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, 2016

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, 2016

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

Michael L. Adkins
Executive Secretary

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

SECTION

CITY OF DANVILLE, VIRGINIA
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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, 2015

Executive Director/CEO

Employees' Retirement System

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

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RETIREMENT SECRETARY
TELEPHONE (434) 799-5186

LETTER OF TRANSMITTAL

December 23, 2016

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, 2016, 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 15 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 of 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

U.S. real GDP grew at a 1.4% annual rate during the second quarter of 2016. This was an improvement from the disappointing 0.8% annual growth rate in the first quarter. Consumers appeared to be more optimistic than the prior quarter, which corresponded with a sharp rise in manufacturing and service activity and a surge in housing prices and sales. Also, commodity prices, especially energy-related, showed considerable strength, however the energy and mining sectors are still a drag on U.S. GDP.

Further, the all-important job market came alive in June after a weak May. The second quarter job growth totaled 147,000 per month – good, but down from 196,000 per month in the first quarter and the 229,000 monthly average for all of 2015.

We continue to believe that GDP growth will remain positive, albeit in the 1.5% to 2.0% range and expect unemployment to hover around the 5% mark.

Overall inflation remains low. Only wages and energy costs moved upwards. Low inflation contributed to the steady hold on the federal funds rate. The increase in core CPI for the second quarter was an unadjusted 1.2% (1.0% year over year). The Federal Reserve therefore has room to keep interest rates extremely low and we expect only a modest federal funds rate increase over the next twelve months.

Major Initiatives

City Council approved an ordinance amending the City Code 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, which calls for a one-time bonus for retirees when certain criteria are met and upon City Council approval. 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. The City awarded a one-time bonus to retirees in November 2014 and it totaled $414,613; the City sent a contribution to ERS of the same amount to fund the bonus. No bonus has been awarded since.

In March 2015, the ERS Board of Trustees adopted a new asset allocation and began deployment to move towards the new allocation. The allocation change is displayed in the Asset Allocation Trend table on page 18.

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, 2016, and the amount of increases and decreases relative to prior year revenues:

	2016	Percent of Total	2015	Increase (Decrease) From 2015
Revenue Source:				
Investment income (Net of investment expenses)	$ 645,252	18.0%	$ 5,204,202	$ (4,558,950)
Employer contributions	2,937,843	82.0%	3,998,392	(1,060,549)
	$ 3,583,095	100.0%	$ 9,202,594	$ (5,619,499)

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, 2016, with the amount of increases and decreases in relation to prior year expenses:

	2016	Percent of Total	2015	Increase (Decrease) From 2015
Benefits paid to participants	$ 11,601,476	98.7%	$ 11,436,684	$ 164,792
Refunds to former members	21,697	0.2%	157,590	(135,893)
Administrative expenses	125,429	1.1%	143,714	(18,285)
	$ 11,748,602	100.0%	$ 11,737,988	$ 10,614

Benefits paid to participants reflect an increase of $164,792 for the fiscal year ending June, 30, 2016, compared to the prior year. The increase in benefits paid is due to the number of participants increasing to 615.

Investments. At June 30, 2016, the aggregate account was valued at $232,035,880, a $8,165,507 decrease from the June 30, 2015 value of $240,201,387. The total portfolio returned 2.2% for the current fiscal-year-to-date, ranking in the 11th 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 participants are confident 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, 2016 amount to $211,011,377 and $209,854,554, respectively. This gives the ERS a funded ratio of 99.5% as of June 30, 2016. 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 34 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 30% domestic equities, 30% fixed income securities, 10% international equities, 10% emerging markets, 10% real estate, 5% private equity and 5% timber real estate. To implement the policy and strategy, the Board presently employs a core investment manager for both equities and bonds and eight 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, 2015. 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-two 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,

Joyce Obstler

Joyce Obstler
Chairman, Board of Trustees

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
BOARD OF TRUSTEES
June 30, 2016

Joyce Obstler, Chairman
Member Trustee
Assistant Director, Information Technology Department
Term Expires: December 31, 2017

Gus S. Dolianitis
Citizen Trustee
Vice President, First Citizens Bank
Term Expires: December 31, 2017

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, 2016

Kenneth F. Larking
City Manager
City of Danville, Virginia
Ex-Officio Trustee

Robert E. Parham
Member Trustee
HR Consultant, Human Resources (HR) Department
Term Expires: December 31, 2017

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

E. Linwood Wright, Vice Chairman
Citizen Trustee
Retired, Dan River Inc.
Term Expires: December 31, 2017

Lenard D. Lackey, Jr.
Citizen Trustee
Retired, Danville/Pittsylvania County
Community Services Board
Term Expires: December 31, 2016

