

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF DANVILLE, VIRGINIA

A Fiduciary Fund of the
City of Danville, Virginia



For the Fiscal Year Ended
JUNE 30, 2014

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

**EMPLOYEES' RETIREMENT SYSTEM
OF THE
CITY OF DANVILLE, VIRGINIA**

**A Fiduciary Fund of the
City of Danville, Virginia**

For the Fiscal Year Ended June 30, 2014

**Prepared by the
Employees' Retirement System
of the
City of Danville, Virginia**

**Michael L. Adkins
Executive Secretary**



EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
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June 30, 2014

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**INTRODUCTORY
SECTION**





Government Finance Officers Association

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

Presented to

**Employees' Retirement System
of the City of Danville, Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Employees' Retirement System

of the
City of Danville, Virginia
P.O. Box 3300
Danville, Virginia 24543-3300

MICHAEL L. ADKINS
EXECUTIVE SECRETARY
TELEPHONE (434) 799-5185

FELICIA R. KING
RETIREMENT COORDINATOR
TELEPHONE (434) 799-5187

PATRICIA K. CONNER
RETIREMENT SECRETARY
TELEPHONE (434) 799-5186

LETTER OF TRANSMITTAL

December 2, 2014

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

The comprehensive annual financial report (CAFR) of the Employees' Retirement System of the City of Danville, Virginia (ERS) for the fiscal year ended June 30, 2014, is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of the ERS.

The Governmental Accounting Standards Board (GASB) 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). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The MD&A starts on page 14 of this report.

Plan History

The ERS is a defined benefit plan established by City Council on January 1, 1946, for the purpose of providing retirement, disability, and death-in-service benefits to all regular, full-time employees of the City of Danville.

The ERS is a noncontributory plan with all contributions paid by the City of Danville. These contributions, added to the accumulated contributions and investment earnings, provide the funds for benefit payments.

The ERS is governed by the provisions of Chapter 32 of the Code of the City of Danville, Virginia and Ordinances adopted by City Council. The nine member Board of Trustees has the fiduciary responsibility for the general administration and management of the ERS.

Upon becoming a regular, full-time employee of the City, each employee is classified as a "general employee" or "public safety employee," which includes uniformed police and fire personnel. The two employee groups have different pension benefits and early service retirement allowances.

Benefits and Services Provided

The ERS provides normal service retirement and early service retirement benefits for members who attain the age and service requirements. Members are vested after five years creditable service. Disability benefits for non-occupational injury or illness are provided to members who have five or more years of creditable service but have not attained normal service retirement age. Death-in-service benefits are provided to the designated beneficiary of a member who dies while in service to the City.

The ERS staff provides a Benefit Statement to all members as of June 30 each year and an Annual Report to Members. The staff provides counseling throughout the year to all benefit applicants and makes a presentation at orientations for new employees.

The ERS is considered part of the City of Danville's reporting entity and is included in the City's Comprehensive Annual Financial Report (CAFR) as a pension trust fund. The City's CAFR is available upon request and is being submitted to the Government Finance Officers Association for review under the Certificate of Achievement for Excellence in Financial Reporting program.

Economic Conditions and Outlook

As it has for the past five years, the U.S. economy continued to expand at a slow, irregular pace. While the expansion rate has been frustratingly slow, the duration of the expansion has been very positive. Poor weather during the first quarter of 2014 caused the first significantly down quarter (-2.1%) since 2009, but a strong rebound in the second quarter (+4.2%), coupled with strong figures for the second half of calendar year 2013, produced a real GDP of 2.5% during the past fiscal year. Manufacturing has picked up as has domestic energy production. The majority of economists are predicting better than 3% growth rate for the next year. We agree that GDP growth will continue to strengthen by at least that figure because energy and capital costs remain extremely low.

Job creation well in excess of 200,000 new jobs per month for most of the past year (the June figure was 288,000 jobs) has dramatically improved the unemployment situation. While there are still large numbers of chronically unemployed or underemployed workers, the jobs situation is much brighter than it has been for several years. The June unemployment figure of 6.1% was down significantly from last year's 7.3% figure. Worker productivity increased in the June quarter by 2.3% as well.

Inflation for the twelve months ending June 30th was only 2.1% as measured by the CPI. The CPI inflation rate should stay low for the remainder of 2014, which will permit the Federal Reserve to keep interest rates extremely low.

Major Initiatives

In order to maintain financial stability of the pension plan, the City initiated a comprehensive study to review retirement benefits in 2012. The study revealed the largest impact on funding and actuarial liability was cost-of-living adjustments (COLAs). Subsequently, City Council approved an ordinance amending the Code of the City of Danville, Virginia to state that retirees will no longer receive COLAs, effective July 1, 2013. City Council also adopted resolutions to implement a new retiree bonus policy. The retiree bonus policy calls for a one-time bonus for retirees when certain criteria are met. The bonus will be awarded no more than annually. 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. Because a pattern has not yet been established under the new policy and management has concluded that the actions of future City Councils are uncertain, no assumptions relative to these future bonuses have been included in the actuary's estimate of the plan's actuarial accrued liability. The effect of removing the COLA assumption, and not incorporating an assumption for the bonus, had the effect of reducing the actuarial accrued liability by \$30,716,477 in 2013.

Financial Information

Accounting System. This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenues for the ERS are recorded when earned regardless of the date of collection. Expenses are recorded when liabilities are incurred regardless of when payment is made.

Internal Control. Management of the ERS is responsible for the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from theft, misuse or unauthorized disposition and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. We believe the ERS's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Revenues and Expenses. The revenues required to finance retirement benefits are accumulated through employer contributions and investment income. The following schedule represents a summary of the revenues for the fiscal year ended June 30, 2014, and the amount of increases and decreases relative to prior year revenues:

Revenue Source:	2014	Percent of Total	2013	Increase (Decrease) From 2013
Investment income (Net of investment expenses)	\$ 38,756,248	86.9%	\$ 22,861,602	\$ 15,894,646
Employer contributions	5,849,278	13.1%	5,280,687	568,591
	<u>\$ 44,605,526</u>	<u>100.0%</u>	<u>\$ 28,142,289</u>	<u>\$ 16,463,237</u>

The expenses of the ERS relate to the purpose for which it was created, the payment of retirement benefits. The following schedule presents a summary of the expenses for the fiscal year ended June 30, 2014, with the amount of increases and decreases in relation to prior year expenses:

	2014	Percent of Total	2013	Increase (Decrease) From 2013
Benefits paid to participants	\$ 10,345,166	98.6%	\$ 10,032,957	\$ 312,209
Refunds to former members	34,958	0.3%	74,438	(39,480)
Administrative expenses	109,411	1.1%	107,025	2,386
	<u>\$ 10,489,535</u>	<u>100.0%</u>	<u>\$ 10,214,420</u>	<u>\$ 275,115</u>

Benefits paid to participants reflect an increase of \$312,209 for the fiscal year ending June, 30, 2014, compared to the prior year. The number of participants increased to 565.

Investments. At June 30, 2014, the aggregate account was valued at \$242,736,781, a \$34,115,991 increase from the June 30, 2013 value of \$208,620,790. The total portfolio returned 19.4% for the current fiscal-year-to-date, ranking in the 19th percentile. By engaging multiple advisers and employing a core philosophy, the Board of Trustees has sought to ensure the aggregate fund is well diversified. Investment policies have been established to meet long-term goals that include earning a compounded rate of return of 7%.

Funding Status

A pension plan is considered adequately funded when sufficient reserves are available to meet all expected future obligations to participants. The ERS's funding objective is to meet long-term benefit payments through annual employer contributions that remain approximately level as a percent of the member payroll. Increased funding improves the ratio of assets and provides greater investment potential. The advantage of a well-funded plan is that participants are confident that assets are committed to the payment of their current and future benefits. The actuarial accrued liability and the actuarial value of assets of the ERS as of June 30, 2014 amount to \$187,932,189 and \$194,075,656, respectively. This gives the ERS a funded ratio of 103.3% as of June 30, 2014. Additional information relative to the funded status of the ERS is provided in both Management's Discussion and Analysis within the Financial Section and in the Actuarial Section of this report.

The City of Danville is dedicated to providing a financially sound retirement plan for its members, which is illustrated in two schedules in this report. The "Schedule of Funding Progress" on page 57 presents a measure of projected plan liabilities called the actuarial accrued liability. The measure, a disclosure required for public employee pension plans (PERS) by the Governmental Accounting Standards Board, allows the reader of this report to make comparisons among PERS and to assess the progress made by the ERS in accumulating sufficient assets to pay benefits when due. The "Schedule of City Contributions" on page 32 includes information about the annual actuarially determined contributions of the employer and the actual contribution made by the employer in relation to the actuarially determined contributions.

Investment Authority and Policy

The Board of Trustees has adopted a Statement of Policy and Guidelines for investing the funds of the ERS, which the professional investment managers follow. An asset allocation strategy was devised to allow an investment portfolio of approximately 50% domestic equities, 20% fixed income securities, 15% international equities, 10% emerging markets, and 5% real estate. To implement the policy and strategy, the Board presently employs a core investment manager for both equities and bonds and seven specialty managers. In addition, the services of an independent investment consultant are provided to the Board to ensure the objectives of the Policy and Guidelines are accomplished. Quarterly reports are furnished to the Board by the investment consultant for the purpose of evaluating the performance of each investment manager.

Northern Trust Company of Chicago, Illinois serves as custodian for funds managed solely for the benefit of the ERS. Any purchases of units in commingled funds have other designated custodians.

Northern Trust has an insurance policy to secure trust funds for every account held, pledges to the Federal Reserve Bank to cover funds on deposit with their bank, as well as a corporate insurance policy. Further insurance carried by the depository includes coverage against losses occurring on the premises or during transit.

Professional Services

Professional financial managers are appointed by the Board of Trustees to perform services that are essential to the effective and efficient investment of assets. An independent auditor's report and a certification from the actuary are included in this report. The professionals appointed by the Board of Trustees are listed on page 7 of this report.

Awards and Acknowledgements

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System of the City of Danville for its comprehensive annual financial report for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to the program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Employees' Retirement System of the City of Danville has received a Certificate of Achievement for the last twenty consecutive years. We believe our current CAFR 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.

Acknowledgements. The compilation of this report reflects the combined effort of the ERS staff. On behalf of the Board of Trustees, we would like to take this opportunity to express our gratitude to the staff who has worked diligently to assure the successful operation of the ERS. This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and for determining responsible stewardship of the funds of the ERS.

The Board greatly appreciates the support of City Council and we look forward to another challenging year.

Sincerely,



David H. Patterson
Chairman, Board of Trustees

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
BOARD OF TRUSTEES
June 30, 2014

David H. Patterson, Chairman
Member Trustee
Captain, Fire Department
Term Expires: December 31, 2015

T. Wayne Oakes, Vice Chairman
Citizen Trustee
Retired, DIMON, Inc.
Term Expires: December 31, 2015

Michael L. Adkins, Executive Secretary
Director of Finance
City of Danville, Virginia
Ex-Officio Trustee

Sandra M. Stevens
Member Trustee
Lieutenant, Police Department
Term Expires: December 31, 2014

Joseph King
City Manager
City of Danville, Virginia
Ex-Officio Trustee

Joyce Obstler
Member Trustee
Assistant Director, Information Technology Department
Term Expires: December 31, 2015

Sherman M. Saunders
Mayor
City of Danville, Virginia
Ex-Officio Trustee

Jeffrey V. Haley
Citizen Trustee
President & Chief Executive Officer,
American National Bank
Term Expires: December 31, 2015*

Lenard D. Lackey, Jr.
Citizen Trustee
Retired, Danville/Pittsylvania County
Community Services Board
Term Expires: December 31, 2014

*Trustee term ended July 1, 2014.

