	115,521	-	-
Craighead improvements	564,097	-	-
Operations	-	668,230	-
Education grants	-	-	1,792,205
State compensation board funding	406,917	-	-
Comprehensive service act funding	414,296	-	-
Social services funding	1,194,849	-	-
Other miscellaneous state and federal grants	570,376	230,756	-
Sales and communication taxes	1,977,217	-	1,211,416
	<u>\$ 6,881,255</u>	<u>\$ 898,986</u>	<u>\$ 3,003,621</u>

Amounts due to other governments consist of the following:

	Governmental Activities
Detention Center	\$ 168,274
Facility Authority	222,966
	<u>\$ 391,240</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, 2016

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 differentials. 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 differentials. As of June 30, 2016 recoveries had reduced the asset to \$11,381,208. Recoveries are primarily accomplished through the City’s power cost adjustment (PCA) rate component, as well as a \$2 million adjustment approved by the Danville Utility Commission in August 2015, in base energy costs in the current year. The Commission took a similar action in August 2016, which will be reflected in fiscal year 2017. 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 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

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, 2016

Note 7. Loans Receivable (Continued)

Loans receivable consist of the following:

Revitalization loans	\$ 861,981
Deferred loans	1,002,785
Low interest loans	1,041,691
Forgivable loans	<u>1,457,652</u>
	4,364,109
Less: allowance for doubtful accounts	<u>(1,155,702)</u>
	<u><u>\$ 3,208,407</u></u>

Note 8. Interfund Balances and Activity

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

	Due From (Fund)					Total
	Community Development Fund	Central Services Fund	Motorized Equipment Fund	Transportation Fund	Wastewater Fund	
General Fund	\$ 82,091	\$ 91,110	\$ 49,855	\$ 181,386	\$ -	\$ 404,442
Gas Fund	-	-	-	-	466,069	466,069
Electric Fund	-	-	-	-	612,208	612,208
	<u>\$ 82,091</u>	<u>\$ 91,110</u>	<u>49,855</u>	<u>\$ 181,386</u>	<u>\$ 1,078,277</u>	<u>\$ 1,482,719</u>

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

The General Fund interfund receivables are primarily to provide short-term advances to other funds as needed. The General Fund may serve as a purchaser or source of liquidity for other funds in the normal course of operations.

The interfund receivables in the Electric Fund and the Gas Fund arise from loans to cover deficits of the Wastewater Fund in 2008. 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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8. Interfund Balances and Activity (Continued)

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
2017	\$ 345,369	\$ 43,131	\$ 388,500
2018	359,184	29,316	388,500
2019	373,724	14,949	388,673
	<u>\$ 1,078,277</u>	<u>\$ 87,396</u>	<u>\$ 1,165,673</u>

Transfers between funds for the current year were as follows:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds:			
General Fund	\$ 14,830,000	\$ (8,725,720)	\$ 6,104,280
Capital Projects Fund	4,578,910	(21,250)	4,557,660
Economic Development Fund	2,872,060	-	2,872,060
Special Revenue Fund	1,097,400	-	1,097,400
	<u>\$ 23,378,370</u>	<u>\$ (8,746,970)</u>	<u>\$ 14,631,400</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)
Transportation Fund	198,600	(302,000)	(103,400)
	<u>\$ 198,600</u>	<u>\$ (14,830,000)</u>	<u>\$ (14,631,400)</u>

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

Transfers from the General Fund to the Capital Projects Fund represent 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 are received by the General Fund, and represent contributions from these funds to support the City's operations.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 9. Balances Between City and Component Units

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

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
Governmental Activities	\$ 11,974,539	\$ 1,085,043
	<u>\$ 11,974,539</u>	<u>\$ 1,085,043</u>
Component Units:		
Danville Public Schools	\$ -	\$ 5,769,205
Danville Industrial Development Authority	1,085,043	6,205,334
	<u>1,085,043</u>	<u>11,974,539</u>
Less: long-term portion	<u>(1,026,026)</u>	<u>-</u>
Current portion	<u>\$ 59,017</u>	<u>\$ 11,974,539</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>
2017	\$ 59,017	\$ 42,328	\$ 6,205,334	\$ 82,841
2018	61,422	39,923	-	-
2019	63,924	37,420	-	-
2020	66,528	34,816	-	-
2021	69,239	32,106	-	-
2022-2026	390,877	115,846	-	-
2027-2030	374,036	31,342	-	-
	<u>\$ 1,085,043</u>	<u>\$ 333,781</u>	<u>\$ 6,205,334</u>	<u>\$ 82,841</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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,	
2017	\$ 1,106,846
2018	1,084,826
2019	1,083,226
2020	876,018
2021	430,025
2022-2026	1,383,735
2027-2031	1,274,500
2032-2036	1,037,700
2037-2040	<u>612,000</u>
	<u><u>\$ 8,888,876</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,	
2017	\$ 615,275
2018	615,276
2019	6,465,564
2020	35,400
2021	35,400
Thereafter	<u>374,650</u>
	8,141,565
Less unearned income	<u>(959,945)</u>
Net investment in sales-type leases	<u><u>\$ 7,181,620</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 11. Capital Assets

Changes in capital assets were as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 19,615,342	\$ -	\$ -	\$ 19,615,342
Construction in progress	4,661,143	10,966,673	(7,175,096)	8,452,720
Total capital assets, not depreciated	24,276,485	10,966,673	(7,175,096)	28,068,062
Capital assets, depreciated				
Buildings	51,601,251	1,298,434	-	52,899,685
Infrastructure	54,021,305	4,049,253	-	58,070,558
Furniture and other equipment	39,049,893	3,369,255	(822,893)	41,596,255
Total capital assets, depreciated	144,672,449	8,716,942	(822,893)	152,566,498
Less accumulated depreciation:				
Buildings	(18,249,870)	(1,416,668)	-	(19,666,538)
Infrastructure	(28,529,051)	(2,454,227)	-	(30,983,278)
Furniture and other equipment	(31,278,723)	(2,625,780)	698,016	(33,206,487)
Total accumulated depreciation	(78,057,644)	(6,496,675)	698,016	(83,856,303)
Total City capital assets, depreciated, net	66,614,805	2,220,267	(124,877)	68,710,195
Assets transferred from DPS*	77,837,094	-	-	77,837,094
Less accumulated depreciation	(74,014,281)	(1,921,904)	-	(75,936,185)
Total assets transferred from DPS, net	3,822,813	(1,921,904)	-	1,900,909
Total capital assets, depreciated, net	70,437,618	298,363	(124,877)	70,611,104
Governmental activities capital assets, net	\$ 94,714,103	\$ 11,265,036	\$ (7,299,973)	\$ 98,679,166

*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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 11. Capital Assets (Continued)

Governmental Activities:

Depreciation, not including \$645,009 reported in the internal service funds, was charged to government functions as follows:

General government administration	\$ 1,895,063
Judicial administration	204,769
Public safety	1,352,649
Public works	1,923,417
Health and welfare	34,712
Parks, recreation, and cultural	333,912
Community development	107,144
Education	1,921,904
	<u>\$ 7,773,570</u>

The above total for additions to accumulated depreciation does not agree with the total depreciation by function/programs of governmental activities shown by \$44,796. This difference represents accumulated depreciation on capital assets transferred from business-type activities.

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 1,455,212	\$ 4,454	\$ -	\$ 1,459,666
Construction in progress	21,763,969	4,670,791	(7,159,485)	19,275,275
Total capital assets, not depreciated	23,219,181	4,675,245	(7,159,485)	20,734,941
Capital assets, depreciated				
Buildings and infrastructure	399,604,249	17,304,795	-	416,909,044
Furniture and other equipment	74,986,513	2,829,287	(695,900)	77,119,900
Total capital assets, depreciated	474,590,762	20,134,082	(695,900)	494,028,944
Less accumulated depreciation:				
Buildings and infrastructure	(151,719,644)	(10,323,714)	-	(162,043,358)
Furniture and other equipment	(51,505,564)	(3,359,676)	590,645	(54,274,595)
Total accumulated depreciation	(203,225,208)	(13,683,390)	590,645	(216,317,953)
Total capital assets, depreciated, net	271,365,554	6,450,692	(105,255)	277,710,991
Business-type activities capital assets, net	<u>\$ 294,584,735</u>	<u>\$ 11,125,937</u>	<u>\$ (7,264,740)</u>	<u>\$ 298,445,932</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 11. Capital Assets (Continued)

Component Unit – Danville Public Schools:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,176,690	\$ -	\$ -	\$ 2,176,690
Capital assets, depreciated				
Buildings	44,961,027	439,965	-	45,400,992
Furniture and other equipment	7,842,458	855,343	(1,069,552)	7,628,249
Total capital assets, depreciated	52,803,485	1,295,308	(1,069,552)	53,029,241
Less accumulated depreciation:				
Buildings	(41,035,789)	(1,453,488)	-	(42,489,277)
Furniture and other equipment	(5,626,047)	(563,000)	1,014,777	(5,174,270)
Total accumulated depreciation	(46,661,836)	(2,016,488)	1,014,777	(47,663,547)
Capital assets depreciated, net	6,141,649	(721,180)	(54,775)	5,365,694
Total capital assets, net	<u>\$ 8,318,339</u>	<u>\$ (721,180)</u>	<u>\$ (54,775)</u>	<u>\$ 7,542,384</u>

Component Unit – Industrial Development Authority:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 8,651,184	\$ 303,221	\$ 171,286	\$ 8,783,119
Construction in progress	1,323,918	319,418	-	1,643,336
Total capital assets, not depreciated	9,975,102	622,639	171,286	10,426,455
Capital assets, depreciated:				
Building	24,371,715	1,859,264	326,527	25,904,452
Equipment	75,000	-	-	75,000
Total capital assets, depreciated, net	24,446,715	1,859,264	326,527	25,979,452
Less accumulated depreciation for:				
Building	3,304,604	690,467	28,236	3,966,835
Total accumulated depreciation	3,304,604	690,467	28,236	3,966,835
Total capital assets, depreciated, net	21,142,111	917,707	298,291	22,012,617
Total capital assets, net	<u>\$ 31,117,213</u>	<u>\$ 1,791,436</u>	<u>\$ 469,577</u>	<u>\$ 32,439,072</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 35,910,736	\$ 6,380,545	\$ 1,584,550	\$ 40,706,731	\$ 2,682,035
Bond premiums	151,362	202,598	77,939	276,021	-
Capital leases	-	205,140	54,561	150,579	48,099
Tobacco commission obligation (Note 25)	3,845,000	-	1,286,250	2,558,750	1,286,250
Reimbursement agreements	174,008	-	87,004	87,004	87,004
Compensated absences	1,778,930	1,692,491	1,600,440	1,870,981	1,683,883
Workers' compensation	3,834,089	605,195	1,190,510	3,248,774	829,089
	<u>\$ 45,694,125</u>	<u>\$ 9,085,969</u>	<u>\$ 5,881,254</u>	<u>\$ 48,898,840</u>	<u>\$ 6,616,360</u>
<u>Business-Type Activities</u>					
General obligation bonds	\$ 50,508,516	\$ 14,029,455	\$ 14,349,330	\$ 50,188,641	\$ 4,390,630
Bond premiums	669,171	1,353,541	161,174	1,861,538	-
Capital leases	-	200,395	35,763	164,632	31,121
Revenue bonds	1,318,940	-	365,000	953,940	365,000
Obligation payable – AMP	4,426,044	-	1,154,620	3,271,424	1,154,617
Landfill postclosure costs (Note 13)	1,440,000	-	90,000	1,350,000	90,000
Reimbursement agreements	179,226	-	58,930	120,296	45,300
Compensated absences	498,449	446,253	448,867	495,835	446,253
Workers' compensation	510,405	131,399	416,122	225,682	58,706
	<u>\$ 59,550,751</u>	<u>\$ 16,161,043</u>	<u>\$ 17,079,806</u>	<u>\$ 58,631,988</u>	<u>\$ 6,581,627</u>

Compensated absences and workers' compensation, for governmental activities, are typically paid from the General Fund.

Tobacco Commission Obligation:

The City, in conjunction with the IDA, has noted that certain grant recipients are 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 over four years, and will attempt to recover the funds from the grant recipients.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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:

In 2008, the City entered into a power sales contract with American Municipal Power (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 are approximately 1.20%.

General Obligation Public Improvement and Refunding Bonds, Series 2015:

On July 30, 2015 the City issued \$20,410,000 of General Obligation Public Improvement and Refunding Bonds, Series 2015. Series A bonds in the amount of \$9,845,000 (less \$211,603 in underwriting fees and other issuance costs) were allocated for capital projects including capital repairs, replacements, and improvements to various public buildings and infrastructure. Series B bonds in the amount of \$10,565,000 (including \$206,641 in underwriting fees and other issuance costs) were issued to provide for an advance refunding of General Obligation Bond Series 2007 and Series 2009C. The refunding resulted in a savings (the difference between the present value of the debt service payments on the old and new debt) of \$406,775, and a cash flow savings of \$487,514.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016</u>
General Obligation Bonds					
School Series 2001B – G.W.	\$ 6,512,513	\$ 296,369 – 371,160	3.10 – 5.10 %	7/15/2021	\$ 2,151,317
School Series 2001B – Langston	5,210,006	237,088 – 296,928	3.10 – 5.10	7/15/2021	1,721,055
School Series 2001A – Loan	2,500,000	125,000	3.10 – 5.10	7/15/2021	750,000
General Improvements 2007	5,000,000	165,000 – 360,000	3.80 – 4.12	3/1/2027	240,000
General Improvement Refunding 2009A	11,215,000	720,000 – 1,300,000	2.00 – 5.00	3/1/2022	6,225,000
General Improvement Refunding 2009B	13,895,000	775,000 – 2,515,000	3.80 – 6.09	3/1/2022	9,015,000
General Improvement 2009C	12,005,000	425,000 – 890,000	1.50 – 5.00	8/1/2029	2,085,000
General Improvement Refunding 2010A	12,925,000	355,000 – 895,000	2.00 – 5.00	9/1/2028	9,550,000
General Improvement 2010B	10,410,000	330,000 – 655,000	2.19 – 6.02	9/1/2036	9,745,000
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	6,280,000
General Improvement 2013A	6,360,000	60,000 – 535,000	2.00 – 5.00	7/1/2038	6,220,000
General Improvement 2014A	2,953,000	108,000 – 196,000	3.15	12/1/2034	2,845,000
General Improvements and Refunding 2014B	5,679,000	64,000 – 630,000	2.25	12/1/2025	5,615,000
General Improvement 2015A	9,845,000	350,000 – 665,000	2.00 – 3.375	8/1/2035	9,845,000
General Improvements and Refunding 2015B	<u>10,565,000</u>	260,000 – 1,170,000	3.00 – 5.00	8/1/2029	<u>10,565,000</u>
	<u>\$ 130,760,519</u>				<u>\$ 90,895,372</u>
Revenue Bonds					
Utility Revenue 96 – 97	<u>\$ 7,300,000</u>	\$ 223,940 – 365,000	4.50 %	2/1/2019	<u>\$ 953,940</u>
Reimbursement Agreements	<u>\$ 598,680</u>	\$ 64,527 – 98,271	0.00 %	6/30/2018	<u>\$ 207,300</u>
Tobacco Commission Obligation	<u>\$ 4,745,000</u>	\$ 500,000 – 900,000	0.00 %	6/30/2018	<u>\$ 2,558,750</u>
Obligation Payable – AMP Generating Station Contract	<u>\$ 5,600,604</u>	\$ 1,154,620	1.20 %	5/1/2019	<u>\$ 3,271,424</u>
Capital leases	<u>\$ 405,535</u>	\$ 48,099 – 54,561	2.82 – 4.29 %	6/30/2019	<u>\$ 315,211</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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
2017	\$ 2,680,231	\$ 1,593,188	\$ 4,390,630	\$ 1,957,997	\$ 7,070,861	\$ 3,551,185
2018	2,773,252	1,497,079	4,564,165	1,799,843	7,337,417	3,296,922
2019	2,879,300	1,393,417	4,466,277	1,636,195	7,345,577	3,029,612
2020	2,996,816	1,277,156	4,353,558	1,458,573	7,350,374	2,735,729
2021	3,127,026	1,146,951	3,523,030	1,268,119	6,650,056	2,415,070
2022-2026	13,890,049	4,097,025	15,177,038	4,320,579	29,067,087	8,417,604
2027-2031	6,329,951	1,967,315	9,751,049	1,733,067	16,081,000	3,700,382
2032-2036	5,652,584	671,252	3,270,416	554,330	8,923,000	1,225,582
2037-2041	377,522	11,367	692,478	40,230	1,070,000	51,597
	<u>\$ 40,706,731</u>	<u>\$ 13,654,750</u>	<u>\$ 50,188,641</u>	<u>\$ 14,768,933</u>	<u>\$ 90,895,372</u>	<u>\$ 28,423,683</u>

Year Ending June 30,	Revenue Bonds		Capital Leases			
	Business-Type Activities		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 365,000	\$ 37,681	\$ 48,099	\$ 6,463	\$ 31,121	\$ 4,643
2018	365,000	23,263	50,163	4,398	31,998	3,765
2019	223,940	8,846	52,317	2,245	32,901	2,863
2020	-	-	-	-	33,829	1,935
2021	-	-	-	-	34,783	981
	<u>\$ 953,940</u>	<u>\$ 69,790</u>	<u>\$ 150,579</u>	<u>\$ 13,106</u>	<u>\$ 164,632</u>	<u>\$ 14,187</u>

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
2017	\$ 87,004	\$ 45,300	\$ 132,304	\$ 1,286,250	\$ 1,154,617
2018	-	74,996	74,996	886,250	1,154,623
2019	-	-	-	386,250	962,184
	<u>\$ 87,004</u>	<u>\$ 120,296</u>	<u>\$ 207,300</u>	<u>\$ 2,558,750</u>	<u>\$ 3,271,424</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 12. Long-Term Liabilities (Continued)

Component Unit Obligations:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DPS					
Compensated absences	\$ 1,134,023	\$ 621,347	\$ 527,000	\$ 1,228,370	\$ 570,845
Entering retirement in phases plan (Note 21)	5,392,987	-	1,144,992	4,247,995	1,521,587
	<u>\$ 6,527,010</u>	<u>\$ 621,347</u>	<u>\$ 1,671,992</u>	<u>\$ 5,476,365</u>	<u>\$ 2,092,432</u>
IDA					
Notes payable	<u>\$ 29,372,852</u>	<u>\$ 1,380,000</u>	<u>\$ 1,047,641</u>	<u>\$ 29,705,211</u>	<u>\$ 9,038,313</u>

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 at least 2031. Management estimates that postclosure monitoring costs will be approximately \$1,350,000 as of June 30, 2016, 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	\$ 8,978,780
Prepaid taxes	868,558
Due from IDA – unavailable	1,085,043
Duke energy settlement receivable – unavailable	530,000
Other receivables – unavailable	<u>3,082,719</u>
Total unavailable/unearned revenue – governmental funds	14,545,100
Less deferrals for unavailability	<u>(13,676,542)</u>
Deferred inflows – prepaid taxes – statement of net position	<u>\$ 868,558</u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 120,162	\$ -	\$ -	\$ -	\$ 120,163
Inventories	198,950	-	-	-	198,950
Cemetery perpetual care	-	-	-	2,789,017	2,789,017
Total nonspendable	319,112	-	-	2,789,017	6,316,537
Restricted for:					
Unspent bond proceeds	-	-	6,376,198	-	6,376,198
Police	75,534	-	-	-	75,534
Commonwealth Attorney	101,536	-	-	-	101,536
Fire department equipment and supplies	63,197	-	-	-	63,197
Other grants	-	-	-	8,629,872	8,629,872
Total restricted	240,267	-	6,376,198	8,629,872	15,246,337
Committed to:					
Capital projects	-	-	6,747,024	-	6,747,024
Stabilization	3,000,000	-	-	-	3,000,000
Sheriff – Project Lifesaver	8,923	-	-	-	8,923
GWHS Stadium	1,500,000	-	-	-	1,500,000
Schools	2,400,142	-	-	-	2,400,142
Total committed	6,909,065	-	6,747,024	-	13,656,089
Assigned to:					
General administration	195,930	-	264,263	-	460,193
Judicial administration	42,583	-	-	-	42,583
Public safety	478,061	-	318,215	-	796,276
Public works	63,491	-	1,977,387	-	2,040,878
Health and welfare	2,300	-	-	-	2,300
Parks, recreation, and cultural	54,176	-	-	-	54,176
Education	1,154,915	-	124,296	-	1,279,211
Community development	2,625,618	3,208,407	269,794	-	6,103,819
Total assigned	4,617,074	3,208,407	2,953,955	-	10,779,436
Unassigned	36,907,387	-	-	-	36,907,387
Total fund balance	\$ 48,992,905	\$ 3,208,407	\$ 16,077,177	\$ 11,418,889	\$ 79,697,378

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 16. Summary of Pension Related Matters

The City and the Schools participate in several employee pension plans as described in Notes 17-20. Following is a summary of key pension-related financial statement elements lifted from those notes.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Danville Public Schools</u>
Net pension asset – Danville ERS	\$ 21,960,197	\$ 5,850,963	\$ 27,811,160	\$ -
Deferred outflows of resources:				
Differences between expected and actual experience:				
Danville ERS	\$ 5,306,386	\$ 1,413,807	\$ 6,720,193	\$ -
VRS	174,984	-	174,984	-
Net difference between projected and actual earnings on pension plan investments – Danville ERS	15,473,964	4,122,803	19,596,767	-
Pension contributions subsequent to measurement date:				
VRS Teacher cost sharing plan	-	-	-	4,439,145
VRS	597,078	-	597,078	157,146
	<u>\$ 21,552,412</u>	<u>\$ 5,536,610</u>	<u>\$ 27,089,022</u>	<u>\$ 4,596,291</u>
Net pension liability – VRS	<u>\$ 2,690,895</u>	<u>\$ -</u>	<u>\$ 2,690,895</u>	<u>\$ 53,916,739</u>
Deferred inflows of resources:				
Difference between expected and actual experience:				
VRS Teacher cost sharing plan	\$ -	\$ -	\$ -	\$ 739,000
VRS	-	-	-	204,923
Net difference between projected and actual earnings on pension plan investments:				
VRS	576,671	-	576,671	191,566
VRS Teacher cost sharing plan	-	-	-	3,286,000
Changes in proportion and related differences – VRS Teacher cost sharing plan	-	-	-	5,327,000
	<u>\$ 576,671</u>	<u>\$ -</u>	<u>\$ 576,671</u>	<u>\$ 9,748,489</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System

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 this 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.

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.

Employees Covered by Benefit Terms

As of the July 1, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members:	
Terminated vested members	263
Retired members	<u>599</u>
Total inactive members	862
Active members	<u>933</u>
Total covered employees	<u><u>1,795</u></u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System (Continued)

Contributions

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 8.687% of compensation for general employees and 9.7306% of compensation for public safety employees. Contributions to the pension plan from the City were \$2,937,843 and \$3,583,779 for the years ended June 30, 2016 and June 30, 2015, respectively.

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 was recognized as a contribution into the plan for the year ending June 30, 2015. 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.

Measurement Date

The City's net pension asset was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of July 1, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of July 1, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	3.00%
Salary increases, including inflation	4.00%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of actuarial experience analysis during the 2000 to 2010 time period. The next assumption review is scheduled for July 1, 2016 valuation date.

Actuarial Cost Method

The method of valuation used for pension benefits is called the Entry Age Normal Method. Under this method, actuarial gains and losses are reflected immediately through a change in the total pension liability.

Employees Included in the Calculations

All regular, full-time employees on the valuation date are included in the calculations. Former employees or their survivors who are entitled to an immediate or deferred benefit under the provisions of the plan as indicated by the employee data are also included.

Actuarial Assumptions

Mortality: Healthy and Disabled Lives

RP-2000 Mortality Table.

Disability:

General Employees

200% of United Auto Workers Disability rates.

Policemen and Firemen

400% of United Auto Workers Disability rates.

Salary Progression:

Salaries are assumed to increase at a rate of 4.00% per year for all employees of which 3.00% is due to expected inflation. No portion of membership payroll is expected to increase due to growth in the active group size.

Investment Return:

7.00% compounded annually.

Plan Expenses:

Certain administrative expenses are now being paid from the trust fund. These expenses are not considered to be material and are not explicitly reflected in the valuation.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System (Continued)

Actuarial Assumptions – General Employees (Continued)

Actuarial Assumptions (Continued)

Retirement Age:

General Employees	
Age	Probability of Retirement
55-59	.03
60-61	.06
62	.50
63-64	.20
65	1.00
Policemen and Firemen	
Age	Probability of Retirement
55-57	.10
58-59	.15
60	1.00

Future Post-Retirement Cost-of-Living Increases: None

For the purpose of valuing death benefits, all male employees are assumed to be married to a spouse three years younger and all female employees are assumed to be married to a spouse three years older.

For purposes of determining projected benefits payable from member contributions, those contributions are assumed to earn 5% interest compounded annually.

Projected benefits are limited to the federal (415) limitation for defined benefit plans.

Total contributions made by the City have been included in the calculations as of July 1, 2015.

The Entry Age Normal method used in this report was adopted effective July 1, 1994.

The rates assumed for salary progression, investment return, and future post-retirement cost-of-living increases have been adopted effective July 1, 2010 and revised July 1, 2013. All other actuarial assumptions used for the July 1, 2014 valuation were adopted effective July 1, 2002.

Pension Plan Fiduciary Net Position

Detailed information about the Employees' Retirement System of the City of Danville, Virginia's Fiduciary Net Position is available in the separately issued 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 ERS CAFR may be downloaded from the City's website at <http://www.danville-va.gov/360/Employees-Retirement-System-Board> or by writing to the Finance Director, 427 Patton Street, Danville, VA 24541.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. The risk adjustment may also reflect the City's selection of a more conservative assumption. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, and the final investment return assumption, are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Domestic Large Cap	5.51 %	30.00 %
Domestic Bonds	2.11 %	30.00 %
International Developed	5.77 %	10.00 %
International Emerging	6.70 %	10.00 %
Timber	2.44 %	5.00 %
Real Estate	4.11 %	10.00 %
Private Equity	7.79 %	5.00 %
Total weighted average real return	4.46 %	100.00 %
Inflation	3.00 %	
Total Return without Adjustment	7.46 %	
Risk Adjustment	(0.46)%	
Total Expected Return	7.00 %	

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2015	\$ 192,582,093	\$ 240,201,387	\$ (47,619,294)
Changes for the year:			
Service cost	3,400,557	-	3,400,557
Interest	13,747,123	-	13,747,123
Differences between expected and actual experience	6,118,120	-	6,118,120
Contributions – employer	-	2,937,843	(2,937,843)
Net investment income	-	645,251	(645,251)
Benefit payments, including refunds of employee contributions	(11,623,173)	(11,623,173)	-
Administrative expenses	-	(125,428)	125,428
Net changes	11,642,627	(8,165,507)	19,808,134
Balances at June 30, 2016	\$ 204,224,720	\$ 232,035,880	\$ (27,811,160)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
City's net pension asset	\$ 5,547,241	\$ 27,811,160	\$ 46,749,969

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 17. Danville Employees' Retirement System (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense for the ERS of \$7,661,204. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the ERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,720,193	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	19,596,767	-
	<u>\$ 26,316,960</u>	<u>\$ -</u>

Approximately \$13,000 was payable to the ERS at June 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase to Pension Expense
2017	\$ 6,899,631
2018	6,899,631
2019	6,899,630
2020	4,598,383
Thereafter	1,019,685

Note 18. Virginia Retirement System

Plan Description

Constitutional officers and their employees of the City of Danville, Virginia, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Plan Description

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

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

- **Hybrid Opt-In Election** – VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **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 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **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%.
- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

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

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **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** – Same as Plan 1 except that the retirement multiplier is 1.65%.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **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 and is generally subject to the same terms as in Plans 1 and 2.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting –**
 - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
 - **Defined Benefit Component:** See definition under Plan 1.
 - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
 - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –**
 - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component:** Same as Plan 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>78</u>
Inactive members:	
Vested inactive members	13
Non-vested inactive members	21
Inactive members active elsewhere in VRS	<u>40</u>
Total inactive members	74
Active members	<u>125</u>
Total covered employees	<u><u>277</u></u>

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 12.08% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$597,078 and \$592,339 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