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, 2016

ADMINISTRATIVE STAFF

Michael L. Adkins
Director of Finance/Executive Secretary

Sara B. Weller
Director of Human Resources

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

Felicia R. King
Retirement Coordinator

Henrietta Weaver
Retirement Secretary

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

Hamilton Lane
Bala Cyn Wyd, Pennsylvania

American Realty Advisors
Glendale, California

State Street Global Advisors
Boston, Massachusetts

HGK Asset Management
Jersey City, New Jersey

Northern Trust Asset Management
Chicago, Illinois

PanAgora Asset Management, Inc.
Boston, Massachusetts

Lazard Asset Management
New York, New York

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

Intercontinental Real Estate Corporation
Boston, Massachusetts

INVESTMENT CONSULTANT

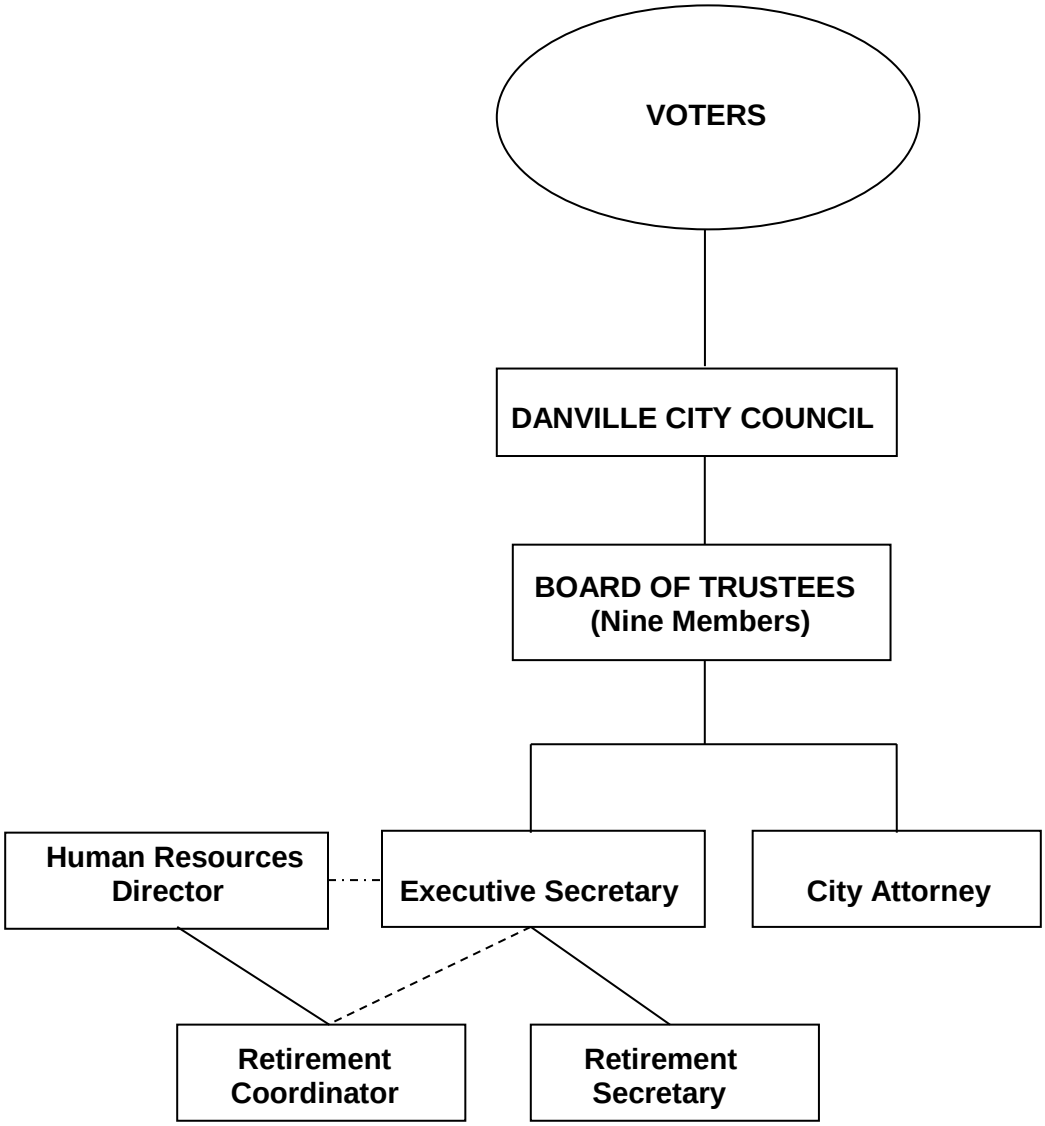
Dahab Associates, Inc.
Bay Shore, New York

INVESTMENT CUSTODIAN

The Northern Trust Company
Chicago, Illinois

The Schedule of Fees and Commissions (page 43) 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, 2016



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

——— Denotes the position is a direct report

-·-·-·- Denotes a collaborative position

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.