MEDICAL BOARD

Dr. Thomas Alabanza
Dr. Steven Bridges
Dr. Sanjay Jaswani

Dr. Scott Oaks
Dr. Anupreet Oberoi
Dr. Paul Settle

Dr. James Turner

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
ADMINISTRATIVE ORGANIZATION
June 30, 2014**

ADMINISTRATIVE STAFF

Michael L. Adkins
Director of Finance/Executive Secretary

Felicia R. King
Retirement Coordinator

Sara B. Weller
Director of Human Resources

Patricia K. Conner
Retirement Secretary

W. Clarke Whitfield, Jr.
City Attorney/Legal Advisor

PROFESSIONAL SERVICES

Actuary
Boomershine Consulting Group, LLC
Consultants/Actuaries
Ellicott City, Maryland

Auditor
Brown, Edwards & Company, LLP
Certified Public Accountants
Lynchburg, Virginia

INVESTMENT MANAGERS

Loomis, Sayles & Company, L.P.
Boston, Massachusetts

Invesco Global Asset Management, Inc.
Atlanta, Georgia

Hamilton Lane
Bala Cyn Wyd, Pennsylvania

PanAgora Asset Management, Inc.
Boston, Massachusetts

CS McKee Investment Manager
Pittsburg, Pennsylvania

Lazard Asset Management
New York, New York

State Street Global Advisors
Boston, Massachusetts

BTG Pactual Timberland Investment
Group, LLC
Winston-Salem, North Carolina

HGK Asset Management
Jersey City, New Jersey

INVESTMENT CONSULTANT

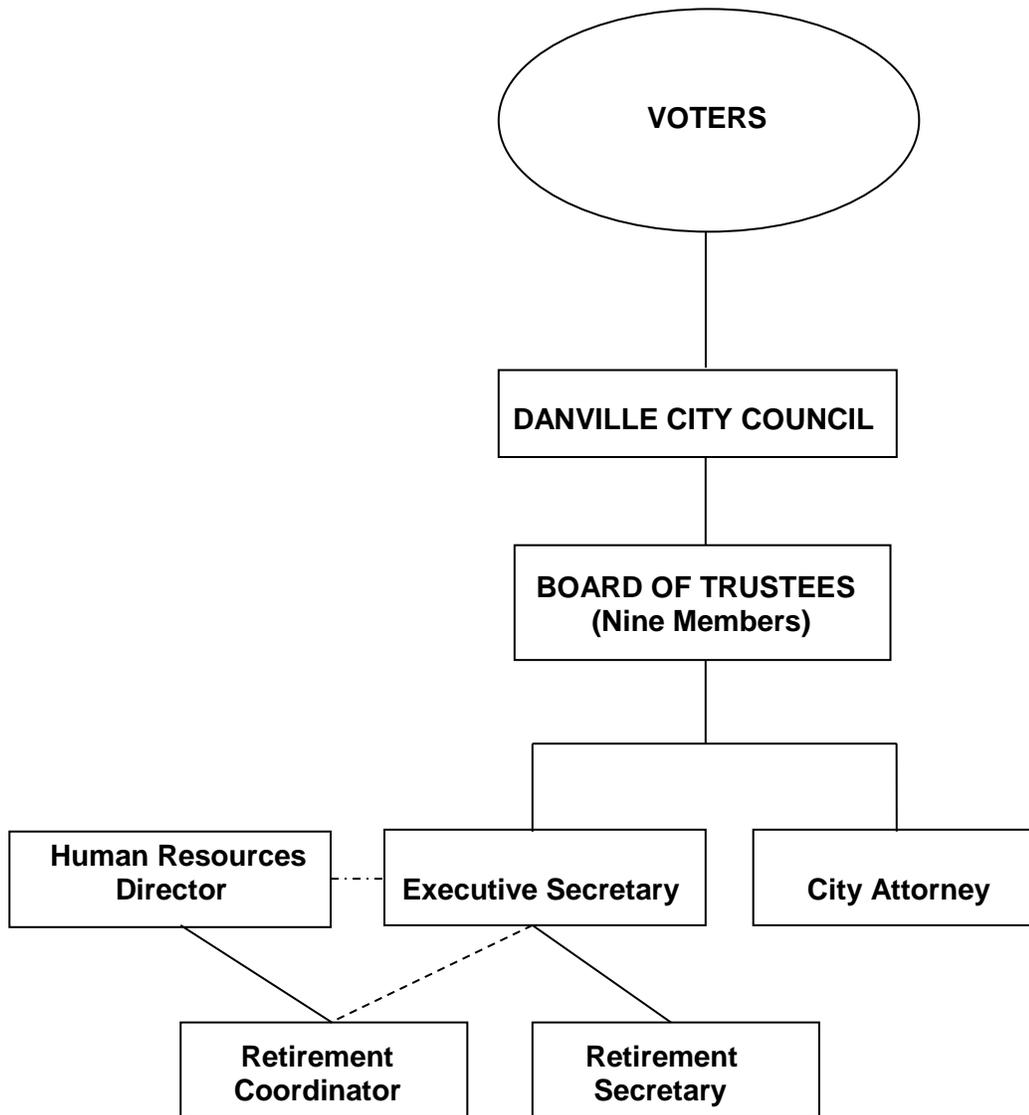
Dahab Associates, Inc.
Bay Shore, New York

INVESTMENT CUSTODIAN

The Northern Trust Company
Chicago, Illinois

The Schedule of Fees and Commissions (page 41) details fees paid to investment professionals who provided service to the ERS.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
ORGANIZATIONAL CHART
June 30, 2014**



----- Denotes the position is not a direct report

———— Denotes the position is a direct report

----- Denotes a collaborative position

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PLAN PROVISIONS
June 30, 2014

Prior to October 1, 1991, regular full-time employees of the City of Danville became members of the Employees' Retirement System (ERS) after one year of continuous service. Members hired prior to October 1, 1991 are eligible for a refund of the balance of the Annuity Savings Account at termination of employment for reasons other than retirement. Regular full-time employees hired on or after October 1, 1991 become members of the ERS at the time of employment and no Annuity Savings Account is established for these members. Pension benefits for these members will be paid entirely from the pension funds accumulated by the ERS from City contributions and earnings. There are two groups of employees covered by the ERS:

Group 1 - General Employees

Group 2 - Public Safety Employees (uniformed police and fire personnel)

The operational provisions are the same for both groups of employees; however, the benefits are different. Public safety employees have higher benefits because they do not participate in the Social Security System. Public safety personnel employed after April 1, 1986 are covered by the Medicare provisions of the Social Security Act, but are not eligible for any retirement benefits under the Act.

Group 1 General Employees Retirement Benefits

The basic formula for calculating retirement benefits is 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 1.42% of \$9,500, plus 1.82% of the part of the three-year average salary in excess of \$9,500, multiplied by the number of years of creditable service.

Normal service retirement is age 65, or age 55 and at least 30 years creditable service. For members hired after December 7, 1999 normal service retirement is the later of the age at which the member has five or more years of creditable service or age 65.

Early retirement is as early as age 55 with less than 30 years creditable service. Reduction factors are applied to the basic formula for early retirement.

Non-occupational disability retirement benefits are available after five years of creditable service and prior to normal retirement age 65. The basic formula is used to calculate benefits with two exceptions: the actual service is doubled, not to exceed the creditable service the employee would have accumulated if he had worked to age 60, and there is no reduction in benefits prior to normal retirement age.

Occupational disability claims are processed by the Human Resources Department through workers' compensation if disability or injury occurs prior to normal retirement age regardless of length of service.

Death-in-service benefits are provided to the spouse, parent, or minor child of an employee who dies while in service to the City. The factors used to calculate benefits are: age of member and beneficiary, average final compensation, and years of creditable service. Provisions of Option 3 apply if death occurs before age 55, and provisions of Option 2 apply if death occurs at, or after, age 55. In lieu of monthly benefits, the beneficiary may elect to receive a lump sum distribution if the deceased member was employed prior to October 1, 1991.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PLAN PROVISIONS
June 30, 2014

Group 2 Public Safety Employees Retirement Benefits

The basic formula for calculating retirement benefits is the average final compensation (highest three consecutive years) times 2% times the number of years creditable service equals the annual pension.

Normal service retirement is age 60, or age 55 and at least 30 years creditable service. For members hired after December 7, 1999 normal service retirement is the later of the age at which the member has five or more years of creditable service or age 60.

Early retirement is as early as age 55 with less than 30 years creditable service. Reduction factors are applied to the basic formula for early retirement.

Non-occupational disability retirement benefits are available after five years service and prior to the normal service retirement age 60. The basic formula is used to calculate benefits with two exceptions: the actual service is doubled, not to exceed the creditable service the employee would have accumulated if he had worked to age 60, and there is no reduction in benefits prior to normal retirement age.

Occupational disability claims are processed by the Human Resources Department through workers' compensation if disability or injury occurs prior to normal retirement age.

Death-in-service benefits are provided to the spouse, parent or minor child of an employee who dies while in service to the City. The factors used to calculate benefits are: age of member and beneficiary, average final compensation, and years of creditable service. Provisions of Option 3 apply if death occurs before age 55, and provisions of Option 2 apply if death occurs at, or after, age 55. In lieu of monthly benefits the beneficiary may elect to receive a lump sum distribution if the deceased member was employed prior to October 1, 1991.

General Provisions Applicable to Group 1 and Group 2

Retirement benefits are vested after five years of service. A vested benefit means a member is entitled to retirement benefits at some future date even if they terminate employment before retirement eligibility.

The retirement ordinance and subsequent amendments take precedence over any question that may arise concerning benefit information or calculation. The Retirement Coordinator is available to answer member questions and assist in the retirement application process.

Monthly benefits are provided throughout the lifetime of the retired member with survivor benefit options available.

Option 1. Basic benefit, provides the maximum allowance payable throughout the lifetime of the retiree, and upon death, the designated beneficiary receives the annuity reserve balance, if any, in a lump sum distribution. The refund of an annuity reserve balance is available only to the beneficiaries of members employed prior to October 1, 1991.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PLAN PROVISIONS
June 30, 2014

Option 2. 100% survivor benefit, provides a reduced allowance throughout the lifetime of the retiree, and upon death, the designated beneficiary will receive the same monthly benefit paid to the member.

Option 3. 50% survivor benefit, provides an allowance less than the basic benefit but more than the 100% survivor option payable throughout the lifetime of the retiree, and upon death, the designated beneficiary will receive 50% or one-half of the monthly benefit paid to the member.

Option 4. Alternative option, provides a reduced allowance payable throughout the lifetime of the retiree, and upon death, some other actuarial equivalent benefit is paid to the designated beneficiary. Use of this option is subject to approval by the Board of Trustees.

Option 5. Social Security option provides a greater monthly benefit until age 65 that is approximately equal to the combined ERS and social security amount. At age 65, when the retiree begins to receive social security, the ERS benefit is reduced by the amount of the social security benefit. This option provides the retiree a more level income throughout retirement.

There are no mandatory retirement provisions for City employees. All retirement dates are effective the first day of the month following the month of eligibility.

The employee/member also has the option at retirement to increase service credit by applying up to one year of unused sick leave.



FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Employees' Retirement System of the
City of Danville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Danville, Virginia (the "System") as of and for the years ended June 30, 2014, and the related notes to the 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement System of the City of Danville, Virginia, as of June 30, 2014, and the changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 3 to the financial statements, during 2014, the City adopted new accounting guidance, GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of the Employees' Retirement System of the City of Danville, Virginia as of June 30, 2013, were audited by other auditors whose report dated December 2, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The accompanying schedule of administrative expenses, schedule of investment expenses, schedule of payments to consultants, introductory section, the remainder of the investment section, the actuarial section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of administrative expenses, schedule of investment expenses, and schedule of payments to consultants 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 supplementary information referenced above is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matters (Continued)

Other Information (Continued)

The introductory section, the investment section, the actuarial section, and the 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 December 2, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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
December 2, 2014

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

The discussion and analysis of the financial performance of the Employees' Retirement System (ERS) of the City of Danville, Virginia provides an overview of the financial activities and funding conditions for the fiscal years ended June 30, 2014, 2013 and 2012. Please review it in conjunction with the transmittal letter and the financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The Plan's net position increased by \$34,115,991 (16.4%) as a result of activities for the fiscal year ended June 30, 2014. Net position restricted for pension benefits totaled \$242,736,781 at June 30, 2014 compared to \$208,620,790 at June 30, 2013. The increase is primarily attributable to the fluctuations in the fair value of investments.
- ❖ Employer contributions to the defined benefit plan increased \$568,591 (10.8%) from fiscal year 2013 due to the increase in the contribution rates in fiscal year 2014 and an increase in covered payroll expenses.
- ❖ Net investment income of \$38,756,248 for the fiscal year ended June 30, 2014, represents an increase of \$15,894,646, compared to the net investment income of \$22,861,602 for the fiscal year ended June 30, 2013.
- ❖ Benefit payments increased \$312,209 (3.1%) from fiscal year 2013 to fiscal year 2014 and \$234,946 (2.4%) from fiscal year 2012 to fiscal year 2013 due to the increased number of retirees receiving benefit payments.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The financial statements reflect the activities of the Employees' Retirement System and are reported in the Statements of Fiduciary Net Position (page 19) and the Statements of Changes in Fiduciary Net Position (page 20). These statements are presented on a full accrual basis of accounting and reflect all trust activities as incurred.