Long-Term Expected Rate of Return

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

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

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

Discount Rate

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 23,249,752	\$ 21,220,560	\$ 2,029,192
Changes for the year:			
Service cost	626,442	-	626,442
Interest	1,582,601	-	1,582,601
Differences between expected and actual experience	240,276	-	240,276
Contributions – employer	-	591,211	(591,211)
Contributions – employee	-	244,259	(244,259)
Net investment income	-	965,809	(965,809)
Benefit payments, including refunds of employee contributions	(1,282,338)	(1,282,338)	-
Administrative expenses	-	(13,462)	13,462
Other changes	-	(201)	201
Net changes	1,166,981	505,278	661,703
Balances at June 30, 2015	\$ 24,416,733	\$ 21,725,838	\$ 2,690,895

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	<u>\$ 5,575,116</u>	<u>\$ 2,690,895</u>	<u>\$ 274,605</u>

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

For the year ended June 30, 2016, the City recognized pension expense of \$348,628. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 174,984	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	576,671
Employer contributions subsequent to the measurement date	<u>597,078</u>	<u>-</u>
Total	<u>\$ 772,062</u>	<u>\$ 576,671</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 18. Virginia Retirement System (Continued)

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

Approximately \$70,000 was payable to VRS at June 30, 2016. The \$592,078 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction (Increase) to Pension Expense
2017	\$ (160,499)
2018	(160,499)
2019	(181,392)
2020	100,703
2021	-
Thereafter	-

Note 19. Virginia Retirement System – School Nonprofessional Employees

Nonprofessional employees at Danville Public Schools also participate in the Virginia Retirement System. The plan descriptions and actuarial assumptions are substantively the same as those described in Note 18.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	32
Inactive members:	
Vested inactive members	8
Non-vested inactive members	27
Inactive members active elsewhere in VRS	7
Total inactive members	42
Active members	55
Total covered employees	129

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

Contributions

The Schools' contractually required contribution rate for the year ended June 30, 2016 was 8.78% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Schools were \$157,146 and \$157,999 for the years ended June 30, 2016 and June 30, 2015, respectively.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 7,633,582	\$ 7,201,056	\$ 432,526
Changes for the year:			
Service cost	186,876	-	186,876
Interest	525,413	-	525,413
Differences between expected and actual experience	(322,695)	-	(322,695)
Contributions – employer	-	156,811	(156,811)
Contributions – employee	-	88,856	(88,856)
Net investment income	-	330,257	(330,257)
Benefit payments, including refunds of employee contributions	(255,375)	(255,375)	-
Administrative expenses	-	(4,474)	4,474
Other changes	-	(69)	69
Net changes	134,219	316,006	(181,787)
Balances at June 30, 2015	\$ 7,767,801	\$ 7,517,062	\$ 250,739

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
School's net pension liability (nonprofessional employees)	\$ 1,185,157	\$ 250,739	\$ (538,057)

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

For the year ended June 30, 2016, the Schools recognized pension expense (income) of \$(67,593). At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 204,923
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	191,566
Employer contributions subsequent to the measurement date	<u>157,146</u>	<u>-</u>
Total	<u>\$ 157,146</u>	<u>\$ 396,489</u>

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 19. Virginia Retirement System – School Nonprofessional Employees (Continued)

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

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

Year Ending June 30,	Increase (Reduction) to Pension Expense
2017	\$ (193,182)
2018	(162,561)
2019	(75,408)
2020	34,662

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan

General Information about the Teacher Cost Sharing Plan

Plan Description

All full-time, salaried permanent (professional) employees of Virginia school divisions, including Danville Public Schools, (the “School Division”), are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is a multiple employer cost-sharing plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia.

Prior to the adoption of GASB Statement No. 68 in fiscal year 2015, Virginia local school divisions were required to disclose information about their contributions to the teacher cost-sharing plan, but not report a proportionate share of the plan’s net pension liability. Upon adoption of the new pension standards in 2015, the School Division now reports its proportionate share of the plan’s net pension liability as well as certain other deferred inflows and/or outflows as disclosed below.

Plan participants are covered under three different benefit structures – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described in Note 18.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The amount of this transfer for the school division, included in operating grants and contributions in the Statement of Activities, was \$822,000.

The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the school division were \$4,439,145 and \$4,596,302 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of \$53,666,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.42638% as compared to 0.44879% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$2,577,304. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 739,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	3,286,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	5,327,000
Employer contributions subsequent to the measurement date	<u>4,439,145</u>	<u>-</u>
Total	<u>\$ 4,439,145</u>	<u>\$ 9,352,000</u>

The \$4,439,145 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2017	\$ (2,823,000)
2018	(2,823,000)
2019	(2,823,000)
2020	(541,000)
2021	(342,000)
Thereafter	-

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 20. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee retirement plan net pension liability	\$ 78,535,000	\$ 53,666,000	\$ 33,193,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 21. Entering Retirement In Phases Plan

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

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 21. Entering Retirement In Phases Plan (Continued)

ERIP Qualifications and Benefits by Group

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

Prior to the July 16, 2015 revision the plan allowed participants to use sick leave to “buy out” the work requirement. This created a future benefit for these individuals, i.e. a liability for the future payouts. The plan no longer allows new participants entering the plan (retiring) to use sick leave to eliminate the work requirement, thus effectively freezing the plan. The liability of \$4,247,995 at June 30, 2016 is calculated with a discount rate of 3.50%, and will continue to decline each year as participants who had retired and entered the plan prior to July 16, 2015 continue to receive their final pay-outs.

Note 22. 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, 2016

Note 22. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

AMP Fremont Energy Center (AFEC) (87 members)

In February 3, 2011 American Municipal Power, Inc. (AMP) entered into a non-binding memorandum of understanding (MOU) with FirstEnergy Corp. regarding 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. The closing date to purchase was July 28, 2011. AMP’s acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

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, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AMP Fremont Energy Center (“AFEC”) and development costs and completion of construction and commissioning of AFEC; (ii) to 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) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

On January 21, 2012 the AMP Fremont Energy Center (“AFEC”) began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency (“MPPA”) and entered into a power sales contract with Central Virginia Electric Cooperative (“CVEC”) for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of the 87 members, pursuant to a take-or-pay power sales contract.

As of September 30, 2016 the outstanding obligation on the Fremont Energy Center (“AFEC”) on AMP’s books is \$520,620,000. 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.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 22. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Combined Hydroelectric Projects (79 Members)

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.

The Cannelton Hydro Project (88MW), now in operation as of 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro Project, 44MW, now in operation, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro Project (76MW) is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh. AMP expects the three unit Smithland Hydro Project (76MW) to be in commercial operation by first quarter of 2017.

Please note that these projected commercial operation dates set forth above are, and the other information herein is, subject to change and are dependent on a number of factors affecting each Project’s overall remaining construction schedule, including weather. As a result, the commercial operation dates may occur earlier or later than the time frames set forth above.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 22. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Combined Hydroelectric Projects (79 Members) (Continued)

On February 12, 2015, AMP reached agreement with Barnard Construction Company, Inc. (“Barnard”) to serve as the replacement powerhouse contractor on AMP’s Smithland Hydroelectric Project (“Smithland Project”), which is one of the three projects constituting the Combined Hydroelectric Projects replacing C.J. Mahan whose contract was terminated by mutual agreement between AMP and C.J. Mahan. Barnard is a highly experienced hydropower construction contractor. AMP and Barnard are working together to achieve an orderly transition of the Smithland Project from the prior powerhouse contractor. Nearly all of the subcontractors currently working on the Smithland Project have been retained. The Project Engineer, MWH Americas, Inc., all owner furnished equipment suppliers and all other prime contractors remain in place.

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). As of September 30, 2016 the total outstanding Hydro Project debt on AMP’s books is approximately \$1,995,529,118. 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.

AMP issued the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$194,500,000 on October 6, 2016. The bonds will finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to the construction of the three run-of-the-river hydroelectric facilities (8 units) along the Ohio River, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

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 Combined Hydro facilities.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 22. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Meldahl Hydroelectric Project (48 Members) and Greenup (47 Members)

AMP constructed 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”). Now that the Meldahl Project has entered commercial operation, it has 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 to operate the Meldahl Project.

In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam, an existing dam on the Ohio River (“Meldahl Project”). In March 2009, AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP committed to finance the development and the construction of Meldahl Project and to acquire within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”).

Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project is owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the Meldahl Board). AMP, acting as agent of Meldahl LLC, has financed 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. The Meldahl Project entered commercial operation on April 12, 2016. The Meldahl Project entered commercial operation on April 12, 2016.

By resolution adopted on June 23, 2016 the AMP Board of Trustees authorized the issuance and sale of the Series 2016A Bonds. AMP issued Meldahl Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) in the amount of \$80,050,000 on July 27, 2016. The proceeds of which were utilized to make a deposit to the Construction Account to retire balances held for the costs and expenses associated with the Project on AMP’s line of credit, fund a deposit to the Parity Common Reserve Account and pay the cost of issuance of the Series 2016A. As of September 30, 2016, the outstanding debt for the Meldahl Hydroelectric Projects facility on AMP’s books was approximately \$702,370,000.

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 Meldahl hydro facility.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 22. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Meldahl Hydroelectric Project (48 Members) and Greenup (47 Members)

The Greenup Hydroelectric Facility (the “Greenup Facility”) is a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River. The Greenup Facility entered commercial operation in 1982 and owned and operated by the City of Hamilton, Ohio (“Hamilton”) since 1988. In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam, an existing dam on the Ohio River (“Meldahl Project”). In March 2009, AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP committed to finance the development and the construction of Meldahl Project and to acquire, within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”). The Meldahl Project entered commercial operation on April 12, 2016.

On May 11, 2016, in order to finance the acquisition of AMP’s Interest as well as AMP’s share of certain capital expenditures at the Greenup Facility and related costs, AMP issued its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “Greenup Bonds”) in the principal amount of \$125,630,000. The Greenup Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 47 of its Members.

AMP and Hamilton are responsible for an aliquot share, equal to their respective undivided ownership interest in the Greenup Facility (51.4% for Hamilton and 48.6% for AMP), of the operating and maintenance expenses of the Greenup Facility. In accordance with, and subject to the provisions of, the AMP-Hamilton Agreements, Hamilton continues to operate the Greenup Facility.

The City of Danville has executed a take-or-pay power sales contract with AMP for 3,299 kW or 9.67% kW of capacity and associated energy from the Greenup facility.

Prairie State Energy Campus (68 Members)

On December 20, 2007, AMP acquired 368,000 kW 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 (“AMP 368 LLC”). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

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, 2016

Note 22. Service Contracts (Continued)

Power Purchase Contracts – American Municipal Power (Continued)

Prairie State Energy Campus (68 Members)

AMP sells 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.

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. These 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. As of September 30, 2016 the outstanding obligation on Prairie State project is \$1,576,845,000.

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

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 a take-or-pay contract and does not include minimum purchase requirements. The contract expires in 2027 but may be extended by mutual agreement.

Future Contracted Services

Schoolfield Hydro

In January 2016, a twenty year agreement between the City of Danville and STS Hydropower was finalized for the 4.55 megawatts generated at the Schoolfield dam located in Danville, Virginia. Both City Council and Utility Commission unanimously approved moving forward with this project. The agreement starts on December 1, 2016 and will expire on November 30, 2036. The terms include a \$63.50/megawatt hour rate with a 1.75% annual escalation. This generation represents approximately 2% of Danville’s peak load.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 22. Service Contracts (Continued)

Future Contracted Services (Continued)

Kentuck Solar

In May 2016, a twenty-five year agreement between the City of Danville and Turning Point Energy was finalized for the construction of a 6 megawatt solar farm in Ringgold, Virginia with the Danville Utilities footprint. Both City Council and Utility Commission unanimously approved moving forward with this project. The agreement starts upon the constructing and commissioning of the facility forecasted to be in July 2017. The terms include a fixed \$72.51/megawatt hour rate with no annual escalation. This generation represents approximately 2.5% of Danville's peak load.

Note 23. 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 and DPS 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.

Construction contracts:

The City has several construction and similar contracts in progress at June 30, 2016. The uncompleted portion of these contracts represents financial commitments that were not yet liabilities at June 30, 2016, and consist of the following:

Contracts in progress	\$ 29,223,055
Less: paid or recorded as liabilities	<u>22,083,352</u>
Remaining commitment	<u><u>\$ 7,139,703</u></u>

Arbitrage:

The City has certain debt instruments subject to arbitrage regulations. As of June 30, 2016, the arbitrage estimate was zero.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 23. Commitments and Contingencies (Continued)

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	\$ 1,992,261
City Capital Projects Fund	<u>2,953,955</u>
Total encumbrances	<u>\$ 4,946,216</u>

AMPGS Project:

As discussed in Note 12, the City 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 ultimately prove to have a different value than 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. Such litigation was still in progress when this report was available to be released.

Take-or-pay contracts:

The City has entered into several take-or-pay contracts as described in Note 23, 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.

Moral obligations:

The IDA has several moral obligations for debt service in place for various organizations within the Danville, Virginia area. The total debt outstanding related to these moral obligations is approximately \$13,000,000.

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 \$8,065,000 with a final maturity of 2020; the City and Pittsylvania County each provide equal funding for the debt service.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 24. 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 approximately \$520,000 in new grant funds and paid approximately \$750,000 in such grant funds awarded in current and prior years from the Economic Development Fund. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$412,000, 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 may 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 \$3.2 million for funds from the Tobacco Commission.

At June 30, 2016, the IDA was aware of the default of five companies who had received grant funds that were originally awarded to the City from the Tobacco Commission. These funds, totaling \$4.7 million, will be repaid by the City over four years under an agreement negotiated with the Commission. The balance remaining at June 30, 2016 on these repayments was \$2.6 million, and is reflected as a liability of the City. The City and the IDA will weigh available legal options for recovery of funds from these companies.

Note 25. 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.

The City is also self-insured for health insurance claims, as described in Note 1.

One City employee is covered by a surety bond.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 25. Risk Management (Continued)

Primary government: (Continued)

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.

Self-Insurance

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

			Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Workers' compensation	2016	\$	4,344,494	\$ 736,594	\$ 1,606,632	\$ 3,474,456
	2015		4,095,082	1,328,322	1,078,910	4,344,494
Health insurance	2016	\$	826,934	\$ 8,623,903	\$ 8,376,416	\$ 1,074,421
	2015		766,435	6,729,835	6,669,336	826,934

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, 2016, the cumulative amount held in escrow by the Association for DPS amounted to \$615,287, and is included on the Statement of Net Position as an account receivable.