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 of 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.

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.

CITY OF DANVILLE, VIRGINIA
FOUNDED 1793
SEAL
CHARTERED 1830

FINANCIAL

SECTION

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Employees' Retirement System of the
City of Danville, Virginia
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 year ended June 30, 2016, 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 System as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the System's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 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.

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 23, 2016, 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 System's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 23, 2016

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, 2016, 2015 and 2014. Please review it in conjunction with the transmittal letter and the financial statements.

FINANCIAL HIGHLIGHTS

- The Plan's net position decreased by $8,165,507 (3.4%) as a result of activities for the fiscal year ended June 30, 2016. Net position restricted for pension benefits totaled $232,035,880 at June 30, 2016 compared to $240,201,387 at June 30, 2015. The decrease is primarily attributable to the fluctuations in the fair value of investments and also to less required employer contributions.

- Employer contributions to the defined benefit plan decreased $1,060,549 (26.5%) from fiscal year 2015 due to the decrease in the contribution rates in fiscal year 2016.

- Net investment income of $645,252 for the fiscal year ended June 30, 2016, represents a decrease of $4,558,950, compared to the net investment income of $5,204,202 for the fiscal year ended June 30, 2015.

- Benefit payments increased $164,792 (1.44%) from fiscal year 2015 to fiscal year 2016 due to the increased number of retirees receiving benefit payments. Benefit payments increased $1,091,518 (10.6%) from fiscal year 2014 to fiscal year 2015 due to the increased number of retirees receiving benefit payments and, in part, to the one-time bonus of $414,613 awarded to retirees in November 2014.

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.

SUMMARY OF FIDUCIARY NET POSITION
(in thousands)

	June 30,		
	2016	**2015**	**2014**
Cash and investments	$ 232,210	$ 240,333	$ 242,973
Receivables	3	29	47
Total assets	232,213	240,362	243,020
Accounts payable	177	161	283
Total liabilities	177	161	283
Net position restricted for pension benefits	$ 232,036	$ 240,201	$ 242,737

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,		
	2016	**2015**	**2014**
Additions			
Contributions	$ 2,938	$ 3,999	$ 5,849
Investment income – net	645	5,204	38,756
Total additions	3,583	9,203	44,605
Deductions			
Pension benefits	11,602	11,437	10,345
Other	147	301	144
Total deductions	11,749	11,738	10,489
Net increase (decrease) in net position restricted for pension benefits	$ (8,166)	$ (2,535)	$ 34,116

Benefit payments are a function of changing payments to retirees, beneficiaries, and new retirements during the period. The increase in pension benefits in fiscal year 2016 is due in part to the increased number of retirees receiving benefit payments. The increase in pension benefits in fiscal years 2015 and 2014 is attributable to an increase in the number of retirees; $414,613 of the increase is due to the one-time bonus awarded to retirees in November 2014.

PLAN MEMBERSHIP

The table below reflects the plan membership as of June 30, 2016, 2015 and 2014.

PLAN MEMBERSHIP

	June 30,			Change	
	2016	2015	2014	2016	2015
Active participants					
Vested	645	662	697	-3.0 %	-5.0 %
Non-vested	307	271	237	10.0 %	14.3 %
Retirees and beneficiaries	615	599	565	2.7 %	6.0 %
Terminated vested	274	263	244	4.2 %	7.8 %
Total	1,841	1,795	1,743	2.6 %	3.0 %

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. The City contributed the ADC in fiscal year 2016.

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 99.5%, 103.7%, and 103.3% as of June 30, 2016, 2015, and 2014, respectively. The ERS's unfunded actuarial liability (asset) was $1,156,823, ($7,431,853), and ($6,143,467), as of June 30, 2016, 2015, and 2014, respectively.

As of June 30, 2016, the market value of assets was $232,035,880 and the actuarial value of assets was $209,854,554 which resulted in a valuation adjustment of $22,181,246.

NET PENSION LIABILITY OF THE CITY

As disclosed in note 12, the City of Danville, Virginia (City) had a net pension asset of $27,811,160 and $47,619,294 as of June 30, 2016 and 2015, respectively. This is based on the market value of ERS assets of $232,035,880 and $240,201,387 at June 30, 2016 and 2015, respectively.

ASSET ALLOCATION

The table below indicates the policy trend asset allocation for June 30, 2016, 2015 and 2014. The target allocation was amended in fiscal year 2016 as shown below.