STATEMENTS OF FIDUCIARY NET POSITION

The focus of the Statement of Fiduciary Net Position is cash, investments, and net position restricted for pension benefits at the end of the fiscal year, as illustrated in the following condensed comparative Summary of Fiduciary Net Position.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

**SUMMARY OF FIDUCIARY NET POSITION
(in thousands)**

	June 30,		
	2014	2013	2012
Cash and investments	\$ 242,973	\$ 208,728	\$ 190,849
Receivables	47	65	47
Total assets	<u>243,020</u>	<u>208,793</u>	<u>190,896</u>
Accounts payable	<u>283</u>	<u>172</u>	<u>203</u>
Total liabilities	<u>283</u>	<u>172</u>	<u>203</u>
Net position restricted for pension benefits	<u>\$ 242,737</u>	<u>\$ 208,621</u>	<u>\$ 190,693</u>

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

The Statement of Changes in Fiduciary Net Position focuses on the financial activity of the trust for the fiscal year. The following table presents a condensed comparative summary of the changes in fiduciary net position.

**SUMMARY OF CHANGES IN FIDUCIARY NET POSITION
(in thousands)**

	Years Ended June 30,		
	2014	2013	2012
Additions			
Contributions	\$ 5,849	\$ 5,281	\$ 4,929
Investment income (loss) – net	<u>38,756</u>	<u>22,861</u>	<u>(1,137)</u>
Total additions	<u>44,605</u>	<u>28,142</u>	<u>3,792</u>
Deductions			
Pension benefits	10,345	10,033	9,798
Other	<u>144</u>	<u>181</u>	<u>126</u>
Total deductions	<u>10,489</u>	<u>10,214</u>	<u>9,924</u>
Net increase (decrease) in net position restricted for pension benefits	<u>\$ 34,116</u>	<u>\$ 17,928</u>	<u>\$ (6,132)</u>

Benefit payments are a function of changing payments to retirees, beneficiaries, and new retirements during the period. The increase in pension benefits in fiscal years 2014, 2013 and 2012 is attributable to an increase in the number of retirees.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

PLAN MEMBERSHIP

The table below reflects the plan membership as of June 30, 2014, 2013 and 2012.

	PLAN MEMBERSHIP			Change	
	June 30,				
	2014	2013	2012	2014	2013
Active participants					
Vested	697	697	662	- %	5.3 %
Non-vested	237	236	286	0.4 %	-17.5 %
Retirees and beneficiaries	565	547	515	3.3 %	6.2 %
Terminated vested	244	229	223	6.6 %	2.7 %
Total	1743	1,709	1,686	2.0 %	1.4 %

FUNDED STATUS

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, defined benefit pension plans have been underfunded when the employer failed to make annual actuarially required contributions to the ERS. The City has traditionally contributed the actuarially determined contribution (ADC) as determined by the ERS's actuary. However, the City contributed less than the ADC in fiscal year 2014, as shown on page 32.

Funded status is the ratio of the actuarial value of assets to the actuarial accrued liability. An increase in this percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the actuarial present value of future benefits. Performance in the equity and fixed income markets can have a material impact on the actuarial value of assets.

The actuary uses a five-year smoothing of market value to establish the actuarial value of the assets, which is used to determine the funded ratio. The ERS's funded status was 103.3%, 97.7%, and 84.33% as of June 30, 2014, 2013, and 2012, respectively. The ERS's unfunded actuarial liability was (\$6,143,467), \$4,186,291, and \$32,349,707, as of June 30, 2014, 2013, and 2012, respectively.

As of June 30, 2014, the market value of assets was \$242,736,781 and exceeded the actuarial value of assets of \$194,075,656 by \$48,661,125.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

NET PENSION LIABILITY OF THE CITY

As disclosed in note 12, the City of Danville, Virginia (City) had a net pension asset of \$57,237,232 based on the market value of ERS assets of \$242,736,781 at June 30, 2014. Note 12 is a new note disclosure required for financial reporting purposes under Government Accounting Standards Board Statement No. 67, which is discussed in note 3.

ASSET ALLOCATION

The table below indicates the policy trend asset allocation for June 30, 2014, 2013 and 2012.

ASSET ALLOCATION TREND

	<u>Target Allocation</u>	<u>Actual Allocation</u>		
		<u>2014</u>	<u>2013</u>	<u>2012</u>
Equity				
Domestic	50%	56%	54%	50%
International	15%	14%	14%	13%
Emerging Markets	10%	9%	9%	10%
Private Equity	-	1%	2%	2%
Bonds	20%	15%	16%	18%
Real Estate	5%	4%	4%	5%
Cash	-	1%	1%	2%
Total	100%	100%	100%	100%

INVESTMENT ACTIVITIES

Investment income is vital to the Plan's current and continued financial stability. Therefore, trustees have a fiduciary responsibility to act prudently and discreetly when making Plan investment decisions. To assist the Board in this area, a comprehensive formal investment policy is updated periodically. As managers and asset classes have been added, specific detailed investment guidelines have been developed, adopted and included as an addendum to each manager's Investment Agreement. The plan is governed by the Code of the City of Danville.

Portfolio performance is reviewed quarterly by the Board and its consultants. Performance is evaluated individually by money manager style, collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international equities, emerging market equity, private equity, fixed income, and real estate.

A schedule reflecting the current year and five-year average performance is available on page 38.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

ECONOMIC FACTORS

Since the primary function of the pension trust is to (a) appropriately award and pay benefits and (b) manage investments, the demonstration of opportunities available considering various investment choices is invaluable in the asset allocation and money manager oversight.

Growth in the market resulted in a net appreciation in the fair value of investments of \$37,490,347 in fiscal year 2014 and \$21,226,441 in fiscal year 2013.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, plan participants and the marketplace's credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any question regarding this report or need additional financial information, please contact the City's Director of Finance, P.O. Box 3300, Danville, Virginia 24543.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
STATEMENTS OF FIDUCIARY NET POSITION
As of June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash	\$ 24,151	\$ 3,001
Receivables		
Accrued interest and dividends	47,038	64,944
Investments - at fair value		
Common stocks and common stock funds	158,280,893	132,184,111
Corporate bonds and bond funds	35,301,332	34,217,003
Foreign stock funds	34,087,627	28,148,403
Real estate - timberland and timberland funds	9,303,880	9,161,960
Temporary cash investments	2,895,839	1,303,741
Private equity funds	3,079,398	3,709,733
Total investments	242,948,969	208,724,951
Total assets	243,020,158	208,792,896
LIABILITIES		
Accounts payable	283,377	172,106
Net position restricted for pension benefits	\$ 242,736,781	\$ 208,620,790

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

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Additions		
Employer contributions	\$ 5,849,278	\$ 5,280,687
Investment income		
Net appreciation in fair value of investments	37,490,347	21,226,441
Interest	73,071	79,551
Dividends	2,096,393	2,382,251
Total investment income	39,659,811	23,688,243
Less - investment expense	(903,563)	(826,641)
Net investment income	38,756,248	22,861,602
Total additions	44,605,526	28,142,289
Deductions		
Benefits paid to participants	10,345,166	10,032,957
Refunds to former members	34,958	74,438
Administrative expenses	109,411	107,025
Total deductions	10,489,535	10,214,420
Net change	34,115,991	17,927,869
Net position restricted for pension benefits:		
Beginning of year	208,620,790	190,692,921
End of year	\$ 242,736,781	\$ 208,620,790

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

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. 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 of a single-employer defined benefit pension plan. As such, the ERS functions as an investment and administrative agent for the City with respect to the plan. The ERS is a fiduciary fund and is included in the City's Comprehensive Annual Financial Report as a pension trust fund.

All full-time employees of the City, excluding School Board employees and elected officials and their employees (who are covered under the Virginia Retirement System), are eligible to participate. Upon becoming a regular, full-time employee of the City, each employee is classified as a "general employee" or as a "public safety employee" (uniformed police and fire personnel). The two employee classes have different pension benefits and early service retirement allowances. As of June 30, 2014, employee membership in the ERS was as follows:

	General Employees	Public Safety Employees	Total
Retirees and beneficiaries currently receiving benefits	427	138	565
Terminated employees entitled to benefits but not yet receiving them	186	58	244
	613	196	809
Active plan participants:			
Vested	495	202	697
Nonvested	193	44	237
	688	246	933
	1,301	442	1,743

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

For a general employee, the retirement allowance consists of an annuity equal to the amount provided by the contributions of the member up to the time of his or her retirement, plus a pension which will total an amount equal to 1.42% of \$9,500, plus 1.82% of the part of the three-year average salary in excess of \$9,500, multiplied by the number of years of creditable service. A general employee with at least five years of service may retire early after reaching the age of 55 and receive reduced benefits.

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% of the final three-year average salary multiplied by

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

2. Summary of Significant Accounting Policies

The Reporting Entity

The ERS is financially dependent on the City of Danville, Virginia to provide such amounts as necessary, based on actuarial determinations, to provide the ERS with assets sufficient to cover the plan's current costs and to fund any past service costs. The Board is comprised of nine members: three are appointed by Danville City Council, three members elected by City employees who are members of the ERS, the Mayor or his designee, the City Manager, and the Director of Finance. The ERS provides services solely to the City. The ERS has no component units as defined by accounting principles generally accepted in the United States of America.

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, for pension plans that are administered through trusts or equivalent arrangements. Contributions from the City are recognized as revenue when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment income is recognized as it is earned. The net appreciation or depreciation in the fair value of investments held by the ERS is recorded as an increase or decrease in investment income based on the valuation of investments as of the date of the statement of fiduciary net position.

Investments

Investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the statement of fiduciary net position. The fair value of the real estate - timberland is based on an independent appraisal from the investment manager. Commingled funds are reported at net asset value (NAV), based on the quoted market prices of the

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

underlying securities of the fund. Private equity partnerships are valued using their respective NAV. The most significant input into the NAV of such an entity is the estimated fair value of its investment holdings. These holdings are valued by the general partners on a quarterly basis and audited annually, in accordance with applicable financial reporting standards.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Costs of Administering the Plan

Certain administrative expenses are now being paid from the trust fund. The costs of administering the plan are financed by investment revenues. These expenses are not considered to be material and are not explicitly stated in the valuation.

3. New GASB Standard

In the fiscal year ending June 30, 2014, the ERS adopted GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). The objective of GASB 67 is to improve the usefulness of pension information included in the financial reports of state and local governmental pension plans for making decisions and assessing accountability. GASB 67 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB 67 replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. GASB 67 requires changing the presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The total and net pension liability, determined in accordance with GASB 67, is presented in Note 12 and in the Required Supplementary Information section.

4. Protection of Public Deposits

At year end, the carrying value of the ERS' deposits with banks was \$24,151 and the bank balance was \$138,741. The bank balance was covered by federal depository insurance.

Under the provisions of the Virginia Security for Public Deposits Act (Act), banks holding public deposits in excess of the amounts insured by federal depository insurance must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board can assess additional collateral from participating financial institutions to cover collateral shortfalls in the event of default. The Board is also responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by financial institutions.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

5. Investments

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

In accordance with these guidelines, investments are reported at fair value. Temporary cash investments are reported at cost, which approximates fair value. Each advisor has been apportioned funds assuming that they will be fully invested in his assigned sector with no more than 5-10% in cash equivalents. Securities traded on national or international exchanges are valued at quoted market prices as of the date of the statement of fiduciary net position. The fair value of the real estate - timberland investment is based on an independent appraisal.

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

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

This target mix has been chosen for the aggregate total portfolio. From time to time, the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations be kept to a minimum. From time to time, the Trustees may redeploy assets among the managers to balance the portfolio in accordance with the above target. 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, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 19.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Interest Rate Risk

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

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 – 6	6 – 10	More than 10
Collateralized mortgage Obligations (CMOs)	\$ 175,946	\$ -	\$ -	\$ -	\$ 175,946
Non-government backed CMOs	1,128,428	-	-	-	1,128,428
	<u>1,304,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,304,374</u>
Temporary cash investments	2,895,839	-	-	-	-
Total – subject to interest rate risk		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,304,374</u>
Bond funds– maturity not determined	<u>33,996,958</u>				
Total – subject to interest rate risk	<u>\$ 38,197,171</u>				

Market or interest rate risk is the risk that interest rate changes will adversely affect the value of a debt security, because the price of a debt security typically moves in the opposite direction of the change in interest rates.

The ERS does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ERS's formal investment policy requires a minimum rating of A by Standard and Poor's for any corporate bond.