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. Results for the most recent two years are as follows:

			Beginning of Year	Claims and Reserves	Claim Payments	End of Year
Health insurance	2016	\$	1,390,943	\$ 3,823,058	\$ 3,635,145	\$ 1,578,856
	2015		1,492,245	3,293,027	3,394,329	1,390,943

(Continued)

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 26. Prior Period Restatement – Component Unit – Danville Public Schools

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

Net position June 30, 2015, as previously stated	\$ (50,790,966)
Restatement due to:	
Health insurance related to prior year employee contracts	<u>(1,046,148)</u>
Net position June 30, 2015, as restated	<u><u>\$ (51,837,114)</u></u>

Note 27. New Accounting Standards

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

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 27. New Accounting Standards (Continued)

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement will be effective for the year ending June 30, 2017.

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

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

**REQUIRED
SUPPLEMENTARY INFORMATION**



CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS –
DANVILLE EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS**

	Fiscal Year		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 3,400,557	\$ 3,259,684	\$ 3,141,494
Interest on total pension liability	13,747,122	12,984,495	12,480,764
Changes in benefit terms	-	-	-
Difference between expected and actual experience	6,118,120	2,432,640	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(11,623,173)	(11,594,274)	(10,380,124)
Net change in total pension liability	11,642,626	7,082,545	5,242,134
Total pension liability – beginning	192,582,094	185,499,549	180,257,415
Total pension liability – ending	204,224,720	192,582,094	185,499,549
Plan Fiduciary Net Position			
Contributions – employer	2,937,843	3,998,392	5,849,278
Contributions – employee	-	-	-
Net investment income	645,251	5,204,202	38,756,248
Benefit payments, including refunds of employee contributions	(11,623,173)	(11,594,274)	(10,380,124)
Administrative expenses	(125,428)	(143,714)	(109,411)
Other	-	-	-
Net change in plan fiduciary net position	(8,165,507)	(2,535,394)	34,115,991
Plan fiduciary net position – beginning	240,201,387	242,736,781	208,620,790
Plan fiduciary net position – ending	232,035,880	240,201,387	242,736,781
Net pension asset – ending	\$ (27,811,160)	\$ (47,619,293)	\$ (57,237,232)
Plan fiduciary net position as a percentage of total pension liability	114%	125%	131%
Covered employee payroll	\$ 42,444,501	\$ 39,745,625	\$ 38,027,568
Net pension liability as a percentage of covered employee payroll	-66%	-120%	-151%

Schedule is intended to show information for 10 years. Years prior to 2014 are not available. However, additional years will be included as they become available.

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS –
DANVILLE EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 2,937,843	\$ 2,937,843	\$ -	\$ 42,444,501	6.92%
2015	3,583,779	3,998,392	(414,613)	39,745,625	10.06%
2014	6,228,799	5,849,278	379,521	38,027,568	15.38%
2013	5,295,468	5,280,687	14,781	36,804,751	14.35%
2012	5,073,189	4,929,208	143,981	36,767,568	13.41%
2011	4,949,970	4,950,582	(612)	38,309,497	12.92%
2010	4,622,151	4,611,296	10,855	38,724,457	11.91%
2009	4,468,091	4,465,421	2,670	38,567,189	11.58%
2008	4,258,098	3,902,716	355,382	36,434,479	10.71%
2007	3,692,358	3,308,019	384,339	33,680,175	9.82%

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
VIRGINIA RETIREMENT SYSTEM – CONSTITUTIONAL OFFICERS
LAST TWO FISCAL YEARS**

	Plan Year	
	2015	2014
Total Pension Liability		
Service cost	\$ 626,442	\$ 582,704
Interest on total pension liability	1,582,601	1,523,713
Difference between expected and actual experience	240,276	-
Benefit payments, including refunds of employee contributions	(1,282,338)	(1,247,980)
Net change in total pension liability	1,166,981	858,437
Total pension liability – beginning	23,249,752	22,391,315
Total pension liability – ending	24,416,733	23,249,752
Plan Fiduciary Net Position		
Contributions – employer	591,211	620,933
Contributions – employee	244,259	241,904
Net investment income	965,809	2,927,045
Benefit payments, including refunds of employee contributions	(1,282,338)	(1,247,980)
Administrative expenses	(13,462)	(15,950)
Other	(201)	154
Net change in plan fiduciary net position	505,278	2,526,106
Plan fiduciary net position – beginning	21,220,560	18,694,454
Plan fiduciary net position – ending	21,725,838	21,220,560
Net pension liability – ending	\$ 2,690,895	\$ 2,029,192
Plan fiduciary net position as a percentage of total pension liability	89%	91%
Covered employee payroll	\$ 4,906,673	\$ 4,846,949
Net pension liability as a percentage of covered employee payroll	55%	42%

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

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

(Continued)

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
VIRGINIA RETIREMENT SYSTEM – SCHOOLS NONPROFESSIONAL EMPLOYEES
LAST TWO FISCAL YEARS**

	Plan Year	
	2015	2014
Total Pension Liability		
Service cost	\$ 186,876	\$ 212,808
Interest on total pension liability	525,413	494,905
Difference between expected and actual experience	(322,695)	-
Benefit payments, including refunds of employee contributions	(255,375)	(288,413)
Net change in total pension liability	134,219	419,300
Total pension liability – beginning	7,633,582	7,214,282
Total pension liability – ending	7,767,801	7,633,582
Plan Fiduciary Net Position		
Contributions – employer	156,811	169,720
Contributions – employee	88,856	89,035
Net investment income	330,257	986,601
Benefit payments, including refunds of employee contributions	(255,375)	(288,413)
Administrative expenses	(4,474)	(5,283)
Other	(69)	52
Net change in plan fiduciary net position	316,006	951,712
Plan fiduciary net position – beginning	7,201,056	6,249,344
Plan fiduciary net position – ending	7,517,062	7,201,056
Net pension liability – ending	\$ 250,739	\$ 432,526
Plan fiduciary net position as a percentage of total pension liability	97%	94%
Covered employee payroll	\$ 2,145,082	\$ 2,145,082
Net pension liability as a percentage of covered employee payroll	12%	20%

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

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

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS –
VIRGINIA RETIREMENT SYSTEM
LAST TWO FISCAL YEARS**

Entity Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Primary Government – Constitutional Officers					
2016	\$ 597,078	\$ 597,078	\$ -	\$ 4,944,269	12.08 %
2015	592,339	592,339	-	4,906,673	12.07
Schools – Nonprofessional Employees					
2016	\$ 157,146	\$ 157,146	\$ -	\$ 1,788,926	8.78 %
2015	157,999	157,999	-	2,145,082	7.37

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

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY –
VRS TEACHER RETIREMENT PLAN
LAST TWO FISCAL YEARS**

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

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

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

CITY OF DANVILLE, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF PENSION CONTRIBUTIONS –
VRS TEACHER RETIREMENT PLAN
LAST TWO FISCAL YEARS**

Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2016	\$ 4,439,145	\$ 4,439,145	\$ -	\$ 31,568,468	14.06 %
2015	4,596,302	4,596,302	-	32,356,641	14.21

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

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

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2016

Note 1. Changes of Benefit Terms – Virginia Retirement System

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Note 2. Changes of Assumptions – Virginia Retirement System

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Teacher cost-sharing pool

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

CITY OF DANVILLE, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

Note 3. Methods and Assumptions – Employees’ Retirement System

Valuation date:

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	Five-year moving average
Inflation	3.00%
Salary increases	4.00%, including inflation
Investment rate of return	7.00%
Retirement age – general employees	3.00% at age 55 increasing to 100% at age 65
Retirement age – police and fire employees	10% at age 55 increasing to 100% at age 60
Mortality	RP-2000 Mortality Table

There have been no material changes to the Danville Employees’ Retirement System’s benefit provisions since the last actuarial valuation.



**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, 2016

	Special Revenue Funds			Permanent Fund	
	Special Revenue	VDOT	Economic Development	Cemetery Maintenance	Total
ASSETS					
Cash and investments	\$ 1,109,640	\$ 2,843,599	\$ 4,634,869	\$ 2,789,017	\$ 11,377,125
Receivables, net	140,977	-	-	-	140,977
Due from other governments	1,078,185	-	-	-	1,078,185
Total assets	<u>\$ 2,328,802</u>	<u>\$ 2,843,599</u>	<u>\$ 4,634,869</u>	<u>\$ 2,789,017</u>	<u>\$ 12,596,287</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 592,137	\$ 566,402	\$ 4,659	\$ -	\$ 1,163,198
Total liabilities	<u>592,137</u>	<u>566,402</u>	<u>4,659</u>	<u>-</u>	<u>1,163,198</u>
Deferred inflows of resources:					
Unavailable revenue	14,200	-	-	-	14,200
Total deferred inflows of resources	<u>14,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,200</u>
Fund balances:					
Nonspendable					
Cemetery maintenance	-	-	-	2,789,017	2,789,017
Restricted					
Special revenue	1,722,465	2,277,197	4,630,210	-	8,629,872
Total fund balances	<u>1,722,465</u>	<u>2,277,197</u>	<u>4,630,210</u>	<u>2,789,017</u>	<u>11,418,889</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,328,802</u>	<u>\$ 2,843,599</u>	<u>\$ 4,634,869</u>	<u>\$ 2,789,017</u>	<u>\$ 12,596,287</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2016**

	Special Revenue Funds			Permanent Fund	
	Special Revenue	VDOT	Economic Development	Cemetery Maintenance	Total
REVENUES					
Miscellaneous	\$ 3,789	\$ -	\$ 101,345	\$ 22,250	\$ 127,384
Contributions	684,643	-	-	-	684,643
Revenue from use of money and property	-	21,578	-	-	21,578
Intergovernmental	3,625,708	10,422,400	600,000	-	14,648,108
Total revenues	4,314,140	10,443,978	701,345	22,250	15,481,713
EXPENDITURES					
General government	679	-	34,114	-	34,793
Judicial administration	115,973	-	-	-	115,973
Public safety	392,231	-	-	-	392,231
Public works	54,280	10,223,403	-	-	10,277,683
Health and welfare	4,026,130	-	-	-	4,026,130
Parks, recreation, and cultural	680,100	-	-	-	680,100
Community development	42,500	-	1,559,813	-	1,602,313
Total expenditures	5,311,893	10,223,403	1,593,927	-	17,129,223
Excess (deficiency) of revenues over expenditures	(997,753)	220,575	(892,582)	22,250	(1,647,510)
OTHER FINANCING SOURCES					
Transfers in	1,097,400	-	2,872,060	-	3,969,460
Total other financing sources	1,097,400	-	2,872,060	-	3,969,460
Net change in fund balances	99,647	220,575	1,979,478	22,250	2,321,950
FUND BALANCES – Beginning	1,622,818	2,056,622	2,650,732	2,766,767	9,096,939
FUND BALANCES – Ending	<u>\$ 1,722,465</u>	<u>\$ 2,277,197</u>	<u>\$ 4,630,210</u>	<u>\$ 2,789,017</u>	<u>\$ 11,418,889</u>



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, 2016

	Transportation	Sanitation	Cemetery Operations	Tele- communications	Total
ASSETS					
Current assets					
Cash and investments	\$ -	\$ 1,722,486	\$ 178,297	\$ 991,669	\$ 2,892,452
Receivables, net	563	100,420	-	276,985	377,968
Due from other governments	898,986	-	-	-	898,986
Inventories	-	-	-	221,274	221,274
Total current assets	899,549	1,822,906	178,297	1,489,928	4,390,680
Noncurrent assets					
Net pension asset	487,671	636,804	306,861	73,887	1,505,223
Capital assets:					
Non-depreciable	22,500	509,232	-	-	531,732
Depreciable	3,569,042	479,827	-	6,692,988	10,741,857
Total noncurrent assets, net	4,079,213	1,625,863	306,861	6,766,875	12,778,812
Total assets	4,978,762	3,448,769	485,158	8,256,803	17,169,492
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pension plans	461,470	602,592	290,374	69,917	1,424,353
LIABILITIES					
Current liabilities					
Accounts payable	19,343	94,296	2,289	152,646	268,574
Accrued interest	8	155	-	-	163
Due to other funds	181,386	-	-	-	181,386
Refundable deposits	-	-	-	20,000	20,000
Long-term liabilities – due within one year	27,205	182,492	9,750	4,727	224,174
Total current liabilities	227,942	276,943	12,039	177,373	694,297
Long-term liabilities – due in more than one year	3,365	1,407,122	1,083	525	1,412,095
Total noncurrent liabilities	3,365	1,407,122	1,083	525	1,412,095
Total liabilities	231,307	1,684,065	13,122	177,898	2,106,392
NET POSITION					
Net investment in capital assets	3,591,105	980,359	-	6,692,988	11,264,452
Unrestricted	1,617,820	1,386,937	762,410	1,455,834	5,223,001
	<u>\$ 5,208,925</u>	<u>\$ 2,367,296</u>	<u>\$ 762,410</u>	<u>\$ 8,148,822</u>	<u>\$ 16,487,453</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION – NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2016**

	<u>Transportation</u>	<u>Sanitation</u>	<u>Cemetery Operations</u>	<u>Tele- communications</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 360,753	\$ 3,596,721	\$ 668,743	\$ 1,641,145	\$ 6,267,362
OPERATING EXPENSES					
Services	1,862,912	3,285,892	930,045	514,004	6,592,853
Depreciation	422,171	29,843	-	328,064	780,078
Total operating expenses	2,285,083	3,315,735	930,045	842,068	7,372,931
Operating income (loss)	<u>(1,924,330)</u>	<u>280,986</u>	<u>(261,302)</u>	<u>799,077</u>	<u>(1,105,569)</u>
NONOPERATING REVENUES (EXPENSES)					
Sales income	4,800	-	99,600	-	104,400
Recovered costs	3,344	1,904	-	16,816	22,064
Loss on sale of capital assets	(80,865)	-	-	14,000	(66,865)
Other income	25,493	52,260	-	(2,090)	75,663
Federal and state grants	1,593,394	-	-	-	1,593,394
In-kind contributions	276,544	-	-	-	276,544
Interest income	2,441	19,362	34,658	12,870	69,331
Net change in the fair value of investments	362	2,949	5,285	1,947	10,543
Interest expense	(28)	(549)	-	-	(577)
Total nonoperating revenues	1,825,485	75,926	139,543	43,543	2,084,497
Income (loss) before transfers	<u>(98,845)</u>	<u>356,912</u>	<u>(121,759)</u>	<u>842,620</u>	<u>978,928</u>
Transfers					
Transfer in from other funds	198,600	-	-	-	198,600
Transfer out to general fund	-	-	-	(302,000)	(302,000)
Total transfers	198,600	-	-	(302,000)	(103,400)
Change in net position	99,755	356,912	(121,759)	540,620	875,528
Net position – beginning	5,109,170	2,010,384	884,169	7,608,202	15,611,925
Net position – ending	<u>\$ 5,208,925</u>	<u>\$ 2,367,296</u>	<u>\$ 762,410</u>	<u>\$ 8,148,822</u>	<u>\$ 16,487,453</u>