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

Rating	Fair Value
B	\$ 53,388
BB	80,090
CC	195,251
CCC	258,174
D	585,336
Not rated – bond funds	<u>37,024,932</u>
Total	<u>\$ 38,197,171</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Concentration of Credit Risk

The ERS's formal policy limits investments in any corporate entity to 5% 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 ERS did not have any single investment over 5% 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 ERS 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 ERS had non-marketable alternative investments that have associated unfunded commitments at June 30, 2014. These investments were in private equity, which had a fair value of \$3,079,398 and unfunded commitments of \$3,640,177 at June 30, 2014.

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

6. Contribution Information

Contributions made by the City on behalf of active members are established by the City of Danville, based on actuarial estimates (performed annually on July 1) of future plan benefits to be paid. Since March 1, 1979, employees' contributions have been paid by the City. Contributions for employees hired after September 30, 1991 are considered to be 100% City contributions. These contributions, like the City's portion of pre-October 1, 1991 employees, vest after five years of creditable service. The contribution rate made on behalf of active members is currently 5% of compensation for general employees and 6.5% of compensation for public safety employees.

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

For the year ended June 30, 2014, the City's total payroll for all employees was \$46,715,919 and the City's total covered payroll amounted to \$38,027,568, of which \$26,935,980 was for general employees and \$11,091,588 was for public safety employees. Covered payroll refers to all compensation paid by the City to active employees covered by the ERS on which contributions to the plan are based.

Contributions to the pension plan are determined on an actuarial basis using the entry age normal method. Under this method, actuarial gains or losses are reflected immediately through a change in the unfunded actuarial accrued liability. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a 30-year period. Periodic contributions are on the level percentage of payroll method. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Total contributions to the pension plan for the year ended June 30, 2014 amounted to \$5,849,278, of which \$528,517 was made by the City on behalf of its employees. The contributed amounts were based on a percentage of actuarially determined amounts as described above and were based on an actuarial valuation for the prior period. The total pension contributions represent funding for normal cost. Contributions made by the City represent 15.4% of covered payroll for the year, and includes amounts paid on behalf of employees.

A variety of significant actuarial assumptions are used to determine the pension contribution requirements. These assumptions are summarized below:

- a. The present value of future pension payments was computed by using a discount rate of 7.0%, compounded annually. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- b. Future pension payments reflect an assumption of a 2% salary increase attributable to inflation, and 2% attributable to seniority/merit. The percentage increases are compounded annually, and are for both general and public safety employees.
- c. An annual cost-of-living adjustment of 0% per year is assumed. In December 2012, Danville City Council approved an ordinance amending the Code of the City of Danville, Virginia to state that retirees will no longer receive cost-of-living adjustments.
- d. The RP-2000 Mortality Table is used to determine the rate of mortality for healthy lives. The RP-2000 Mortality Table For Disabled Lives is used to determine mortality for disabled lives.
- e. The rate of disability for general employees is 200% of the United Auto Workers Disability rates. The rate for public safety employees is 400%.
- f. It is assumed that general employees will retire by the age of 65 and that public safety employees will retire by the age of 60. The probability of early retirement is considered for general employees between the ages of 55 and 65 and for public safety employees between the ages of 55 and 60.
- g. For the purpose of valuing death benefits, all male employees are assumed to be married to a spouse three years younger, and all females are assumed to be married to a spouse three years older.
- h. For purposes of determining projected benefits payable from member contributions, those contributions are assumed to earn 5% compounded annually.

7. Soft Dollar Transactions

Portfolio managers for the ERS reported there were approximately \$283,842 soft dollar transaction commissions (as defined by the Code of VA Section 51.1-1000) for the year ended June 30, 2014 and \$300,490 for the year ended June 30, 2013.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

8. Plan Termination

The Employees' Retirement System of the City of Danville, Virginia is administered in accordance with the provisions of the Code of the City of Danville, 1962, as amended by Section 32.1. Should the retirement plan be terminated, or contributions to the plan be completely discontinued, the rights of each member to benefits accrued to the date of such termination or discontinuance, to the extent then funded, or the rights of each member to the amounts credited to his account at such time, are nonforfeitable.

9. Tax Status of Plan

All plan changes to the ERS are reviewed by the actuaries and based on this review, management believes the ERS's plan to be qualified under Section 401 of the Internal Revenue Code and the trust to be exempt from income tax on related business income under Section 501 (a).

10. Risk Management

The ERS 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.

For all other risks of loss, the ERS participates in the City of Danville, Virginia's insurance coverage. The fleet insurance, public official and commercial general liability insurance is provided under a pooled agreement with the Virginia Municipal Liability Pool (a public entity risk pool). The pool has paid policy dividends on a regular basis. If the pool should be in a deficit condition, it may levy an additional pro-rata assessment to members of the pool, which may not exceed twice the members' annual contributions.

11. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of net position available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

12. Net Pension Liability of the City

The components of the net pension liability at June 30, 2014 are as follows:

Total pension liability	\$185,499,549
Plan fiduciary net position	<u>242,736,781</u>
City's net pension liability (asset)	<u>(\$ 57,237,232)</u>
Plan fiduciary net position as a percentage of the total pension liability	130.9%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of July 1, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Healthy Annuitant Mortality Tables.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience analysis during the 2000 to 2010 time period.

Long-term expected rate of return. The long-term expected rate of return on pension plan 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. 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, 2014 (see the discussion of the pension plan's investment policy) and the final investment return assumption are summarized in the following table:

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Domestic equity	5.60%	50.00%
International equity - developed	5.70%	15.00%
International equity - emerging	7.10%	10.00%
Fixed income - U.S. investment grade	1.80%	20.00%
Fixed income - U.S. high yield	3.90%	0.00%
Fixed income - International	0.80%	0.00%
Commodities	3.30%	0.00%
Real estate	4.20%	5.00%
Private equity	7.90%	0.00%
Cash	0.50%	0.00%
Total weighted average real return	4.60%	
Plus inflation	3.00%	
Total return without adjustment	7.60%	
Risk adjustment	(0.60%)	
Total expected return	7.00%	

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.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated 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 1.00% lower (6.00%) or 1.00% higher (8.00%) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
City's net pension liability (asset)	(\$ 37,203,719)	(\$ 57,237,232)	(\$ 75,633,592)

**REQUIRED
SUPPLEMENTARY INFORMATION
SECTION**



EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Year Ended June 30, 2014

	2014
Total pension liability	
Service cost	\$ 3,141,494
Interest	12,480,764
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(10,380,124)
Net change in total pension liability	5,242,134
Total pension liability - beginning	180,257,415
Total pension liability - ending (a)	\$ 185,499,549
Plan fiduciary net position	
Employer contributions	\$ 5,849,278
Net investment income	38,756,248
Benefit payments, including refunds of member contributions	(10,380,124)
Administrative expenses	(109,411)
Other	-
Net change in plan fiduciary net position	34,115,991
Plan fiduciary net position - beginning	208,620,790
Plan fiduciary net position - ending (b)	\$ 242,736,781
City's net pension liability (asset) - ending (a) - (b)	\$ (57,237,232)
Plan fiduciary net position as a percentage of the total pension liability (asset)	130.9%
Covered employee payroll	\$ 38,027,568
City's net pension liability (asset) as a percentage of covered employee payroll	-150.5%

See Notes to Schedules on page 33.

This is a new schedule required to be presented beginning in fiscal year 2014 by Governmental Accounting Standards Board Statement No. 67. Data is not readily available for the fiscal years preceding fiscal year 2014 and is, therefore, not presented. As data is accumulated in the following years, it will be presented here in a schedule of the last ten fiscal years.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF CITY CONTRIBUTIONS
Year Ended June 30, 2014

	<u>2014</u>
Actuarially determined contribution	\$ 6,236,141
Contributions in relation to the actuarially determined contribution	5,849,278
Contribution deficiency (excess)	<u>\$ (386,863)</u>
Covered employee payroll	\$ 38,027,568
Contributions as a percentage of covered employee payroll	15.38%

See Notes to Schedules on page 33.

This is a new schedule required to be presented beginning in fiscal year 2014 by Governmental Accounting Standards Board Statement No. 67. Data is not readily available for the fiscal years preceding fiscal year 2014 and is, therefore, not presented. As data is accumulated in the following years, it will be presented here in a schedule of the last ten fiscal years.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF INVESTMENT RETURNS
Year Ended June 30, 2014

2014

Annual money-weighted rate of return, net of investment expense	19.0%
--------------------------------------------------------------------	-------

Notes to schedules:

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% 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

This is a new schedule required to be presented beginning in fiscal year 2014 by Governmental Accounting Standards Board Statement No. 67. Data is not readily available for the fiscal years preceding fiscal year 2014 and is, therefore, not presented. As data is accumulated in the following years, it will be presented here in a schedule of the last ten fiscal years.



SUPPLEMENTARY INFORMATION

SECTION



EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULES OF EXPENSES
Year Ended June 30, 2014

SCHEDULE OF INVESTMENT EXPENSES

Investment management services	\$	813,085
Investment consultant services		62,500
Investment custodial services		27,978
		903,563
Total investment expense	\$	903,563

SCHEDULE OF ADMINISTRATIVE EXPENSES

Staff salaries	\$	48,640
Payments to consultants		23,820
General liability insurance		15,604
Employer's retirement contributions		6,851
Postage		4,730
Office supplies		3,991
Employer's social security		3,440
Travel		1,725
Printing and publications		610
		109,411
Total administrative expense	\$	109,411

SCHEDULE OF PAYMENTS TO CONSULTANTS

Firm	Fee	Service
Boomershine Consulting	\$ 14,450	Actuary
Dixon Hughes Goodman LLP	6,095	Audit
Brown, Edwards and Company, LLP	2,000	Audit
Various doctors	1,275	Medical
	23,820	
Total payments to consultants	\$	23,820

See report of independent auditors.



**INVESTMENT
SECTION**





September 12, 2014

Board of Trustees
City of Danville, Virginia Employees'
Retirement System
418 Patton Street, 3rd floor
Danville, Virginia 24543

Ladies and Gentlemen:

The City of Danville Virginia Employees' Retirement System was created to provide retirement benefits for those employees who have earned a pension from the City. The Trustees, to set up the plan in a prudent manner, have issued policy and guidelines for their advisors. Under these guidelines the System can invest in common and preferred stocks traded on any major exchanges, U.S. Government or agency issued bonds, corporate bonds rated A or better at the time of purchase, commercial paper rated A1-P1, mortgage and asset backed securities including collateralized mortgage obligations limited to unleveraged priority or sequential pay tranches and subject to the quality rating limitations for all debt securities, Rule 144-A corporate bonds rated A or better at the time of purchase with the rights of registration attached. International investment managers may purchase international equity securities in ADR form or in direct form. Additionally, private equity investments in domestic companies are now permitted.

To maintain a diversified plan, the Trustees have set forth certain limitations in the policy and guidelines document. The maximum of total bond holdings in any one corporation should not exceed 10% of the long-term indebtedness of that corporation. Managers should advise the Trustees if an equity holding exceeds 15% of the advisor's portfolio. International managers may invest no more than 20% of total assets in any one developed country, except Japan where the maximum is 25%. A maximum of 20% of the portfolio can be in emerging market countries. No more than 5% of the assets should be in any one company without prior written approval. Investment advisors should not hold for their accounts in aggregate more than 5% of the outstanding shares of a company.

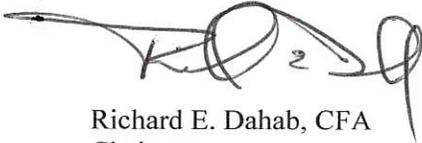
The System is well diversified by security, by asset class, by investment manager and investment manager style. Current policy (adopted August 1997 and most recently amended November 15, 2006) allows for a target investment in domestic equities of 50%, international equities of 15%, emerging markets of 10%, real estate (timber) of 5% and bonds of 20%.

The Trustees have engaged Dahab Associates, Inc. to calculate and monitor the returns on a regular basis. We have calculated the rates of return from monthly statements provided by the custodian bank. The returns are reported gross of management and custodian fees, but net of

transaction costs. All return calculations are monthly, time weighted and comply with the ICFA's GIPS standards and the Bank Administration Institute's methodology.

In the fiscal year ending June 30, 2014, the fund earned 19.4%. For the three and five year periods, the System has earned 9.9% and 12.8% respectively. For the longer ten year period the Fund earned a return of 6.9% per annum. Risk characteristics for the portfolio and its components are calculated quarterly using appropriate statistical methodologies.

Respectfully,

A handwritten signature in black ink, appearing to read 'Richard E. Dahab', with a stylized flourish at the end.

Richard E. Dahab, CFA
Chairman

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
OUTLINE OF INVESTMENT POLICIES
June 30, 2014

General

The purpose of the fund is to provide for the accumulation of money in an actuarially sound fashion so that burden on the taxpayers will be spread over the employees' service. The investment policies are designed to set forth the policies and guidelines for those who administer and invest the funds in the portfolio.

Overall Goal

The compound rate of return (net of fees) over a long period of 7.5%.

A real rate of return of at least 2% above the average rate of inflation as measured by the Consumer Price Index over a four year period.

Asset Allocation

Based upon market value	<u>Actual</u>	<u>Target</u>
Domestic Equities	56 %	50 %
International Equities	14 %	15 %
Emerging Markets	9 %	10 %
Bonds	15 %	20 %
Real Estate	4 %	5 %
Cash	1 %	- %
Private Equity	1 %	- %

Each advisor is apportioned funds in his assigned sector and may have no more than 10% in cash equivalents. If an advisor feels there are insufficient investment opportunities within his style of investing because of current market conditions and these conditions will exist for more than a calendar quarter, he should notify the Trustees. At their discretion, the manager may be granted the option of holding a significant percentage of assets in cash equivalents or they may choose to redeploy the uninvested funds temporarily until the advisor wishes to invest them.

Investment Program

Each advisor has been hired to invest according to a philosophy and/or investment program he has proposed. Unless otherwise limited by statute or by the requirements set forth herein, the manager has full discretion to execute his stated philosophy. The advisor is not expected to deviate from that philosophy without the express consent of the Trustees.

Specific parameters are established, for the quality and type of investments, which may be purchased within each sector of investments. To service diversification, other guidelines are established so the investment of the system will not represent a significant position in any company's outstanding stock or bonds. No diversification is needed for U.S. government or agency funds.

Each advisor is authorized to vote proxies in a manner deemed to be in the best interest of participants in the System unless specific direction is provided by the Trustees.

Monitoring Performance

The Board of Trustees, with the assistance of an investment consultant, reviews the performance of the investment advisors and systematically meets on a quarterly basis to review and evaluate performance.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
INVESTMENT RESULTS
June 30, 2014

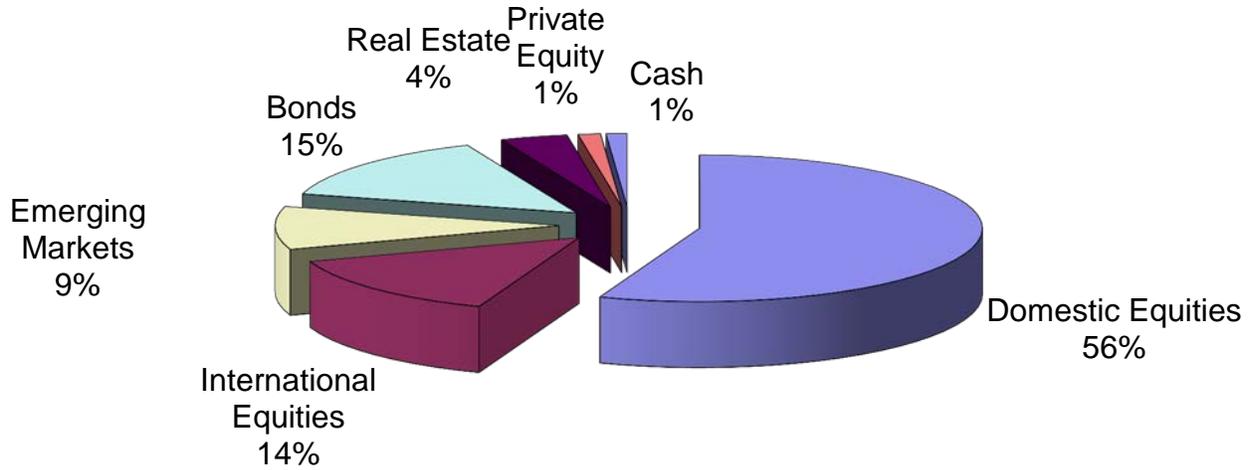
The following schedule compares rates of return for the ERS portfolio with appropriate benchmark indices. The ERS rate of return is gross of fees and is time-weighted to eliminate the influence of contributions and withdrawals which are not controlled by investment managers. It is generally accepted as a useful method of comparing the performance of various fund managers since it measures factors within their control.

	Current Year 6/30/2014	Annualized 3 - Year	Annualized 5 - Year
ERS Total Portfolio	19.40 %	9.90 %	12.80 %
ERS Domestic Equity Segment	25.20 %	16.40 %	18.50 %
S & P 500 Index	24.60 %	16.60 %	18.80 %
Russell 3000 Index	25.20 %	16.50 %	19.30 %
Russell 1000 Growth Index	26.90 %	16.30 %	19.20 %
Russell 1000 Value Index	23.80 %	16.90 %	19.20 %
ERS International Equity Segment	22.10 %	5.00 %	9.40 %
MSCI EAFE Index	24.10 %	8.60 %	12.30 %
ERS Emerging Markets Equity Segment	19.10 %	4.00 %	13.00 %
MSCI Emerging Markets Index	14.70 %	-0.01 %	9.60 %
ERS Fixed Income Segment*	4.30 %	3.90 %	5.50 %
Barclays Aggregate Bond Index (Formerly Lehman Brothers)	4.40 %	3.70 %	4.90 %
ERS Real Estate Segment	1.50 %	0.20 %	0.40 %
NCREIF Index	9.90 %	6.70 %	3.30 %
ERS Private Equity Segment	17.80 %	12.40 %	17.50 %
Cambridge Private Equity Index	15.50 %	12.50 %	16.30 %

* Includes Government and Agency Issues

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
ASSET ALLOCATION
 June 30, 2014

Asset Allocation



Domestic Equities
 International Equities
 Emerging Markets
 Bonds
 Real Estate
 Private Equity
 Cash

	<u>Value</u>	<u>Percent</u>
Domestic Equities	\$ 135,338,081	56%
International Equities	34,087,627	14%
Emerging Markets	22,942,812	9%
Bonds	35,301,332	15%
Real Estate	9,303,880	4%
Private Equity	3,079,398	1%
Cash	<u>2,895,839</u>	<u>1%</u>
Totals	<u>\$ 242,948,969</u>	<u>100%</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
LIST OF LARGEST ASSETS HELD
Year Ended June 30, 2014

Largest Stock Holdings (By Market Value)

	Shares	Stock		Market Value
1)	28,300	Wells Fargo & Co.	\$	1,487,448
2)	50,300	General Electric Co.		1,321,884
3)	22,400	JPMorgan Chase & Co.		1,290,688
4)	16,500	Amerisourcebergen Corp.		1,198,890
5)	9,000	Chevron Corp.		1,174,950
6)	13,100	ConocoPhillips		1,123,063
7)	11,200	Hess Corp.		1,107,568
8)	17,100	Discover Financial Services		1,059,858
9)	11,200	Apple Inc.		1,040,816
10)	10,400	Dover Corp		945,880

Largest Bond Holdings (By Market Value)

	Par	Bonds		Market Value
1) \$	10,740,517	CF Panagora BD Index FD GT	\$	33,996,958
2)	135,000	Commercial Mortgage-Backed Mtg Tr 2007-GG11 Mtg		122,558
3)	118,056	Commercial Mortgage-Backed Wells Fargo Mtg Backed Secs		115,393
4)	114,667	Commercial Mortgage-Backed WAMU Mtg Pass-through CTFS 2005		111,350
5)	116,710	Commercial Mortgage-Backed Master Adj Rate Mtgs Tr		107,156
6)	108,137	Commercial Mortgage-Backed WAMU Mtg Pass-thru CTFS		94,389
7)	104,214	Commercial Mortgage-Backed CHL Mtg Pass-thru Tr 2007		91,726
8)	107,910	Commercial Mortgage-Backed Citigroup Mtg Ln Tr		87,920
9)	84,974	Commercial Mortgage-Backed WAMU Mtg Pass-thru CTFS		83,901
10)	80,040	Commercial Mortgage-Backed WA MUT Mtg Secs Corp 2005		80,090

A complete list of portfolio holdings is available upon request.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FEES AND COMMISSIONS
Year Ended June 30, 2014

	<u>Assets Under Management at 6/30/14 (at Market Value)</u>	<u>Fees And Commissions Paid</u>
INVESTMENT MANAGERS' FEES		
<u>Equity Managers</u>		
Loomis, Sayles and Company, L.P.	\$ 36,199,272	\$ 140,870
Invesco Global Asset Management, Inc.*	-	184,557
CS McKee Investment Managers	35,456,982	184,275
State Street Global Advisors	24,740,085	17,375
Lazard Asset Management	39,986,625	213,505
HGK Asset Management	17,043,814	-
Hamilton Lane	3,388,949	-
 <u>Mutual Fund Manager</u>		
PanAgora Asset Management, Inc.	74,627,900	52,748
 <u>Real Estate Manager</u>		
Regions Timberland Group	9,303,880	<u>19,755</u>
Total investment managers' fees		<u>\$ 813,085</u>
 OTHER INVESTMENT SERVICE FEES		
<u>Investment Custodian</u>		
The Northern Trust Company		\$ 27,978
 <u>Investment Consultant</u>		
Dahab Associates, Inc.		<u>62,500</u>
Total other investment service fees		<u>\$ 90,478</u>
Total investment expense		<u>\$ 903,563</u>

BOARD OF TRUSTEES

The members of the Board of Trustees serve without compensation.

*Manager terminated during the fiscal year.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF COMMISSIONS
Year Ended June 30, 2014

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share
Instinet	112,910	\$ 2,258	\$ 0.020
* Other Commissions	88,900	1,778	0.020
Total Commissions	201,810	\$ 4,036	

* Other commissions includes all brokers with total commissions less than \$2,000 for the fiscal year end.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
INVESTMENT SUMMARY
Year Ended June 30, 2014

<u>Type of Investment</u>	<u>Market Value</u>	<u>Percent of total Market Value</u>
Fixed Income:		
Corporate Bonds	\$ 35,301,332	14.53%
Common Stock:		
Equity Index Fund	123,115,237	50.67%
Foreign	34,087,627	14.03%
Financial and Utility	14,911,834	6.14%
Consumer and Services	4,923,088	2.03%
Industrials	5,169,214	2.13%
Healthcare and Pharmaceuticals	5,035,315	2.07%
Technology	5,126,205	2.11%
Total Common Stock	<u>192,368,520</u>	<u>79.18%</u>
Alternative Investments:		
Timberland	9,303,880	3.83%
Private Equity	3,079,398	1.27%
Total Alternative Investments	<u>12,383,278</u>	<u>5.10%</u>
Short-term Investments:		
Cash and Cash Equivalents	2,895,839	1.19%
Total investments	<u>\$ 242,948,969</u>	<u>100.00%</u>



**ACTUARIAL
SECTION**



October 29, 2014

Board of Trustees
Employees' Retirement System of the City of Danville
Danville, Virginia

Dear Board Members:

We respectfully present in this report the results of our actuarial valuation.

This report's principal purposes are:

- to provide information about the financial condition of your Plan,
- to provide actuarial guidance for determining contributions to the fund,
- to determine if any changes in plan provisions are appropriate or desirable, and
- to provide information needed by your auditors and government agencies.

Actuarial valuations of the Employees' Retirement System of the City of Danville are performed annually. The results of the latest actuarial valuation of the Retirement System, prepared as of July 1, 2014, are presented in this report.

The valuation reflects the benefits in effect on the valuation date and has been prepared on the basis of the data submitted by the City. The actuarial assumptions are the same as those used in the previous valuation of the Retirement System.

Financing Objective and City's Contribution Rate

The financing objective of the Retirement System is to:

- (a) fully fund all current costs based on the normal contribution rate payable by the City determined under the funding method; and
- (b) amortize the unfunded accrued liability, if any, based on accrued liability contributions payable by the City over an amortization period of thirty years.

On the basis of the current valuation, we recommend the pension cost of the Retirement System for the fiscal year ending June 30, 2015 be based on a total contribution rate of 7%, which represents the normal cost plus a 30-year rolling amortization to the year 2044 of the Unfunded Accrued Liability (see page 28). The value of assets used to determine this contribution rate is 80.0% of market value.

City Assets and Participation Data

The individual data for members of the Retirement System as of the valuation date were reported to the actuary by the City. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. The amount of current assets in the trust fund used in the valuation was based on statements prepared for us by the secretary of the Retirement System.