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2016

	<u>Transportation</u>	<u>Sanitation</u>
OPERATING ACTIVITIES		
Received from customers	\$ 360,715	\$ 3,619,384
Payments to suppliers for goods and services	(478,419)	(1,808,980)
Payments to employees for services	(1,045,758)	(950,533)
Payments to internal service funds for goods and services	28,165	(442,302)
	<u>(1,135,297)</u>	<u>417,569</u>
Net cash provided by (used in) operating activities		
NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	198,600	-
Transfers in other funds	-	-
Interfund borrowing	-	-
Operating grants received	1,483,021	-
	<u>1,681,621</u>	<u>-</u>
Net cash provided by noncapital financing activities		
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	-	164,632
Acquisition of capital assets	(556,589)	(383,122)
Principal payments on long-term debt	(82)	(1,634)
Interest payments on long-term debt	(28)	(565)
Proceeds from sale of capital assets	7,572	13,000
	<u>(549,127)</u>	<u>(207,689)</u>
Net cash used in capital and related financing activities		
INVESTING ACTIVITIES		
Interest on investments	-	19,362
Net activity in investment securities	2,803	2,949
	<u>2,803</u>	<u>22,311</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and investments	-	232,191
CASH AND CASH EQUIVALENTS		
Beginning	-	1,490,295
Ending	<u>\$ -</u>	<u>\$ 1,722,486</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,924,330)	\$ 280,986
Adjustments:		
Depreciation charged to operations	422,171	29,843
Pension expense net of employer contributions	24,084	167,811
Nonoperating revenue, net	33,637	54,163
In-kind contributions	276,545	-
Recoveries, rebates, and other	-	-
Change in noncash employee benefits charged to operations	(27,711)	(6,125)
Changes in assets and liabilities:		
Change in receivables	(38)	22,664
Increase in inventories	-	-
Decrease in accounts payable	(101,837)	(41,773)
Change in deferred revenue	-	(90,000)
Due to other funds	162,182	-
	<u>(1,135,297)</u>	<u>417,569</u>
Net cash provided by (used in) operating activities		

EXHIBIT 23

Cemetery Operations	Tele- communications	Total
\$ 668,743	\$ 1,420,948	\$ 6,069,790
(143,514)	(185,818)	(2,616,731)
(701,688)	(185,683)	(2,883,662)
(108,382)	8,267	(514,252)
(284,841)	1,057,714	55,145
-	-	198,600
-	(302,000)	(302,000)
99,600	-	99,600
-	-	1,483,021
99,600	(302,000)	1,479,221
-	-	164,632
-	(897,091)	(1,836,802)
-	-	(1,716)
-	-	(593)
-	(90,301)	(69,729)
-	(987,392)	(1,744,208)
34,658	12,870	66,890
5,285	1,947	12,984
39,943	14,817	79,874
(145,298)	(216,861)	(129,968)
323,595	1,208,530	3,022,420
\$ 178,297	\$ 991,669	\$ 2,892,452
\$ (261,302)	\$ 799,077	\$ (1,105,569)
-	328,064	780,078
(20,706)	(60,694)	110,495
-	8,303	96,103
-	-	276,545
-	6,424	6,424
(3,296)	1,037	(36,095)
-	(220,037)	(197,411)
-	69,799	69,799
463	125,741	(17,406)
-	-	(90,000)
-	-	162,182
\$ (284,841)	\$ 1,057,714	\$ 55,145



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, 2016

	Motorized Equipment	Central Services	Insurance	Total
ASSETS				
Current assets				
Cash and investments	\$ 129	\$ 329	\$ 4,908,459	\$ 4,908,917
Cash and investments – held by fiscal agents	-	-	50,000	50,000
Receivables, net	-	3,052	-	3,052
Inventories	-	129,774	-	129,774
Total current assets	129	133,155	4,958,459	5,091,743
Noncurrent assets				
Net pension asset	363,369	61,514	-	424,883
Capital assets depreciable, net	2,534,212	27,591	-	2,561,803
Total noncurrent assets	2,897,581	89,105	-	2,986,686
Total assets	2,897,710	222,260	4,958,459	8,078,429
DEFERRED OUTFLOWS OF RESOURCES				
Net difference between projected and actual investment earnings on pension plan investments	254,447	43,074	-	297,521
Changes in expected and actual pension experience	89,400	15,135	-	104,535
Total deferred outflows of resources	343,847	58,209	-	402,056
LIABILITIES				
Current liabilities				
Accounts payable	102,189	19,006	37,702	158,897
Accrued interest	253	-	-	253
Due to other funds	49,855	91,110	-	140,965
Long-term liabilities – due within one year	29,288	1,846	-	31,134
Total current liabilities	181,585	111,962	37,702	331,249
Noncurrent liabilities				
Long-term liabilities – due in more than one year	14,348	205	-	14,553
Total noncurrent liabilities	14,348	205	-	14,553
Total liabilities	195,933	112,167	37,702	345,802
NET POSITION				
Net investment in capital assets	2,520,000	27,591	-	2,547,591
Unrestricted	525,624	140,711	4,920,757	5,587,092
	<u>\$ 3,045,624</u>	<u>\$ 168,302</u>	<u>\$ 4,920,757</u>	<u>\$ 8,134,683</u>

CITY OF DANVILLE, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES – INTERNAL SERVICE FUNDS
Year Ended June 30, 2016**

	Motorized Equipment	Central Services	Insurance	Total
OPERATING REVENUES				
Charges for services	\$ 3,081,516	\$ 269,977	\$ 2,868,810	\$ 6,220,303
OPERATING EXPENSES				
Operations	2,645,444	277,513	2,868,810	5,791,767
Depreciation	593,833	6,380	-	600,213
Total operating expenses	3,239,277	283,893	2,868,810	6,391,980
Operating income (loss)	(157,761)	(13,916)	-	(171,677)
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets	58,367	-	-	58,367
Recoveries and rebates	7,387	-	26,500	33,887
Net change in the fair value of investments	-	-	7,400	7,400
Interest income	82	-	48,676	48,758
Interest expense	(894)	-	-	(894)
Total nonoperating revenues	64,942	-	82,576	147,518
Income (loss) before transfers	(92,819)	(13,916)	82,576	(24,159)
Change in net position	(92,819)	(13,916)	82,576	(24,159)
Net position – beginning	3,138,443	182,218	4,838,181	8,158,842
Net position – ending	<u>\$ 3,045,624</u>	<u>\$ 168,302</u>	<u>\$ 4,920,757</u>	<u>\$ 8,134,683</u>

CITY OF DANVILLE, VIRGINIA

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS
Year Ended June 30, 2016

	Motorized Equipment	Central Services	Insurance	Total
OPERATING ACTIVITIES				
Received from interfund services	\$ 3,081,516	\$ 269,233	\$ 2,868,809	\$ 6,219,558
Payments to suppliers for goods and services	(1,990,349)	(160,188)	(2,836,154)	(4,986,691)
Payments to employees for services	(590,466)	(106,185)	-	(696,651)
Payments to internal service funds for goods and services	(41,868)	(5,752)	26,500	(21,120)
Net cash provided by (used in) operating activities	458,833	(2,892)	59,155	515,096
NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	49,727	2,892	96,600	149,219
Interfund borrowing	129	329	-	458
Net cash provided by (used in) noncapital financing activities	49,856	3,221	96,600	149,677
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(857,802)	-	(61,597)	(919,399)
Principal payments on long-term debt	(2,669)	-	-	(2,669)
Interest payments on long-term debt	(924)	-	-	(924)
Proceeds from sale of capital assets	178,651	-	-	178,651
Net cash used in capital and related financing activities	(682,744)	-	(61,597)	(744,341)
INVESTING ACTIVITIES				
Interest on investments	-	-	6,974	6,974
Net activity in investment security	82	-	14,099	14,181
Net cash provided by investing activities	82	-	21,073	21,155
Net decrease in cash and investments	(173,973)	329	115,231	(58,413)
CASH AND CASH EQUIVALENTS				
Beginning	174,102	-	4,793,228	4,967,330
Ending	\$ 129	\$ 329	\$ 4,908,459	\$ 4,908,917
RECONCILIATION TO EXHIBIT 24				
Cash and investments	\$ 129	\$ 329	\$ 4,908,459	\$ 4,908,917
Cash and investments – held by fiscal agent	-	-	50,000	50,000
	\$ 129	\$ 329	\$ 4,958,459	\$ 4,958,917
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (157,761)	\$ (13,916)	\$ -	\$ (171,677)
Adjustments:				
Depreciation charged to operations	593,833	6,380	-	600,213
Pension expense net of employer contributions	42,382	(2,320)	-	40,062
Nonoperating revenue, net	7,387	-	26,500	33,887
Change in noncash employee benefits charged to operations	1,880	834	-	2,714
Changes in assets and liabilities:				
Increase (decrease) in accounts receivable	-	(745)	-	(745)
Increase in inventory	-	(5,187)	-	(5,187)
Increase (decrease) in accounts payable	(28,888)	12,062	32,655	15,829
Net cash provided by (used in) operating activities	\$ 458,833	\$ (2,892)	\$ 59,155	\$ 515,096

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, 2016**

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Assets				
Cash	\$ 1,273	\$ 2,130	\$ -	\$ 3,403
Liabilities				
Amounts held for others	\$ 1,273	\$ 2,130	\$ -	\$ 3,403

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.

CONTENTS	<u>Pages</u>
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Financial Trends	116-119, 121-122
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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	120, 123, 125-128
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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	129-132
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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	133-134
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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	124, 135-136
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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
(Unaudited)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Invested in capital assets, net of related debt	\$ 28,858,705	\$ 29,933,932	\$ 37,094,092	\$ 43,276,891	\$ 42,918,073	\$ 43,916,141	\$ 45,906,197	\$ 63,746,102	\$ 62,317,615	\$ 64,049,250
Restricted	10,031,903	8,229,657	10,207,310	10,668,601	15,329,590	15,892,978	20,156,434	9,769,912	12,513,267	5,997,424
Unrestricted	47,172,244	50,143,933	46,202,951	48,669,847	52,970,198	53,538,232	59,020,475	55,442,221	104,667,291	114,710,399
Total governmental activities net position	<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>	<u>\$ 179,498,173</u>	<u>\$ 184,757,073</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 172,325,000	\$ 189,153,872	\$ 190,621,794	\$ 197,322,894	\$ 205,342,317	\$ 215,409,229	\$ 229,150,139	\$ 241,435,018	\$ 243,029,734	\$ 278,554,519
Unrestricted	63,346,923	63,414,573	76,607,266	84,048,958	88,396,611	86,331,002	84,923,475	84,302,763	104,213,338	105,424,066
Total business-type activities net position	<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>	<u>\$ 347,243,072</u>	<u>\$ 383,978,585</u>
Primary government										
Invested in capital assets, net of related debt	\$ 201,183,705	\$ 219,087,804	\$ 227,715,886	\$ 240,599,785	\$ 248,260,390	\$ 259,325,370	\$ 275,056,336	\$ 305,181,120	\$ 305,347,349	\$ 342,603,769
Restricted	10,031,903	8,229,657	10,207,310	10,668,601	54,706,266	51,555,636	20,156,434	9,769,912	12,513,267	5,997,424
Unrestricted	110,519,167	113,558,506	122,810,217	132,718,805	101,990,133	104,206,576	143,943,950	139,744,984	208,880,629	220,134,465
Total primary government net position	<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>	<u>\$ 526,741,245</u>	<u>\$ 568,735,658</u>

TABLE 2

CITY OF DANVILLE, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government	\$ 10,978,148	\$ 16,703,620	\$ 17,366,229	\$ 11,190,407	\$ 11,513,535	\$ 26,522,291	\$ 27,448,521	\$ 10,985,447	\$ 8,772,098	\$ 9,990,115
Judicial administration	5,218,767	4,853,835	4,680,120	4,677,118	4,895,286	5,349,323	6,115,877	6,210,609	5,879,586	6,632,827
Public safety	24,929,011	25,809,136	27,871,098	27,905,805	27,211,372	27,119,838	29,449,843	26,273,320	28,403,082	31,831,428
Public works	10,844,833	12,423,465	18,044,882	13,746,621	10,468,862	12,690,486	10,251,460	10,114,068	15,073,851	18,223,240
Heath and welfare	12,844,409	13,743,677	14,011,832	13,662,743	12,236,155	11,614,813	11,413,162	11,250,069	13,380,667	14,004,567
Parks, recreation, cultural	5,367,886	5,666,299	5,834,463	5,831,486	6,227,105	5,235,582	5,573,523	5,247,916	6,366,189	6,113,481
Community development	11,796,198	4,133,310	4,127,674	4,429,763	3,862,302	4,715,326	3,395,882	21,838,752	6,255,078	3,581,479
Education	16,903,673	22,343,504	19,762,967	21,190,425	29,939,742	21,382,291	21,303,585	20,646,479	18,342,352	17,849,211
Interest on long-term debt	1,617,511	6,732,839	6,988,805	6,447,064	12,513,650	7,235,159	1,339,765	1,552,148	1,382,842	1,489,001
Total governmental activities expenses	100,500,436	112,409,685	118,688,070	109,081,432	118,868,009	121,865,109	116,291,618	114,118,808	103,855,745	109,715,349
Business-type activities:										
Wastewater	6,561,949	6,975,203	6,696,533	6,912,126	6,954,269	6,761,973	6,411,408	6,328,929	6,447,892	6,531,704
Water	4,739,464	5,035,842	5,299,264	5,676,850	5,407,252	5,541,327	5,562,611	5,352,732	5,494,478	5,661,330
Gas	23,320,491	28,436,785	29,694,406	21,633,916	20,911,099	17,955,882	19,464,631	22,819,175	20,545,403	17,381,323
Electric	72,817,037	75,313,686	84,712,087	92,884,951	95,215,780	89,185,930	89,532,367	113,273,134	104,497,754	100,626,328
Nonmajor	5,836,847	6,313,481	6,586,104	6,711,765	6,787,829	7,085,616	7,007,241	7,612,881	7,115,373	7,454,373
Total business-type activities expenses	113,275,788	122,074,997	132,988,394	133,819,608	135,276,229	126,530,728	127,978,258	155,386,851	144,100,900	137,655,058
Total primary government expenses	<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>	<u>\$ 247,956,645</u>	<u>\$ 247,370,407</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 5,685,591	\$ 5,727,677	\$ 6,071,953	\$ 6,838,951	\$ 6,171,322	\$ 313,908	\$ 1,015,444	\$ 27,316	\$ 47,057	\$ 51,135
Judicial administration	1,489,794	618,268	652,091	717,847	1,044,237	3,592,835	3,004,455	3,498,685	3,424,310	3,621,618
Public safety	231,309	312,503	201,788	253,638	223,330	182,461	217,675	10,935	9,313	56,145
Public works	-	-	-	-	-	-	-	-	-	207,137
Health and welfare	-	-	-	-	-	-	-	-	-	-
Parks, recreation, cultural	210,182	224,462	232,848	310,103	68,083	23,218	31,155	419,975	416,055	394,883
Community development	-	83,151	-	-	-	-	-	315	230	-
Education	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	38,205,373	41,172,782	43,012,678	39,784,055	39,799,066	41,329,002	45,271,317	19,523,936	19,065,751	17,700,275
Capital grants and contributions	4,055,930	2,139,975	6,580,922	5,887,846	4,654,262	8,702,174	7,927,634	18,332,445	11,661,581	17,651,513
Total governmental activities program revenues	49,878,179	50,278,818	56,752,280	53,792,440	51,960,300	54,143,598	57,467,680	41,813,607	34,624,297	39,682,706