Actuarial Assumptions and Methods

Effective July 1, 1994, the Entry Age Normal method was adopted as the actuarial cost method. The actuarial assumptions used for the July 1, 2014 valuation were adopted effective July 1, 2010. Included in this report is a schedule, which presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results. In our opinion, each actuarial assumption used in the valuation is reasonable taking into account the experience of the Retirement System and reasonable expectations.

Effective July 1, 2013, the City passed a Resolution to not grant any post retirement cost of living increases to Retirees of the Employees' Retirement System. This change had been accounted for in last year's Valuation.

The actuarial assumptions used for this valuation were selected by the Board with the recommendation of the actuary. The assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section as defined in GASB Statement No. 25.

For valuation purposes, assets are valued by the 5-Year Moving Average method. Samples of the actuarial assumptions, and descriptions of the actuarial cost method and asset cost method are set forth in the outline of actuarial assumptions and methods included in the report.

Unfunded Accrued Liability

The unfunded accrued liability represents the present value of the portion of benefits accrued to the valuation date with respect to active members, retired members, contingent annuitants in receipt of annual retirement allowances, and terminated members entitled to annual deferred vested allowances, adjusted for experience gains and losses, which is not covered by the current assets of the Retirement System.

The unfunded accrued liability (surplus) amounts to (\$6,143,467) as of July 1 2014 which is comprised of (i) an expected unfunded accrued liability of \$1,790,190 as of July 1, 2014, plus (ii) net actuarial gains/(losses) of \$7,933,657 due to the overall Retirement System experience during the year ending June 30, 2014.

Funding Adequacy

The results of the valuation indicate that the rate of contribution payable by the City, when taken together with the current assets of the Retirement System, are adequate to fund the actuarial liabilities on account of all benefits payable under the Retirement System.

Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the exhibits which are presented in the body of the report.

Actuarial Information for Comprehensive Annual Financial Report

We prepared the following schedules which are used in the Comprehensive Annual Financial Report:

- Summary of Principal Plan Provisions
- Schedule of Actuarial Assumptions and Methods
- Development of Unfunded Liability

We have also provided information used in the preparation of the following schedules included in the report:

- Schedule of Active Member Valuation Data
- Schedule of Accrued and Unfunded Accrued Liabilities
- Solvency Test
- Schedule of Recommended vs. Actual Contributions
- Schedule of Actuarial Present Value of Credited Projected Benefits
- Analysis of Financial Experience

We prepared the following Trend Data Schedules presented in the Financial Section of the Comprehensive Annual Report:

- Schedule of Funding Progress
- Schedule of Employer Contribution

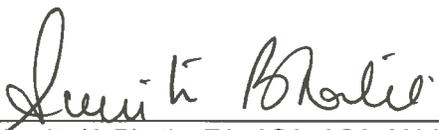
For your convenience, we have summarized the highlights and essential results of the valuation in the Summary of Results found in Part I. The Table of Contents following this letter outlines the text and tables included in this report.

Respectfully submitted,

Boomershine Consulting Group, L.L.C.



David S. Boomershine, EA, MAAA, MSPA, FCA



Sunita K. Bhatia, EA, ASA, ACA, MAAA

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PRINCIPAL PLAN PROVISIONS
June 30, 2014

The following summary describes plan provisions assumed in calculating the cost of your pension plan.

General Information

Original Effective Date: January 1, 1946 as amended through July 1, 2014.

Eligibility

Prior to October 1, 1991, all regular, full-time employees of the City (as defined in the Ordinance) become members of the Retirement System as a condition of continuing employment as of the first day of the calendar month coincident with or next following the completion of one year of continuous service. Any employee on October 1, 1991, who is not a member on October 1, 1991, became a member as of that date; however, an Annuity Savings Account B shall not be established for such an employee until the first day of the calendar month following completion of one year of continuous service. New employees hired after October 1, 1991 shall become members upon the first day of the calendar month coincident with or next following date of employment. No Annuity Savings Account B will be established for new or rehired employees hired after October 1, 1991.

Upon becoming a member, each employee shall be classified as a "General Employee" or as a "Policeman or Fireman" by the Board of Trustees.

Creditable Service

Creditable service shall equal total years of service with the City, including certified service prior to 1946 (known as "prior service"), the one year of service prior to becoming a member of the System, and up to a maximum of one year for accumulated sick leave. However, service will not be credited for service prior to a break in membership.

An employee has a break in his membership if one of the following events occurs:

1. Death
2. Absence from service for any five years out of a six consecutive year period.
3. Retirement
4. Withdrawal of member contributions.

Service will not be interrupted by a period of service in the Armed Forces of the United States under which employment rights are granted.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PRINCIPAL PLAN PROVISIONS
June 30, 2014

Normal Service Retirement Age

For members hired after December 7, 1999, the normal service retirement age is the later of the age at which the member has five or more years of creditable service or age sixty-five for General Employees and age sixty for Policemen and Firemen. For members hired on December 7, 1999 or earlier, the normal service retirement age is age sixty-five for General Employees and age sixty for Policemen and Firemen.

Any member who has attained his normal service retirement age is retired on a service retirement allowance on the first day of the calendar month following the attainment of such age. Extensions of service beyond normal service retirement age may be granted at the request of the employee's department head, if approved by the City Council.

Service Retirement Allowance

The retirement allowance consists of:

An annuity equal to the amount provided by the contributions of the member at the time he retires, plus

In the case of a General Employee, a pension which, together with his annuity, will provide a total amount equal to $\frac{1}{55}$ of the average final compensation of the member, multiplied by the number of years of his creditable service prior to January 1, 1956 (not counting "prior service"), and 1.42% of the part of such compensation not in excess of \$9,500, plus 1.82% of the part of such compensation in excess of \$9,500 multiplied by the number of years of his creditable service after December 31, 1955. In the case of a Policeman or Fireman, a pension which, together with his annuity, will provide a total amount equal to $\frac{1}{50}$ of the average final compensation of the member multiplied by the number of years of his creditable service excluding "prior service" (see below).

The allowance of any General Employee who did not elect to reduce his contributions with respect to the first \$4,200 of each year's salary when first eligible to do so is to be increased by the actuarially equivalent value of additional accumulated contributions resulting from not having made such election; the pension of any Policeman or Fireman in service on January 1, 1957, who did not elect to increase his contributions is to be reduced by the actuarial equivalent of the amount by which his accumulated contributions would have been increased had he elected to pay such increased contributions.

If the member has credit for prior service, an additional pension is payable which in the case of a General Employee is to be equal to 1.42% of the part of his average final compensation not in excess of \$9,500, plus 1.82% of the part of such compensation in excess of \$9,500, multiplied by the number of years of such prior service credit. In the case of a Policeman or Fireman, an additional pension is payable equal to $\frac{1}{50}$ of the average final compensation of the member multiplied by the number of years of such prior service credit.

The minimum pension for any member shall be a pension which, together with his annuity, will provide an amount equal to 1.35% of the average final three-year compensation multiplied by his years of creditable service.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PRINCIPAL PLAN PROVISIONS
June 30, 2014

Delayed Retirement

A member may continue in the employment of the City until he files notice of his intention to retire. In such event, he will receive at actual retirement or death a retirement benefit based on compensation and service to his actual retirement date.

Average Final Compensation

“Average Final Compensation” means the member’s average earnable compensation during the three consecutive years of creditable service which will produce the highest average, or during all his creditable service if the member has less than three years (five-year average for members retiring or terminating prior to December 7, 1999).

Accrued Benefit

A member’s accrued benefit at any time prior to the normal service retirement age is a benefit computed as described in Service Retirement Allowance above based on average compensation and creditable service as of the accrual date. The annuity portion of this benefit is the actuarial equivalent of the member’s accumulated contributions, and the pension portion is the difference between the accrued benefit and the annuity.

Early Service Retirement Allowance

After the attainment of age fifty-five and five years of creditable service, a Policeman, Fireman or General Employee may retire early. For a Policeman, Fireman, or General Employee hired on or before December 7, 1999, the member may retire early after attainment of age fifty-five.

The member may receive a monthly benefit for life beginning at his normal service retirement age equal to the accrued benefit at early retirement date. Payments may begin immediately with the benefits reduced for early payment. For a General Employee with less than thirty years of creditable service, the accrued benefit will be reduced by 4.8% times the lesser of the number of years the retirement occurs prior to age sixty-five or thirty minus his years of creditable service. For a Policeman or Fireman, the accrued benefit will be reduced by 2 1/6% times the lesser of the number of years the retirement occurs prior to age sixty or thirty minus his years of creditable service.

No reduction is applied in the case of any employee with at least thirty years of creditable service.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PRINCIPAL PLAN PROVISIONS
June 30, 2014

Disability Retirement Benefits

A member who is totally and permanently incapacitated, either mentally or physically, for the further performance of duty and who has completed five years of creditable service may be granted a disability retirement allowance. The allowance begins immediately, and it is equal to the member's accrued benefit computed using modified creditable service and offset by any worker's compensation benefits for which he is eligible. The modified creditable service is equal to the smaller of (1) twice the creditable service to the accrual date (for this purpose, credited service granted based on accumulated sick leave shall not be doubled), or (2) the projected creditable service to age sixty (but in no event less than the creditable service to date). The minimum allowance payable is to be 25% of the member's average final three-year compensation. No such minimum allowance is to exceed 100% of the allowance that would be payable to a General Employee if he continued in service until age sixty-five, earning his final three-year average compensation in all future years. This minimum shall cease to apply to a General Employee when he becomes eligible for unreduced Social Security benefits.

Death Benefit

If an active member who was hired after December 7, 1999 and has five or more years of creditable service 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. If an active member (hired on or before December 7, 1999) should die at any time prior to retirement, a retirement allowance shall be payable to the spouse, minor child or parent of the member. Such retirement allowance shall 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 age of majority.

For an active member who dies prior to attaining age fifty-five, the allowance shall equal one-half of the retirement allowance that would have been payable to the member had the member retired on the day prior to death and had elected to receive a joint and one-half survivor benefit. If the active member dies after attaining age fifty-five, the allowance shall equal the retirement allowance that would have been payable to the member had the member retired on the day prior to death and had elected to receive a joint 100% survivor benefit.

In the case of a member who had not attained age fifty-five at the time of his death, it shall be assumed the member's age at his date of death was fifty-five for the purpose of reducing the benefit on an actuarial equivalent basis.

In the case of a member who dies after attaining age sixty-five, the amount shall equal the deceased retirement allowance that would have been payable to the member had the member retired on the day prior to death and elected to receive a joint and 100% survivor annuity.

The beneficiary may elect to receive the member's accumulated contributions with interest in lieu of any other benefits under the Retirement System.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PRINCIPAL PLAN PROVISIONS
June 30, 2014

Vested Retirement Allowance

Any member whose service is terminated other than by death or retirement after he has completed five or more years of creditable service may elect to receive a vested retirement allowance in lieu of the return of his contributions. Such deferred vested retirement allowance shall equal his accrued benefit and shall be payable beginning at his normal service retirement age.

Optional Methods of Settlement

A member, upon retirement, may elect to convert the retirement allowance otherwise payable to him into a modified retirement allowance in any one of the following forms. However, if no option is elected, the member will be assumed to have automatically retired under Option 1.

Option 1

An unreduced retirement allowance payable during his life, with the provision that if he dies before he has received in monthly payments of his annuity the amount of his accumulated contributions at the time of his retirement, the balance will be paid to his designated beneficiary or estate.

Option 2

A reduced retirement allowance of equivalent actuarial value to Option 1 payable during his life, with the provision that at his death his allowance will be continued throughout the life of such person as he shall have designated.

Option 3

A reduced retirement allowance of equivalent actuarial value to Option 1 payable during his life, with the provision that at his death one-half of such allowance will be continued throughout the life of such person as he shall have designated.

Option 4

A reduced retirement allowance of equivalent actuarial value to Option 1 payable during his life, with the provision that at his death some other benefit, approved by the Board, will be payable provided that the total of such reduced retirement allowance during his life and the succeeding benefit shall be computed to be of equivalent actuarial value to the retirement allowance that he would have received without optional modification.

Option 5

A retirement allowance of equivalent actuarial value to Option 1 that is greater from retirement age (if less than sixty-five) to age sixty-five, and less following age sixty-five, so that the combined benefits from the Retirement System and Social Security are as level as possible.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF PRINCIPAL PLAN PROVISIONS
June 30, 2014

Optional Methods of Settlement - continued

Lump Sum

If the actuarial equivalent of a benefit due to normal retirement, early retirement, disability, or death is \$10,000 or less at the time the benefit is to commence, a lump sum payment of the actuarial equivalent shall be paid to the member or member's beneficiary in full settlement of benefits from the Plan.