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Program Revenues (Continued)										
Business-type activities:										
Charges for services:										
Wastewater	\$ 7,805,221	\$ 8,362,522	\$ 9,306,293	\$ 9,511,518	\$ 9,812,296	\$ 9,862,984	\$ 9,373,746	\$ 9,410,786	\$ 9,697,361	\$ 9,833,682
Water	7,012,772	7,142,932	6,930,045	6,480,696	6,230,140	5,897,749	5,714,753	7,345,579	8,251,968	8,193,551
Gas	26,290,132	32,949,771	32,501,486	27,060,176	24,700,569	21,475,496	23,474,585	26,497,854	23,991,058	20,923,374
Electric	88,910,376	90,181,855	98,949,812	106,248,337	109,022,347	102,304,323	100,176,098	125,670,235	116,039,450	109,239,372
Nonmajor	5,602,965	5,719,119	5,782,975	5,731,883	5,857,175	6,103,392	5,975,111	6,525,644	6,406,305	6,267,362
Operating grants and contributions	355,921	405,673	500,537	826,340	2,101,602	1,584,669	1,390,628	1,473,919	1,742,109	1,869,938
Capital grants and contributions	1,741,248	2,735,406	2,317,309	1,524,609	1,511,920	226,283	318,635	268,697	29,772	1,488,142
Total business-type activities program revenues	137,718,635	147,497,278	156,288,457	157,383,559	159,236,049	147,454,896	146,423,556	177,192,714	166,158,023	157,815,421
Total primary government program revenues	\$ 187,596,814	\$ 197,776,096	\$ 213,040,737	\$ 211,175,999	\$ 211,196,349	\$ 201,598,494	\$ 203,891,236	\$ 219,006,321	\$ 200,782,320	\$ 197,498,127
Net (expense)/revenue										
Governmental activities	\$ (50,622,257)	\$ (62,130,867)	\$ (61,935,790)	\$ (55,288,992)	\$ (66,907,709)	\$ (67,721,511)	\$ (58,823,938)	\$ (72,305,201)	\$ (69,231,448)	\$ (70,032,643)
Business-type activities	24,442,847	25,422,281	23,300,063	23,563,951	23,959,820	20,924,168	18,445,298	21,805,863	22,057,123	20,160,363
Total primary government net expense	\$ (26,179,410)	\$ (36,708,586)	\$ (38,635,727)	\$ (31,725,041)	\$ (42,947,889)	\$ (46,797,343)	\$ (40,378,640)	\$ (50,499,338)	\$ (47,174,325)	\$ (49,872,280)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 25,930,246	\$ 26,590,389	\$ 26,487,289	\$ 26,464,571	\$ 25,869,256	\$ 26,720,274	\$ 26,758,831	\$ 27,868,180	\$ 27,726,602	\$ 28,516,172
Sales taxes	7,598,276	8,071,419	7,800,856	7,662,498	7,745,308	8,109,198	8,101,954	8,082,871	8,419,504	8,491,311
Business licenses	4,572,218	4,989,707	4,474,854	4,419,042	4,677,012	4,704,465	5,512,860	5,833,099	5,344,704	5,300,860
Utility taxes	2,654,769	994,536	1,013,694	985,162	997,935	972,637	984,613	991,780	981,093	965,139
Hotel and meals taxes	5,165,368	5,495,291	5,488,960	6,629,741	7,008,520	7,335,791	7,595,830	7,442,989	7,840,067	8,242,667
Recordation and bank stock taxes	946,397	948,038	862,181	978,498	957,247	901,985	870,757	930,744	1,030,735	992,111
Auto license and recordation taxes	1,034,967	1,047,044	1,055,948	1,159,830	1,095,474	1,086,443	1,090,372	1,120,071	1,113,862	1,150,497
Contributions from Component Unit	-	-	-	-	-	-	-	-	3,342,319	-
Noncategorical state and federal aid	-	-	-	-	-	-	-	6,038,488	5,939,560	4,399,809
Investment income	885,861	1,626,835	1,327,296	683,469	591,487	986,545	521,402	1,641,092	1,020,884	1,333,951
Miscellaneous	1,047,591	1,235,600	5,260,403	2,044,711	11,461,568	2,602,443	1,005,617	1,682,156	613,199	1,267,625
Transfers	12,783,444	13,376,678	13,361,140	13,372,456	13,411,864	16,431,220	17,234,663	14,548,860	14,533,937	14,631,400
Total governmental activities	62,619,137	64,375,537	67,132,621	64,399,978	73,815,671	69,851,001	69,676,899	76,180,330	77,906,466	75,291,542

(Continued)

TABLE 2

CITY OF DANVILLE, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Revenues and Other Changes in Net Position (Continued)										
Business-type activities:										
Investment income	\$ 3,452,939	\$ 2,610,753	\$ 2,023,614	\$ 1,440,386	\$ 1,373,048	\$ 1,954,386	\$ 874,230	\$ 1,583,234	\$ 686,097	\$ 1,266,152
Miscellaneous	1,856,551	2,240,166	2,698,079	2,510,911	446,072	1,553,969	2,145,633	2,823,930	2,230,591	1,176,615
Transfers	(12,783,444)	(13,376,678)	(13,361,141)	(13,372,456)	(13,411,864)	(16,431,220)	(17,234,663)	(14,548,860)	(14,533,937)	(14,631,400)
Total business-type activities	(7,473,954)	(8,525,759)	(8,639,448)	(9,421,159)	(11,592,744)	(12,922,865)	(14,214,800)	(10,141,696)	(11,617,249)	(12,188,633)
Total primary government	<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>	<u>\$ 66,289,217</u>	<u>\$ 63,102,909</u>
Change in Net Position										
Governmental activities	\$ 11,996,880	\$ 2,244,670	\$ 5,196,831	\$ 9,110,986	\$ 6,907,962	\$ 2,129,490	\$ 10,852,961	\$ 3,875,129	\$ 8,675,018	\$ 5,258,899
Business-type activities	16,968,893	16,896,522	14,660,615	14,142,792	12,367,076	8,001,303	4,230,498	11,664,167	10,439,874	7,971,730
Total primary government	<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>	<u>\$ 19,114,892</u>	<u>\$ 13,230,629</u>

TABLE 3

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

Fiscal Year	Property Taxes	Other Local Taxes						Total	Grand Total
		Sales Taxes	Business License Taxes	Utility Taxes	Hotel and Meals Taxes	Recordation and Bank Stock Taxes	Auto License and Recordation Taxes		
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
2015	27,726,602	8,419,504	5,344,704	981,093	7,840,067	1,030,735	1,113,862	24,729,965	52,456,567
2016	28,516,172	8,491,311	5,300,860	965,139	8,242,667	992,111	1,150,497	25,142,585	53,658,757

TABLE 4

CITY OF DANVILLE, VIRGINIA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Nonspendable/Restricted/Committed/Assigned	\$ 7,242,459	\$ 8,568,727	\$ 9,436,920	\$ 9,872,609	\$ 7,721,548	\$ 6,473,442	\$ 7,103,594	\$ 7,792,980	\$ 11,016,803	\$ 12,085,518
Unassigned	26,731,939	27,812,317	24,728,115	26,107,235	30,350,466	30,690,145	29,013,386	35,078,780	37,048,908	36,907,387
Total general fund	<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>	<u>\$ 48,065,711</u>	<u>\$ 48,992,905</u>
All other governmental funds										
Nonspendable/Restricted/Committed Community Development	\$ 662,725	\$ 510,543	\$ 470,193	\$ 439,347	\$ 264,537	\$ 55,793	\$ 25,623	\$ 7,625	\$ 3,218,964	\$ 3,208,407
Nonspendable/Restricted/Committed Capital Projects	4,931,135	4,479,245	6,479,604	6,934,477	12,422,706	13,154,663	17,421,894	13,911,991	11,267,939	16,077,177
Restricted – Special Revenue	602,405	704,385	652,711	691,804	1,145,379	1,109,613	1,434,005	1,361,801	1,622,818	1,722,465
Restricted – VDOT	-	-	-	-	-	-	1,474,956	947,450	2,056,622	2,277,197
Restricted – Economic Development	-	-	-	-	-	-	2,649,962	1,238,644	2,650,732	4,630,210
Nonspendable – Cemetery Maintenance	2,504,847	2,541,972	2,569,222	2,606,597	2,642,347	2,682,522	2,708,917	2,734,092	2,766,767	2,789,017
Total all other governmental funds	<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>	<u>\$ 23,583,842</u>	<u>\$ 30,704,473</u>

TABLE 5

CITY OF DANVILLE, VIRGINIA

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues										
Property taxes	\$ 25,930,246	\$ 26,556,332	\$ 27,085,091	\$ 26,898,585	\$ 26,150,093	\$ 27,284,133	\$ 27,848,904	\$ 27,754,056	\$ 27,618,077	\$ 28,318,281
Local taxes	21,971,995	21,546,035	20,696,492	21,834,771	22,481,496	23,110,519	23,413,891	24,396,546	24,720,732	25,170,039
Fines and forfeitures	541,399	560,327	564,204	614,983	597,250	589,063	539,186	520,154	487,897	448,600
Permits, privilege fees, and regulatory licenses	235,358	270,052	170,178	225,791	210,694	182,461	217,675	218,083	216,705	292,979
Revenue from use of money and property	2,194,319	2,013,713	2,753,033	1,331,257	1,296,328	1,530,398	945,900	1,553,782	882,640	1,280,745
Charges for services	3,770,733	3,562,920	3,679,665	3,543,026	3,536,954	3,572,557	2,561,408	3,411,896	3,376,394	3,643,700
Miscellaneous & Contributions	1,838,547	1,014,896	5,006,274	944,433	1,074,889	1,258,407	1,167,282	927,694	973,177	2,995,552
Recovered costs	5,173,681	4,951,992	5,270,698	5,166,640	5,502,072	5,779,290	6,003,288	6,313,810	9,029,221	6,262,196
Intergovernmental	34,136,326	35,080,153	39,894,367	37,863,690	36,122,952	40,497,593	46,347,841	43,438,861	35,215,362	37,411,178
Total revenues	95,792,604	95,556,420	105,120,002	98,423,176	96,972,728	103,804,421	109,045,375	108,534,882	102,520,205	105,823,270
Expenditures										
General government	9,211,810	9,753,673	7,809,264	6,362,187	5,459,861	9,349,502	12,894,894	7,848,419	7,699,046	8,260,921
Judicial administration	5,128,684	5,379,273	5,423,448	5,256,851	5,114,279	5,431,560	5,973,866	6,036,322	6,330,493	6,600,180
Public safety	24,673,695	25,657,267	27,704,661	27,249,668	26,797,585	26,649,896	25,235,947	26,889,959	26,858,824	27,373,044
Public works	10,407,920	12,114,049	19,096,899	11,528,184	11,784,512	14,686,446	13,623,926	12,463,018	15,187,957	13,418,094
Health and welfare	15,352,675	13,675,562	14,066,073	13,632,948	12,652,403	11,678,445	11,387,410	11,526,481	13,250,461	13,101,381
Education	17,370,028	19,918,463	17,538,766	17,931,496	19,608,733	22,462,199	22,380,145	18,724,575	16,420,448	16,033,378
Parks, recreation, and cultural	6,144,838	5,150,624	5,266,742	5,064,459	5,172,499	5,023,585	5,288,584	5,203,975	5,442,125	5,578,683
Community development	3,026,397	4,164,824	4,284,071	3,982,907	4,044,531	3,871,343	2,603,250	8,962,080	4,646,975	5,184,253
Nondepartmental	3,542,949	3,952,931	4,370,594	5,494,121	6,062,030	6,390,130	9,148,205	5,419,946	8,037,822	8,963,385
Capital outlay	2,993,314	1,544,060	7,704,522	10,482,170	9,063,568	11,687,731	7,786,891	22,187,029	8,136,643	11,650,717
Debt service										
Principal	4,181,152	4,242,206	4,275,988	1,410,402	992,617	4,911,916	2,990,346	1,226,188	1,424,172	1,639,111
Interest	1,567,139	1,438,487	1,654,426	1,086,885	916,047	2,323,243	1,340,152	1,129,392	1,316,796	1,391,981
Bond issuance costs	-	-	-	-	-	-	-	-	35,847	-
Total expenditures	103,600,601	106,991,419	119,195,454	109,482,278	107,668,665	124,465,996	120,653,616	127,617,384	114,787,609	119,195,128
Ratio of debt service to total non-capital expenditures	5.7%	5.4%	5.3%	2.5%	1.9%	6.4%	3.8%	2.2%	2.6%	2.8%
Excess of revenues over (under) expenditures	(7,807,997)	(11,434,999)	(14,075,452)	(11,059,102)	(10,695,937)	(20,661,575)	(11,608,241)	(19,082,502)	(12,267,404)	(13,371,858)
Other financing sources (uses)										
Transfers in	20,753,576	20,415,323	24,236,283	20,420,329	18,714,276	25,446,671	31,387,755	26,543,687	25,714,460	23,378,370
Transfers out	(7,987,982)	(7,038,645)	(10,875,142)	(7,045,923)	(5,302,412)	(9,015,451)	(14,153,092)	(11,994,827)	(11,083,923)	(8,746,970)
Bonds issued	-	-	-	-	-	3,849,550	-	4,123,367	2,953,000	6,380,545
Refunding bonds issued	-	-	12,227,851	-	9,721,943	-	8,266,227	-	-	-
Payments to refunded bond escrow agent	-	-	(11,793,964)	-	(4,542,956)	-	(6,226,490)	-	-	-
Premium on bonds	-	-	-	-	-	-	-	-	-	202,598
Proceeds from capital lease	-	-	-	-	-	-	-	-	-	205,140
Total other financing sources (uses)	12,765,594	13,376,678	13,795,028	13,374,406	18,590,851	20,280,770	19,274,400	18,672,227	17,583,537	21,419,683
Net change in fund balances	<u>\$ 4,957,597</u>	<u>\$ 1,941,679</u>	<u>\$ (280,424)</u>	<u>\$ 2,315,304</u>	<u>\$ 7,894,914</u>	<u>\$ (380,805)</u>	<u>\$ 7,666,159</u>	<u>\$ (410,275)</u>	<u>\$ 5,316,133</u>	<u>\$ 8,047,825</u>