All optional methods of settlement are actuarially equivalent to the normal form of annuity on a unisex basis based on the UP-1984 Mortality Table adjusted for a 20% female content in the participant group and an 80% female content in beneficiaries group and 6% interest.

Contributions

Contributions by City Made on Behalf of Members (Annuity Savings Account B): The Board of Trustees shall determine the portion of earnable compensation to be contributed by the City on behalf of each member hired prior to October 1, 1991 such that each class of employee shall bear a reasonable portion of and have an interest in the total cost of the Retirement System. The Board has set the contribution rate at 5% of earnable compensation for General Employees and 6.5% of earnable compensation for Policemen and Firemen.

Any employee who is first employed (or rehired) by the City after October 1, 1991 shall not be eligible to receive any contributions to an Annuity Savings Account B.

Upon the withdrawal by a member, except by death or retirement, he is paid on demand the sum of the City contributions made on his behalf together with no less than one-half of the interest credited thereon.

Contributions by City: The Danville City Code requires the ERS Board of Trustees to file with the City Manager its certification of the amount of the appropriation necessary to pay the normal and accrued liability for the ensuing fiscal year, as determined in conjunction with the actuary utilized by the ERS. This may be presented to the City Manager as a percentage rate of the City payroll. The City Manager shall report to City Council at the time the budget is presented the amount to be included therein for retirement purposes compared to the ERS Board of Trustees' recommendation. The City makes annual contributions, based on members' earnable compensation, to provide for the pensions and other benefits payable from the contributions of the City. The actuarial cost method used for funding purposes is the same as the method used for financial reporting purposes. See the "Schedule of City Contributions" on page 32 in the Required Supplementary Information section for a schedule of the actuarially determined contributions and the actual City contributions.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
June 30, 2014

Valuation 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 Unfunded Accrued Liability.

Valuation of Assets

For the purpose of evaluating the plan, assets are valued by the Five-Year Moving Average method. All assets are placed in a trust fund with the Board of Trustees of the Employees' Retirement System of the City of Danville, Virginia, as trustee. The financial information used in this valuation was not audited by Boomershine Consulting Group.

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

1. Mortality:

Healthy and Disabled Lives

RP-2000 Mortality Table – The probabilities are illustrated in the tables below.

2. Disability:

a. General Employees

200% of United Auto Workers Disability rates. The probabilities are illustrated in the tables below.

b. Policemen and Firemen

400% of United Auto Workers Disability rates. The probabilities are illustrated in the tables below.

3. Termination:

The probabilities are illustrated in the tables below.

4. Salary progression:

Salaries are assumed to increase at a rate of 4.0% per year for all employees, of which 2.0% is attributable to expected inflation. No portion of membership payroll is expected to increase due to growth in the active group size.

5. Investment return:

7.0% compounded annually.

6. 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.

7. Retirement age:

a. General Employees

<u>Age</u>	<u>Probability of Retirement</u>
55–59	.03
60–61	.06
62	.50
63–64	.20
65	1.00

b. Policemen and Firemen

<u>Age</u>	<u>Probability of Retirement</u>
55–57	.10
58–59	.15
60	1.00

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
June 30, 2014

8. Future post-retirement cost-of-living increases 0%, effective July 1, 2013
9. The following are examples of the probability that a participant will die, become disabled, or terminate within the year. The ratios of the final projected salary to current salary are also shown; however, projected salaries will not exceed the IRC Section 401(a)(17) limit.

General Employees

Age	Mortality (Healthy Lives)		Disability	Termination	Salary Ratio
	Male	Female			
25	.00038	.00021	.00060	.07938	4.801
30	.00044	.00026	.00080	.07601	3.946
35	.00077	.00048	.00100	.07047	3.243
40	.00108	.00071	.00140	.06282	2.666
45	.00151	.00112	.00200	.05306	2.191
50	.00214	.00168	.00360	.03716	1.801
55	.00362	.00272	.00720	.01408	1.480
60	.00675	.00506	.01800	.00135	1.217
65	.01274	.00971	.00000	.00000	1.000

Policemen and Firemen

Age	Mortality (Healthy Lives)		Disability	Termination	Salary Ratio
	Male	Female			
25	.00038	.00021	.00120	.07601	3.946
30	.00044	.00026	.00160	.07048	3.243
35	.00077	.00048	.00200	.05255	2.666
40	.00108	.00071	.00280	.02653	2.191
45	.00151	.00112	.00400	.00607	1.801
50	.00214	.00168	.00720	.00000	1.480
55	.00362	.00272	.01440	.00000	1.217

Other Considerations

1. For the purpose of valuing death benefits, all male employees are assumed to be married to a spouse three years younger and all females are assumed to be married to a spouse three years older.
2. Employee data supplied to the Actuary by the Employer and financial information supplied to the Actuary by the Plan have not been audited by the Actuary, although the Actuary believes these to be accurate and complete.
3. For purposes of determining projected benefits payable from member contributions, those contributions are assumed to earn 5% interest compounded annually.
4. Actuaries rely on the Employer to inform them of any former participants who have been rehired and lost prior service because of the length of their break in service. These employees may have participation requirements different from other new employees.
5. Projected benefits are limited to \$210,000.
6. Total contributions made by the City have been included in the calculations as of July 1, 2014.
7. 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 on July 1, 2013. All other actuarial assumptions used for the July 1, 2013 valuation were adopted effective July 1, 2002.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF ACTIVE MEMBER VALUATION DATA
Last Ten Fiscal Years**

GENERAL ACTIVE MEMBERS

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Salary</u>	<u>Percent Increase (Decrease)</u>
6/30/2005	673	\$ 22,035,747	\$ 32,743	4.0
6/30/2006	720	24,144,439	33,534	2.4
6/30/2007	696	24,965,236	35,870	7.0
6/30/2008	735	27,699,309	37,686	5.1
6/30/2009	752	28,442,202	37,822	0.3
6/30/2010	744	28,034,775	37,681	(0.3)
6/30/2011	711	26,590,761	37,399	(0.7)
6/30/2012	700	26,907,626	38,439	2.8
6/30/2013	688	27,078,698	39,359	2.4
6/30/2014	688	28,418,464	41,306	4.9

POLICEMEN AND FIREMEN ACTIVE MEMBERS

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Salary</u>	<u>Percent Increase (Decrease)</u>
6/30/2005	239	\$ 9,365,713	\$ 39,187	6.8
6/30/2006	247	9,865,781	39,942	1.9
6/30/2007	243	10,317,413	42,458	6.3
6/30/2008	246	11,138,575	45,279	6.6
6/30/2009	244	10,988,856	45,036	(0.5)
6/30/2010	249	11,056,814	44,405	(1.4)
6/30/2011	246	10,895,336	44,290	(0.3)
6/30/2012	248	11,298,543	45,559	2.9
6/30/2013	245	11,351,316	46,332	1.7
6/30/2014	246	12,031,352	48,908	5.6

ALL ACTIVE MEMBERS

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Salary</u>	<u>Percent Increase (Decrease)</u>
6/30/2005	912	\$ 31,401,460	\$ 34,431	4.9
6/30/2006	967	34,010,220	35,171	2.1
6/30/2007	939	35,282,649	37,575	6.8
6/30/2008	981	38,837,884	39,590	5.4
6/30/2009	996	39,431,058	39,589	0.0
6/30/2010	993	39,091,589	39,367	(0.6)
6/30/2011	957	37,486,097	39,170	(0.5)
6/30/2012	948	38,206,169	40,302	2.9
6/30/2013	933	38,430,014	41,190	2.2
6/30/2014	934	40,449,816	43,308	5.1

* Does not include nonvested employees with annuity savings accounts

Note: The valuation data above is presented for active members at the stated valuation date. The covered payroll amounts for the fiscal year disclosed on page 26 include payroll activity throughout the entire fiscal year instead of at a certain point in time. Therefore, the annual payroll on this page will not agree to the covered payroll amounts for the fiscal year disclosed on page 26.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF RETIREE AND BENEFICIARY DATA
Last Ten Fiscal Years

<u>Year Ended</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>On Rolls at Year End</u>		<u>Percent Increase in Annual Allowances</u>	<u>Retirees as a Percentage of Active Members</u>	
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>		<u>Number</u>	<u>Pay</u>
6/30/2005	29	\$ 538,596	27	\$ 274,824	444	\$ 6,840,474	4.8	48.6	21.4
6/30/2006	19	345,828	17	207,396	446	7,111,690	3.9	48.5	20.9
6/30/2007	36	707,664	20	185,208	462	7,657,163	7.7	49.2	21.7
6/30/2008	29	459,024	29	271,140	462	8,250,601	7.8	47.0	21.2
6/30/2009	25	462,648	14	252,420	473	8,734,869	5.9	47.6	22.2
6/30/2010	34	701,160	20	337,476	487	8,976,431	2.8	49.0	22.9
6/30/2011	31	644,028	17	233,340	501	9,273,682	3.3	52.4	24.7
6/30/2012	33	481,126	19	248,306	515	9,798,011	5.7	54.3	25.6
6/30/2013	43	762,467	11	244,789	547	10,032,957	2.4	58.6	26.1
6/30/2014	42	734,996	24	298,091	565	10,345,166	3.1	60.5	25.6

Other adjustments not included in the above charges are cost-of-living adjustments, offsets for workers' compensation and beneficiary option changes.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF FUNDING PROGRESS
Last Ten Fiscal Years

Valuation Date	Actuarial Accrued Liability (AAAL)	Actuarial Value of Assets	Assets as a Percentage of AAAL	Unfunded Actuarial Accrued Liability (UAAL)	Covered Employee Payroll	UAAL as a Percentage of Covered Employee Payroll
6/30/2005	\$ 159,755,844	\$ 155,787,844	97.52%	\$ 3,968,000	\$ 31,401,461	12.64%
6/30/2006	168,009,349	161,037,271	95.85%	6,972,078	34,010,220	20.49%
6/30/2007	181,112,835	173,932,043	96.04%	7,180,792	35,282,649	20.35%
6/30/2008	193,054,077	184,158,579	95.39%	8,895,498	38,837,884	22.90%
6/30/2009	194,996,863	181,583,002	93.12%	13,413,861	39,431,058	34.02%
6/30/2010	199,018,107	178,430,719	89.65%	20,587,388	39,091,589	52.66%
6/30/2011	200,232,740	179,553,821	89.67%	20,678,919	37,486,097	55.16%
6/30/2012	206,452,918	174,103,211	84.33%	32,349,707	38,206,170	84.67%
6/30/2013	180,257,415	176,071,124	97.68%	4,186,291	38,430,014	10.89%
6/30/2014	194,075,656	187,932,189	103.3%	(6,143,467)	40,449,816	(15.19)%

The presentation of assets accumulated by a retirement system for the funding of benefit liabilities as a percentage of the aggregate accrued benefit liabilities provides an indication of the extent to which a system is funded. Analysis of this percentage over a period of time indicates whether the system is becoming financially stronger or weaker. The greater this percentage, the stronger the system. The presentation of unfunded accrued benefit liabilities as a percentage of the annual covered active member payroll removes the effects of inflation from reported changes in funding status. The smaller this percentage, the stronger the system.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SOLVENCY TEST
Last Ten Fiscal Years**

Valuation Date	Aggregate Actuarial Accrued Liabilities for				Percentages of Accrued Liabilities Covered by Actuarial Value of Assets		
	Retirees and Beneficiaries	Annuity Savings Accounts (a)	Employer Liability (b)	Total Non-Retired Accrued Liability (a + b)	Actuarial Value of Assets	Retirees and Beneficiaries	Non-Retired Accrued Liability
6/30/2005	\$ 75,978,646	\$ 18,598,658	\$ 65,178,540	\$ 83,777,198	\$ 155,787,844	100.0	95.0
6/30/2006	78,955,716	19,238,483	69,815,150	89,053,633	161,037,271	100.0	92.0
6/30/2007	86,763,564	19,014,774	75,334,497	94,349,271	173,932,043	100.0	92.0
6/30/2008	90,568,632	19,562,619	82,922,826	102,485,445	184,158,579	100.0	91.0
6/30/2009	92,296,646	19,834,946	82,865,271	102,700,217	181,583,002	100.0	87.0
6/30/2010	95,330,009	19,877,031	83,811,067	103,688,098	178,430,719	100.0	80.0
6/30/2011	98,720,447	19,556,035	81,956,258	101,512,293	179,553,821	100.0	80.0
6/30/2012	100,883,683	19,560,815	86,008,420	105,569,235	174,103,211	100.0	69.0
6/30/2013	90,921,087	18,931,082	70,405,246	89,336,328	176,071,124	100.0	95.0
6/30/2014	94,165,329	17,998,767	75,768,093	93,766,860	194,075,656	100.0	107.0