TABLE 6

CITY OF DANVILLE

**MAJOR ENTERPRISE FUNDS – CHARGES FOR SERVICES
FOR THE LAST TEN YEARS
(Unaudited)**

Fiscal Year	Electric Fund	Gas Fund	Wastewater Fund	Water Fund	Total Major Enterprise Funds
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
2014-15	116,039,450	23,991,058	9,697,361	8,251,968	157,979,837
2015-16	109,239,372	20,923,374	9,833,682	8,193,551	148,189,979

TABLE 7

CITY OF DANVILLE, VIRGINIA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(Unaudited)

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
General Government Administration	98	98	102	102	99	95	95	99	96	101
Judicial Administration	98	97	97	97	97	99	98	110	116	116
Public Safety	403	406	406	406	408	394	392	392	392	393
Public Works	111	111	111	111	111	106	105	103	101	101
Health, Welfare & Social Services	101	101	101	101	101	98	99	99	99	99
Park, Recreational and Cultural	49	49	49	49	51	49	49	49	52	53
Community Development	18	19	19	19	18	17	17	17	17	17
Total General Fund	878	881	885	885	885	858	855	869	873	880
Wastewater Fund	11	11	11	11	11	11	11	11	11	11
Water Fund	16	16	16	16	19	18	18	18	18	18
Gas Fund	55	55	55	56	54	53	52	51	51	50
Electric Fund	114	114	114	113	106	99	99	100	100	100
Telecommunications Fund	2	2	4	4	4	4	4	4	3	4
Transportation Fund	16	16	16	17	17	18	18	18	20	27
Central Services Fund	4	4	4	3	3	3	3	3	3	3
Motorized Equipment Fund	22	22	20	20	20	19	19	19	19	19
Sanitation Fund	53	46	43	43	43	37	30	28	30	29
Cemetery Fund	16	16	16	16	16	16	16	15	15	15
Total Other Funds	309	302	299	299	293	278	270	267	270	276
Total	1,187	1,183	1,184	1,184	1,178	1,136	1,125	1,136	1,143	1,156

Source: City Council Approved Budget – Authorized Positions

TABLE 8

CITY OF DANVILLE

**SCHEDULE OF ASSESSED PROPERTY VALUES
FOR THE LAST TEN YEARS
(Unaudited)**

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
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
2015	2,234,658,900	314,269,866	88,642,291	3,089,306	46,364,169	5,376,000	2,692,400,532
2016	2,240,747,200	322,874,514	89,676,124	2,825,460	46,578,273	8,061,770	2,710,763,341

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

(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:

2006 – 2008 \$0.77 per \$100

2009 – 2015 \$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
(Unaudited)**

Taxpayer	2016			2007		
	Total Assessed Value	Rank	Percentage of Total Assessed Value (1)	Total Assessed Value	Rank	Percentage of Total Assessed Value
Danville Regional Medical Center LLC	\$ 75,672,700	1	3.38%	\$ 65,065,900	1	3.15%
Goodyear Tire and Rubber Company	29,304,700	1	1.31%	32,312,100	2	1.56%
Daniel Group Inc.	19,107,100	1	0.85%	18,070,900	4	0.87%
NAP Coleman Marketplace LLC	17,265,700	1	0.77%	-		
JTI Leaf Services US LLC	15,429,500	1	0.69%	-		
Nestle USA Inc. (formerly Carnation Co.)	10,935,800	1	0.49%	10,271,600	5	0.50%
Danville Mall LLC (Piedmont Mall LLC)	10,859,300	1	0.48%	30,524,000	3	1.48%
Sams Real Estate Business Trust	10,507,200	1	0.47%	-		
Industrial Development Authority of Danville	10,366,400	1	0.46% (2)	7,154,300	15	0.35%
Wal-Mart Real Estate Business Trust	10,010,100	1	0.45%	9,843,900	6	0.48%
EBI LLC	9,987,900	1	0.45%	-		0.00%
Piedmont Lands of Virginia LLC	9,322,300	1	0.42%	-		0.00%
Pemberton Lofts LLC	8,325,500	1	0.37%	-		0.00%
Marshall, Robert & Margaret D. (Rev Trust)	7,596,600	1	0.34%	-		0.00%
Dan Shopping Center Inc	7,425,000	1	0.33%	7,570,200	13	0.37%
ITG Brands LLC	-		0.00%	-		0.00%
Lorillard Tobacco Company	-		0.00%	8,354,800	10	0.40%
Riverside Shopping Center LP	-		0.00%	9,462,600	9	0.46%
Dan River Inc.	-		0.00%	9,722,000	7	0.47%
Dibrell Brothers Inc.	-		0.00%	-		0.00%
Finlay Interests 5 LTD	-		0.00%	7,824,500	12	0.38%
Belk Stores of Virginia	-		0.00%	7,236,800	14	0.35%
Medical Facilities of America XXII	-		0.00%	7,865,400	11	0.38%
	<u>\$ 252,115,800</u>		<u>11.25%</u>	<u>\$ 231,279,000</u>		<u>11.18%</u>

(1) Total 2016 Assessed Real Estate Value is \$2,240,727,200 for the City of Danville.

(2) Industrial Development Authority of Danville includes Esselpropack only in Fiscal Year 2015.

TABLE 10

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

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
2007	\$ 0.77	\$ 15,922,433	\$ 14,964,100	93.98 %	\$ 958,333	6.02 %	\$ 916,411	\$ 15,880,511	\$ 41,922	99.74 %
2008	0.77	15,980,915	15,126,749	94.66	854,166	5.34	798,829	15,925,578	55,337	99.65
2009	0.73	16,320,733	15,419,024	94.48	901,709	5.52	839,445	16,258,469	62,264	99.62
2010	0.73	16,415,615	15,475,506	94.27	940,109	5.73	853,904	16,329,410	86,205	99.47
2011	0.73	16,156,634	15,134,880	93.68	1,021,754	6.32	926,249	16,061,129	95,505	99.41
2012	0.73	16,321,848	15,319,292	93.86	1,002,556	6.14	880,299	16,199,591	122,257	99.25
2013	0.73	16,165,990	15,204,912	94.05	961,078	5.95	773,539	15,978,451	187,539	98.84
2014	0.73	16,241,177	15,223,541	93.73	1,017,636	6.27	625,712	15,849,253	391,924	97.59
2015	0.73	16,175,657	14,985,466	92.64	1,190,191	7.36	-	14,985,466	1,190,191	92.64
2016	0.73	16,226,974	15,323,516	94.43	903,458	5.57	-	15,323,516	903,458	94.43

(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
(Unaudited)**

Fiscal Year	Tax Rate Per \$100 (5)	Original Levy (1)	Collections and 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 and Adjustments in Subsequent Years (1)	Total Collections and Adjustments Thru June 30, 2015	Uncollected Balance at June 30, 2015 (2)	Percentage of Original Levy Collected at June 30, 2015
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	236,405	9,360,208	-	100.00
2010	3.00	9,708,729	9,527,123	98.13	181,606 (3)	1.87	102,460	9,629,582	79,147	99.18
2011	3.00	9,516,667	9,315,272	97.88	201,395 (3)	2.12	115,538	9,430,810	85,857	99.10
2012	3.00	10,330,962	10,139,346	98.15	191,616 (3)	1.85	88,915	10,228,261	102,701	99.01
2013	3.00	10,210,303	9,944,695	97.40	265,608 (3)	2.60	129,828	10,074,523	135,780	98.67
2014	3.00	10,560,822	10,271,351	97.26	289,471 (3)	2.74	-	10,271,351	289,471	97.26
2015	3.00	10,897,755	3,678,318	33.75	7,219,437 (4)	66.25	-	3,678,318	7,219,437	33.75
2016	3.00	11,197,466	3,912,143	34.94	7,285,323 (4)	65.06	-	3,912,143	7,285,323	34.94

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

TABLE 12

CITY OF DANVILLE, VIRGINIA

**RATIO OF BONDED DEBT TO ASSESSED VALUES AND BONDED DEBT PER CAPITA
FOR THE LAST TEN YEARS
(Unaudited)**

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
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	57,637,831	1.18	2.15	726.34	1,328.06
2014	42,912	2,689,711,757	34,379,976	55,712,660	1.28	2.07	801.17	1,298.30
2015	42,975	2,692,400,532	35,893,854	51,844,337	1.33	1.93	835.23	1,206.38
2016	42,544	2,710,763,341	40,692,518	51,156,794	1.50	1.89	956.48	1,202.44

TABLE 13

CITY OF DANVILLE, VIRGINIA

**RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Unaudited)**

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			
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
2015	36,062,098	-	-	1,318,940	51,177,687	-	88,558,725	2,061	2.53
2016	40,692,518	-	102,480	953,940	50,202,854	133,511	92,085,303	2,164	2.59

(1) Danville MSA includes Danville and Pittsylvania County.

TABLE 14

CITY OF DANVILLE, VIRGINIA

LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assessed Value:										
Real Property	\$ 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	\$ 2,234,658,900	\$ 2,240,747,200
Public Service – Real Property	50,191,401	50,416,709	45,331,826	50,347,484	49,603,302	46,416,815	45,836,076	46,088,538	46,088,538	46,435,219
Total Assessed value	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	2,280,747,438	2,287,182,419
Debt Limit Per State (10% of Assessed Value – Real Property)	211,803,980	214,019,111	229,821,743	231,742,748	228,527,890	230,432,142	227,829,088	229,154,374	228,074,744	228,718,242
Gross bond debt	72,270,098	63,862,433	67,411,571	77,502,261	88,659,278	87,657,729	89,137,171	90,094,568	87,738,191	91,849,312
Less bond debt not applicable to limit:										
Revenue Bonds	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396	2,276,945	1,683,940	1,318,940	953,940
Total debt not applicable to limit	5,708,574	5,133,548	4,575,890	4,011,631	3,440,544	2,862,396	2,276,945	1,683,940	1,318,940	953,940
Total net debt applicable to state limit	66,561,524	58,728,885	62,835,681	73,490,630	85,218,734	84,795,333	86,860,226	88,410,628	86,419,251	90,895,372
Legal debt margin per state	\$ 145,242,456	\$ 155,290,226	\$ 166,986,062	\$ 158,252,118	\$ 143,309,156	\$ 145,636,809	\$ 140,968,862	\$ 140,743,746	\$ 141,655,493	\$ 137,822,870
Total net debt applicable to the limit as a percentage of debt limit	31.43%	27.44%	27.34%	31.71%	37.29%	36.80%	38.13%	38.58%	37.89%	39.74%
Total net debt applicable to the limit as a percentage of assessed value	3.14%	2.74%	2.73%	3.17%	3.73%	3.68%	3.81%	3.86%	3.79%	3.97%

TABLE 15

CITY OF DANVILLE

**SCHEDULE OF UTILITY REVENUE BOND COVERAGE
FOR THE LAST TEN YEARS
(Unaudited)**

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
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	38,713,572	557,658	194,366	752,025	51.48
2010	152,152,488	113,953,671	38,198,818	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	35,207,638	585,451	108,903	694,355	50.71
2014	170,599,462	131,792,691	38,806,771	593,004	86,932	679,936	57.07
2015	159,980,502	121,029,290	38,951,212	365,000	66,516	431,516	90.27
2016	151,273,918	116,068,950	35,204,968	365,000	52,098	417,098	84.40

(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
(Unaudited)

Year	Population	Danville MSA Per Capita Income	Median Age	Percentage of Population with Bachelor's Degree or Higher	School Enrollment	Danville MSA Personal Income (thousands of \$)	Percentage of Unemployment Rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
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
2015	42,975	33,244	42.6	16.8	6,391	3,501,737	8.60
2016	42,544	34,119	42.6	16.8	6,228	3,557,825	6.10

(1) Source: Weldon Cooper Center for Public Services, University of Virginia estimated population for 2003-2009 and 2011-2015.
U.S. 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.
2012-2015 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 2015.

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
(Unaudited)

Employer	2016			2007		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees (1)	Rank	Percentage of Total City Employment (2)
City of Danville	2,493	1	13.86%	2,454	1	13.25%
Goodyear Tire & Rubber Co.	2,117	2	11.77%	2,447	2	13.22%
Danville Regional Health System	1,055	3	5.87%	1,636	3	8.84%
Nestle Refrigerated Food	557	4	3.10%	567	6	3.06%
Swedwood	396	5	2.20%			
Averett University	391	6	2.17%			
Telvista	388	7	2.16%	840	4	
EBI	383	8	2.13%			0.00%
Roman Eagle Memorial Home	379	9	2.11%	350	10	1.89%
Danville Community College	366	10	2.04%	356	9	1.92%
Wal-Mart				450	5	2.43%
CIT Commercial				375	8	2.03%
Dan River, Inc.				400	7	2.16%

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

(2) Source: Virginia Employment Commission – employed civilian labor force for June 2016 (17,982) and June 2007 (18,514).

TABLE 18

CITY OF DANVILLE, VIRGINIA

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of Employees (Full & Part-Time)	1,212	1,237	1,267	1,258	1,235	1,222	1,220	1,233	1,210	1,257
<u>Name of Government Facilities and Services:</u>										
Miles of streets	316	316	318	318	318	318	318	318	318	316
Number of street lights	8,483	8,804	8,804	8,822	8,822	8,827	8,827	8,827	8,827	8,340
<u>Culture and Recreation:</u>										
Recreation Centers	12	10	10	10	8	8	8	8	8	7
Number of parks	10	10	11	11	11	12	12	12	12	16
Park Acreage	349	466	575	575	575	680	680	680	680	751
Number of trails	8	8	8	8	8	6	6	6	6	6
Trail Mileage	25	28	28	28	38	41	41.5	41.5	41.5	46
Number of athletic fields	23	31	31	31	31	22	22	22	22	22
Athletic field acreage	45	49	49	49	49	46	46	46	46	46
Number of playgrounds	24	22	20	20	21	16	14	14	14	20
Playground acreage	74	74	74	74	74	64	64	64	64	1.3
Number of outdoor basketball courts	10	12	10	10	10	10	10	10	10	10
Number of tennis courts	19	21	21	21	21	19	19	19	19	10
<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	122	123	123	123	121
Number of calls answered	5,002	5,143	5,176	5,836	6,326	6,432	6,609	6,703	7,321	8,132
Number of inspections conducted	2,152	1,030	1,569	929	997	1,042	1,541	1,043	1,288	1,337
<u>Police Protection:</u>										
Number of stations	3	3	2	2	2	2	2	2	2	2
Number of police officers	137	137	136	136	133	133	133	133	131	131
Number of police vehicles and trailers	53	53	53	53	54	56	56	56	56	56
Number of law violations:										
Criminal arrests	7,434	5,840	7,427	7,603	8,183	9,188	8,994	7,911	7,196	6,649
Traffic violations	6,571	7,896	8,276	9,476	8,190	7,447	6,224	7,251	8,019	8,083
Parking violations	2,515	1,813	1,599	2,042	2,374	2,537	1,504	1,390	1,395	1,508

(Continued)

TABLE 18

CITY OF DANVILLE, VIRGINIA

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sewerage System:										
Miles of sanitary sewers	386	386	386	371	385	385	386	386	386	394
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	16,589	16,665	16,665	16,511	16,511	16,663	16,335	16,235	16,258	16,296
Average daily treatment	5.46	5.95	6.71	6.81	6.47	6.70	6.51	7.34	7.86	8.40
Maximum daily capacity of treatment	24	24	24	24	24	24	20	20	20	20
Water System:										
Miles of water mains	317	319	319	319	331	337	340	342	344	346
Active number of service connections	17,826	17,942	19,029	17,734	17,426	17,837	17,712	17,780	17,481	17,652
Number of fire hydrants	1,967	2,029	2,050	2,056	2,065	2,073	2,081	2,107	2,107	2,209
Average daily consumption - MGD	6.39	4.76	5.79	5.28	5.40	5.30	4.93	5.19	5.39	4.86
Maximum daily capacity of treatment	18	18	18	18	18	18	18	18	18	18
Electric Distribution System:										
Square Miles of service	500	500	500	500	500	500	500	500	500	500
Number of distribution stations	14	14	14	17	17	17	17	17	17	17
<u>Facilities and services not included in the</u>										
<u>Education:</u>										
Number of preschools	1	1	1	1	1	1	2	2	2	2
Number of elementary schools	9	9	9	9	9	9	8	6	6	6
Number of middle schools	3	3	3	3	3	3	3	2	2	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	18	19	22	21	21	21	21	21	22	23
Number of elementary school instructors	250	251	254	252	251	251	228	223	216	209
Number of middle school instructors	137	144	134	127	125	125	123	111	107	102
Number of high school instructors	183	182	174	172	175	175	167	152	140	138
<u>Facilities and services not included in the</u>										
<u>Hospitals:</u>										
Number of hospitals	1	1	1	1	1	1	1	1	1	1
Number of patient beds	350	350	290	290	290	290	250	250	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 the *Specifications for Audits for Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions*, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the City, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. **We did identify certain deficiencies in internal control, described as Items 2016-001 and 2016-002 in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.**

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 16-1VA through 16-5VA 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
November 30, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

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 (the "City") compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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.

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. 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.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 30, 2016

CITY OF DANVILLE, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2016

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

June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Two significant deficiencies** related to the audit of the financial statements were reported 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*.
3. **No instances of noncompliance** material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. **No significant deficiencies** 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 the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the City are:

Name of Program	CFDA #
Child Nutrition Cluster: National School Breakfast Program	10.553
Child Nutrition Cluster: National School Lunch Program	10.555
Title I – Educationally Deprived Children – Local Education Agencies	84.010
Highway Planning and Construction	20.205

8. The **threshold for** distinguishing Type A and B programs was \$750,000.
9. The City of Danville was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

16-01: Accounting for Grants – (Significant Deficiency)

Condition:

In the past 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). In the current year we noted additional oversight of these areas and reduced errors, but underlying processes have not been changed substantially.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

16-01: Accounting for Grants – (Significant Deficiency) (Continued)

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

16-02: Low Income Housing Loans Receivable – (Significant Deficiency)

Condition:

In previous audits we noted that the accounting and controls over these loans existed nearly entirely in the community development department rather than in the finance department. Overall the loans were not closely monitored, duties were not adequately segregated and the mortgage software/reporting system was not reconciled regularly to finance department records. In the current year processes were implemented, including the installation of new software, a review of outstanding loans to identify amounts to be written off. Controls yet to be implemented include monthly reconciliations to the finance department, more regular mailings of accurate loan statements, and a more rigorous analysis of the allowance for uncollectible amounts.

Recommendation:

We recommend that management continue to implement processes and controls as discussed above.

Management's Response:

Management modified the loan committee membership to include individuals from other departments with appropriate knowledge. The Finance Department worked closely with the Community Development Department to establish processes for controls over cash receipts, payment posting, loan forgiveness, and began working on a reconciliation process between the mortgage software and the general ledger. Management also initiated cross-training efforts.

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016**

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

16-1VA: Annual Review of System Access – Department of Social Services

Condition:

The Virginia Department of Social Services requires all local departments of social services to remove system access of terminated employees at a maximum three days subsequent to the employee's termination. We noted in our testing that access removal was not completed within three days for three of the five employees tested.

Recommendation:

Procedures should be in place to ensure that employee's access is removed three days subsequent to their departure.

Management's Response:

Management will implement procedures to ensure employee access is timely removed.

16-2VA: Annual Review of System Access – Department of Social Services

Condition:

The Virginia Department of Social Services requires review of local employees with access to OASIS, VaCMS, ADAPT, and EAS to determine if they have a current access request form on file and it agrees to the system access. We noted in our testing that this review did not occur on two of the five employees selected and these employees had access to systems not on their access request form.

Recommendation:

User's access should be limited to approved access per request form.

Management's Response:

Management will implement procedures to ensure user access is appropriately reviewed.

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016**

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

16-3VA: VIEW and SNAPET Credit Cards Issued – Department of Social Services

Condition:

We noted instances where Sheetz gift cards were issued for the VIEW and SNAPET program. Cards issued to participants of these programs should be limited to gas purchases only. Since these cards are gift cards, they are unable to limit the usage to only gas.

Recommendation:

We recommend that City obtain gas cards that are limited to only the purchase of gas.

Management's Response:

Management has and will continue to review the processes that other localities use to limit the use of gas cards and establish procedures for that purpose.

16-4VA: EBT Credit Cards Issued

Condition:

One individual out of ten selected for testing was allowed access to the EBT Card without an authorization signature on the Internal Action/Vault Card Listing.

Recommendation:

Steps should be taken to ensure that each Internal Action has a proper authorization signature prior to an individual's access.

Management's Response:

Management concurs with the recommendation.

CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

C. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

16-5VA: Commonwealth of Virginia Disclosure Statements

Condition:

Five City officials did not file a statement of economic interest as required by the *Code of Virginia* and four were filed after the December 15, 2015 deadline.

Recommendation:

Steps should be taken to ensure that these statements are filed and in a timely manner.

Management's Response:

The auditee concurs with the recommendation.

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

None.

CITY OF DANVILLE, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2016

A. 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, IDA, and Employee Retirement System we noted several instances where duties are not fully segregated.

Recommendation:

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

Status:

Management implemented compensating controls and eliminated conflicting duties such that this is no longer considered a material weakness.

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. We also noted that the ratio of overtime pay relative to total compensation was higher in certain funds than in others. 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 later concluded may have been misreported. The second is that no monitoring appears to have provided a timely warning of unusual amounts of overtime compensation. Certain departments have now added a requirement for an additional signature on time sheets with overtime, but no city-wide provisions or monitoring controls have been implemented.

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.

Status:

Management has implemented a control at the transaction level such that this is no longer a material weakness.

CITY OF DANVILLE, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2016

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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.

Status:

Management has taken steps such that this is no longer a material weakness, but a significant deficiency (see current year Item 16-01).

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.

CITY OF DANVILLE, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2016

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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

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.

Status:

Management has taken steps such that this is no longer a material weakness, but a significant deficiency (see current year Item 16-02).

14-07: Purchase Orders and Bid Processes – (Material Weakness)

Condition:

Purchase orders at times 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. The City does not have a firm policy regarding the frequency for which contracts should be put out to bid, or for how purchase orders should be allowed to continue.

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.

Status:

Management has implemented certain procurement processes related to blanket purchase orders and documentation of the bidding process, and this is no longer considered a material weakness.

CITY OF DANVILLE, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Passthrough ID Numbers	Passed- Through to Subrecipient	Federal Expenditures
<u>Primary Government</u>				
DEPARTMENT OF AGRICULTURE				
Passed through Commonwealth of Virginia:				
Department of Social Services:				
Supplemental Nutrition Assistance Program	10.561	N/A	\$ -	\$ 738,267
National School Lunch Program	10.555	N/A	-	47,817
Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP	10.596	N/A	-	12,479
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	N/A	-	27,929
Minority Health and Health Disparities Research	93.307	N/A	-	41,498
Family Preservation and Support	93.556	N/A	-	31,087
TANF Block Grant	93.558	N/A	-	695,176
Refugee and Entrant Assistance State – Administered Programs	93.566	N/A	-	769
Low Income Energy Assistance	93.568	N/A	-	79,222
Child Care Development Fund	93.596	N/A	-	107,189
Child Welfare Services	93.645	N/A	-	3,727
Foster Care – Title IV-E	93.658	N/A	-	794,630
Adoption Assistance	93.659	N/A	-	229,082
Social Services Block Grant	93.667	N/A	-	497,235
Independent Living	93.674	N/A	-	13,709
Children’s Insurance Program	93.767	N/A	-	29,019
Medical Assistance	93.778	N/A	-	908,493
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Payments:				
Community Development Block Grant Program, Entitlement Grants	14.218	N/A	124,905	1,187,338
Home Investment Partnership Program	14.239	N/A	364,775	364,775
DEPARTMENT OF JUSTICE				
Direct payments:				
Bulletproof Vest Partnership	16.607	N/A	-	2,354
Byrne Memorial Justice Assistance Grant	16.738	N/A	-	4,840
Passed through Commonwealth of Virginia:				
Department of Criminal Justice Services:				
State Criminal Alien Assistance Program	16.606	N/A	-	3,665
Byrne Memorial Justice Assistance Grant	16.738	N/A	-	25,659
Crime Victim Assistance	16.575	N/A	-	6,671

SCHEDULE 1

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016**

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Passthrough ID Numbers	Passed- Through to Subrecipient	Federal Expenditures
<u>Primary Government</u> (Continued)				
DEPARTMENT OF TRANSPORTATION				
Direct payments:				
Highway Planning and Construction	20.205	60955, 61011, 61124	\$ -	\$ 1,400,478
Passed through Commonwealth of Virginia:				
Department of Transportation:				
Recreational Trails Program	20.219	N/A	-	11,118
Federal Transit:				
Formula Grants for Rural Areas	20.509	42516, 42015, 42016	-	1,106,847
New Freedom Program	20.521	N/A	-	58,315
Passed through Commonwealth of Virginia:				
Department of Motor Vehicles:				
Alcohol Impaired Driving Grants	20.600	N/A	-	13,799
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	-	3,507
Alcohol Open Container Requirement	20.607	N/A	-	5,382
DEPARTMENT OF THE INTERIOR				
Passed through Commonwealth of Virginia:				
Historic Preservation Fund Grants-In-Aid	15.904	N/A	-	21,250
FEDERAL AVIATION ADMINISTRATION				
Direct Payments:				
Department of Aviation:				
Airport Improvement Program	20.106	N/A	-	232,997
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Direct Payments:				
Department of Homeland Security:				
Emergency Communications	97.042	N/A	-	27,013
Passed through Commonwealth of Virginia:				
Department of Emergency Management:				
State Homeland Security Program Grant	97.067	N/A	-	30,611
<u>Component Unit – Danville Schools</u>				
DEPARTMENT OF AGRICULTURE				
Passed through Commonwealth of Virginia:				
Department of Education:				
National School Lunch Program	10.555	N/A	-	2,758,698
National School Breakfast Program	10.553	N/A	-	981,079
Fresh Fruit and Vegetables	10.582	N/A	-	156,201

(Continued)

SCHEDULE 1

CITY OF DANVILLE, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016**

Federal Granting Agency/ Recipient State Agency/ Grant Program	Federal CFDA Number	Passthrough ID Numbers	Passed- Through to Subrecipient	Federal Expenditures
<u>Component Unit – Danville Schools (Continued)</u>				
DEPARTMENT OF EDUCATION				
Passed through Commonwealth of Virginia:				
Title I – Educationally Deprived Children – LEA	84.010	N/A	\$ -	\$ 3,511,258
Title I – Detention Home 14	84.013	N/A	-	3,069
Adult Education – State Grant Program	84.002	N/A	-	100,738
Title VI-B – Special Education	84.027	N/A	-	1,255,674
Special Education Preschool Grants	84.173	N/A	-	38,964
English Language Acquisition State Grants	84.365	N/A	-	15,471
Title II – Part A Funds	84.367	N/A	-	24,180
Basic Grants to States	84.048	N/A	-	150,723
Total				<u>\$ 17,760,002</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	N/A	\$ -	\$ 3,121
Summer Feeding Program	10.559	N/A	-	841
<u>Component Unit – Danville Schools</u>				
DEPARTMENT OF AGRICULTURE				
Passed through Commonwealth of Virginia:				
Department of Education:				
National School Lunch Program (Commodities)	10.555	N/A	-	253,571
Total				<u>\$ 257,533</u>

CITY OF DANVILLE, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

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 Title 2 U.S. *Code of Federal (CFR) Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