The progress of a retirement system in accumulating assets to pay benefits when due can be measured by examining the extent to which assets accumulated for benefits cover liabilities for future benefits to retirees and beneficiaries and liabilities for service already rendered by active members. In a system receiving actuarially determined employer contributions, the liabilities for future benefits to retirees and beneficiaries will generally be fully covered by accumulated assets. In addition, the liabilities for service already rendered by active members will be partially covered by the remainder of accumulated assets, and will increase over time.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
ANALYSIS OF FINANCIAL EXPERIENCE**

**Approximate Reconciliation of the Increase (Decrease)
in the Unfunded Accrued Liability (UAL)**

	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
UAL as of July 1	\$ 4,186,291	\$ 32,349,707	\$ 20,678,919	\$ 20,587,388	\$ 13,413,861	\$ 8,895,498
Normal cost (NC) as of July 1	3,141,494	3,829,022	3,835,893	3,843,287	3,991,545	3,903,915
Interest for one year on UAL and NC	512,945	2,532,511	1,716,037	1,710,147	1,392,432	1,023,953
Contribution with interest	(6,050,540)	(5,462,385)	(5,098,812)	(5,120,922)	(4,778,978)	(4,627,181)
Expected UAL as of July 1	1,790,190	33,248,855	21,132,037	21,019,900	14,018,860	9,196,185
Adjustment due to change in actuarial assumptions	N/A	(30,716,477)	N/A	N/A	550,940	N/A
Actual UAL as of July 1	(6,143,467)	4,186,291	32,349,707	20,678,919	20,036,448	13,413,861
Net increase (decrease) in UAL	\$ (7,933,657)	\$ 1,653,913	\$ 11,217,670	\$ (340,981)	\$ 6,568,528	\$ 4,217,676

**An explanation of the Increase (Decrease)
in UAL is as follows:**

	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
A. Plan experience						
1. Investment return on actuarial value of assets	\$ 10,366,297	\$ 15,681,697	\$ 23,118,189	\$ 16,487,971	\$ 13,125,517	\$ 12,716,295
2. New entrants	-	-	-	-	-	-
3. Liability Gain/(Loss)	(2,432,640)	16,688,693	(11,900,519)	(16,828,952)	(7,107,929)	(8,498,619)
4. Net plan experience [gain/(loss)]	7,933,657	32,370,390	11,217,670	(340,981)	6,017,588	4,217,676
B. Plan changes	-	-	-	-	-	-
C. Assumption changes	N/A	(30,716,477)	N/A	N/A	550,940	N/A
D. Net (increase) decrease in UAL	\$ 7,933,657	\$ 1,653,913	\$ 11,217,670	\$ (340,981)	\$ 6,568,528	\$ 4,217,676

STATISTICAL SECTION

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information. This section provides multi-year trend of financial information to facilitate a more comprehensive understanding of how the organization's financial position and performance has changed over time. Additionally, detailed, multi-year analysis of benefits paid and current fiscal year-end retired members by type of benefits received are presented.



EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION
Last Ten Fiscal Years

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Additions										
Employer contributions	\$ 2,538,686	\$ 2,870,572	\$ 3,308,019	\$ 3,902,716	\$ 4,494,303	\$ 4,611,297	\$ 4,950,582	\$ 4,929,208	\$ 5,280,687	\$ 5,849,278
Investment income (loss) - (net of expenses)	14,481,880	15,992,874	30,585,674	(11,863,225)	(40,504,078)	17,263,703	36,597,190	(1,137,468)	22,861,602	38,756,248
Total additions	<u>17,020,566</u>	<u>18,863,446</u>	<u>33,893,693</u>	<u>(7,960,509)</u>	<u>(36,009,775)</u>	<u>21,875,000</u>	<u>41,547,772</u>	<u>3,791,740</u>	<u>28,142,289</u>	<u>44,605,526</u>
Deductions										
Benefit payments	6,840,474	7,111,690	7,657,163	8,250,601	8,734,869	8,976,431	9,273,682	9,798,011	10,032,957	10,345,166
Administrative expenses	92,966	96,034	105,768	117,956	118,776	118,562	131,158	109,792	107,025	109,411
Refunds	71,208	188,105	133,982	59,566	136,262	3,660	190,414	15,871	74,438	34,958
Total deductions	<u>7,004,648</u>	<u>7,395,829</u>	<u>7,896,913</u>	<u>8,428,123</u>	<u>8,989,907</u>	<u>9,098,653</u>	<u>9,595,254</u>	<u>9,923,674</u>	<u>10,214,420</u>	<u>10,489,535</u>
Change in net position	<u>\$ 10,015,918</u>	<u>\$ 11,467,617</u>	<u>\$ 25,996,780</u>	<u>\$ (16,388,632)</u>	<u>\$ (44,999,682)</u>	<u>\$ 12,776,347</u>	<u>\$ 31,952,518</u>	<u>\$ (6,131,934)</u>	<u>\$ 17,927,869</u>	<u>\$ 34,115,991</u>

Source: Internal reports generated by the financial system of the City of Danville, Virginia and the Employees' Retirement System of the City of Danville, Virginia.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF BENEFIT PAYMENTS BY TYPE
Last Ten Fiscal Years**

Fiscal Year Ended	Retirees			Beneficiaries	Total Benefits
	Age and Service Benefits	Disabilities	Vested		
6/30/2005	\$ 5,010,349	\$ 1,300,613	\$ 71,383	\$ 458,129	\$ 6,840,474
6/30/2006	5,202,488	1,355,520	70,951	482,731	7,111,690
6/30/2007	5,546,249	1,509,544	95,508	505,862	7,657,163
6/30/2008	5,949,790	1,652,155	106,821	541,835	8,250,601
6/30/2009	6,313,915	1,708,062	123,596	589,296	8,734,869
6/30/2010	6,401,580	1,790,900	153,708	630,243	8,976,431
6/30/2011	6,486,680	1,891,453	161,789	733,760	9,273,682
6/30/2012	6,953,544	1,911,096	198,713	734,658	9,798,011
6/30/2013	7,083,494	1,910,334	251,585	787,544	10,032,957
6/30/2014	7,275,508	1,937,340	293,004	839,314	10,345,166

Source: Internal reports generated by the financial system of the City of Danville, Virginia and the Employees' Retirement System of the City of Danville, Virginia.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF AVERAGE BENEFIT PAYMENTS
June 30, 2014

Retirement Effective Date	Years Credited Service					
	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2004 to June 30, 2005						
Average monthly benefit	\$ 216.41	334.18	421.00	1,477.69	1,942.45	2,866.34
Average final monthly salaries	\$ 1,691.01	1,865.87	1,742.85	2,339.09	3,566.22	4,457.98
Number of active retirees	2	3	2	1	7	9
July 1, 2005 to June 30, 2006						
Average monthly benefit	\$ 329.62	294.47	-	-	803.82	2,583.44
Average final monthly salaries	\$ 2,810.16	1,708.05	-	-	2,177.35	4,162.30
Number of active retirees	3	1	-	-	1	9
July 1, 2006 to June 30, 2007						
Average monthly benefit	\$ 276.45	510.55	1,174.81	977.82	1,928.66	2,604.72
Average final monthly salaries	\$ 2,375.69	1,707.62	3,005.12	2,858.67	3,452.75	4,191.99
Number of active retirees	5	2	3	2	7	13
July 1, 2007 to June 30, 2008						
Average monthly benefit	\$ 155.73	508.58	862.29	1,469.37	1,320.54	3,096.35
Average final monthly salaries	\$ 1,794.85	3,350.21	2,853.64	3,117.06	2,595.44	4,610.16
Number of active retirees	3	3	2	4	3	7
July 1, 2008 to June 30, 2009						
Average monthly benefit	\$ 561.79	812.90	-	1,133.55	2,084.55	2,849.00
Average final monthly salaries	\$ 4,275.16	3,522.17	-	3,071.33	4,856.71	4,639.00
Number of active retirees	8	2	-	3	2	8
July 1, 2009 to June 30, 2010						
Average monthly benefit	\$ 294.64	352.75	718.85	1,107.64	3,727.75	3,202.27
Average final monthly salaries	\$ 2,481.39	2,794.69	2,661.33	2,789.25	6,059.79	4,742.10
Number of active retirees	4	2	4	4	2	10
July 1, 2010 to June 30, 2011						
Average monthly benefit	\$ 248.46	847.88	587.72	1,399.35	2,103.58	3,059.32
Average final monthly salaries	\$ 3,213.93	2,946.24	2,478.10	3,923.74	4,298.08	5,145.98
Number of active retirees	1	3	2	9	6	7
July 1, 2011 to June 30, 2012						
Average monthly benefit	\$ 140.91	574.01	886.43	1,065.42	1,953.62	2,557.06
Average final monthly salaries	\$ 2,016.76	2,541.63	3,112.84	3,082.88	4,596.08	4,238.05
Number of active retirees	3	8	2	3	3	9
July 1, 2012 to June 30, 2013						
Average monthly benefit	\$ 440.95	265.56	692.86	1,091.22	1,557.93	2,808.63
Average final monthly salaries	\$ 2,264.14	2,572.92	3,037.06	3,243.52	3,287.55	4,518.29
Number of active retirees	8	2	5	7	3	11
July 1, 2013 to June 30, 2014						
Average monthly benefit	\$ 358.92	470.70	1,097.05	592.91	2,558.19	3,139.21
Average final monthly salaries	\$ 2,646.31	2,596.98	3,101.17	2,246.74	5,254.13	4,583.82
Number of active retirees	8	6	3	1	7	10

Source: Internal report generated by the financial system of the City of Danville, Virginia and the Employees' Retirement System of the City of Danville, Virginia.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS
June 30, 2014**

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*						Options Selected**			
		1	2	3	4	5	6	1	2	3	5
Deferred	244	-	-	-	-	-	244	-	-	-	-
\$1-100	9	-	2	2	5	-	-	2	1	6	-
101-200	28	5	6	-	1	16	-	24	3	1	-
201-300	27	3	9	-	8	7	-	14	4	9	-
301-400	29	8	10	5	4	2	-	19	6	4	-
401-500	29	3	8	6	7	5	-	20	2	7	-
501-600	12	3	3	-	4	2	-	6	3	3	-
601-700	25	3	7	5	6	4	-	14	7	3	1
701-800	21	4	6	7	3	1	-	15	5	1	-
801-900	33	6	12	5	7	3	-	18	5	9	1
901-1000	23	4	10	4	5	-	-	14	4	4	1
1001-1100	12	2	4	1	4	1	-	4	1	7	-
1101-1200	25	4	15	5	1	-	-	16	2	6	1
1201-1300	20	4	6	2	8	-	-	10	2	6	2
1301-1400	12	1	5	2	1	3	-	9	-	1	2
1401-1500	17	2	7	3	5	-	-	8	2	6	1
1501-1600	19	7	3	5	3	1	-	10	5	4	-
1601-1700	12	3	3	6	-	-	-	9	-	3	-
1701-1800	13	3	3	4	-	3	-	9	2	2	-
1801-1900	10	4	3	3	-	-	-	7	1	2	-
1901-2000	13	5	4	3	-	1	-	8	3	2	-
2001-2100	8	3	5	-	-	-	-	6	2	-	-
2101-2200	8	1	6	1	-	-	-	5	-	3	-
2201-2300	9	5	2	-	2	-	-	3	5	1	-
2301-2400	9	4	1	4	-	-	-	8	-	1	-
2401-2500	14	6	5	2	1	-	-	8	4	2	-
Over 2500	128	44	59	23	2	-	-	75	13	31	9
Totals	809	137	204	98	77	49	244	341	82	124	18

*	<u>Type of Retirement</u>	**	<u>Options Selected</u> (See Page 10)
	1 Service retirement for age and/or service		1 Life
	2 Early retirement		2 100% spousal
	3 Non-occupational/occupational disability		3 50% spousal
	4 Joint survivorship - benefit paid to beneficiary		5 Social Security Option
	5 Vested retirement		
	6 Deferred future benefits (includes occupational disability)		

Source: Internal reports generated by the financial system of the City of Danville, Virginia and the Employees' Retirement System of the City of Danville, Virginia.

COMPLIANCE
SECTION



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

To the Board of Trustees
Employees’ Retirement System of the
City of Danville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Employees’ Retirement System of the City of Danville, Virginia, (the “System”), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’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. **Given these limitations we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

Compliance and Other Matters

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

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 2, 2014