ASSET ALLOCATION TREND

	Target Allocation			**Actual Allocation**		
	2016	**2015**	**2014**	2016	2015	2014
Equity						
Domestic	**30%**	**30%**	**50%**	41%	48%	56%
International	**10%**	**10%**	**15%**	12%	14%	14%
Emerging Markets	**10%**	**10%**	**10%**	10%	10%	9%
Private Equity	**5%**	**5%**	**-**	2%	1%	1%
Bonds	**30%**	**30%**	**20%**	24%	22%	15%
Real Estate	**10%**	**10%**	**0%**	5%	-	-
Real Estate – Timber	**5%**	**5%**	**5%**	3%	4%	4%
Cash	**-**	**-**	**-**	3%	1%	1%
Total	**100%**	**100%**	**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 40.

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 $288,335 in fiscal year 2016 and $4,515,388 in fiscal year 2015.

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, 2016

	2016	(For Comparative Purposes Only) 2015
ASSETS		
Cash	$ 9,329	$ 31,795
Receivables		
Accrued interest and dividends	3,311	29,262
Investments - at fair value		
Common stocks and common stock funds	118,974,385	139,202,966
Corporate bonds and bond funds	37,166,570	35,356,248
Foreign stock funds	27,702,960	33,325,913
U.S. Government bonds	18,279,015	18,047,680
Real estate	12,245,587	-
Real estate - timberland and timberland funds	7,041,909	8,732,081
Temporary cash investments	7,370,970	2,828,192
Private equity funds	3,419,312	2,807,788
Total investments	232,200,708	240,300,868
Total assets	232,213,348	240,361,925
LIABILITIES		
Accounts payable	177,468	160,538
Net position restricted for pension benefits	$ 232,035,880	$ 240,201,387

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 Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
Additions		
Employer contributions	$ 2,937,843	$ 3,998,392
Investment income		
Net appreciation in fair value of investments	288,335	4,515,388
Interest	52,449	36,951
Dividends	954,847	1,390,370
Total investment income	1,295,631	5,942,709
Less - investment expense	(650,379)	(738,507)
Net investment income	645,252	5,204,202
Total additions	3,583,095	9,202,594
Deductions		
Benefits paid to participants	11,601,476	11,436,684
Refunds to former members	21,697	157,590
Administrative expenses	125,429	143,714
Total deductions	11,748,602	11,737,988
Net change	(8,165,507)	(2,535,394)
Net position restricted for pension benefits:		
Beginning of year	240,201,387	242,736,781
End of year	$ 232,035,880	$ 240,201,387

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

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, 2016 employee membership in the ERS was as follows:

	General Employees	Public Safety Employees	Total
Retirees and beneficiaries currently receiving benefits	462	153	615
Terminated employees entitled to benefits but not yet receiving them	214	60	274
	676	213	889
Active plan participants:			
Vested	450	195	645
Nonvested	256	51	307
	706	246	952
	1382	459	1841

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

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 provides financial reporting guidance 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 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.

4. Protection of Public Deposits

At year end, the carrying value of the ERS' deposits with banks was $9,329 and the bank balance was $132,653. The bank balance was covered by federal depository insurance.

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

5. Investments

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

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

Based on an asset allocation study completed in 2015, the Trustees implemented the following asset deployment (based upon market value) to best achieve the long term goals of the ERS in terms of compound total rate of return and assumed risk:

Domestic Equities	30%
Bonds	30%
International Equities	10%
Emerging Markets	10%
Real Estate	10%
Real Estate – Timber	5%
Private Equity	5%

This target mix has been chosen for the aggregate total portfolio. From time to time, the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations be kept to a minimum. From time to time, the Trustees may redeploy assets among the managers to balance the portfolio in accordance with the above target. As the portfolio grows, additional specialties may be used in addition to the ones above. The aggregation of domestic and international equities will be considered as part of the total equity allocation and real estate will be considered as part of the bond allocation for these purposes.
For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.8%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurements

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

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

The ERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The ERS has the following recurring fair value measurements as of June 30, 2016:

	6/30/2016	Level 1	Level 2	Level 3
Investments by fair value level				
Equity securities				
Domestic equity	$ 118,974,385	$ 118,974,385	$	$
International equity	27,702,960	27,702,960		
Total equity securities	146,677,345	146,677,345		
Debt securities				
Corporate bonds	36,629,458		36,629,458	
U.S. Government bonds	18,279,015		18,279,015	
Collaterialized mortgage obligation	537,112		537,112	
Total debt securities	55,445,585		55,445,585	
Real Estate				
Real estate funds	12,245,587			12,245,587
Real estate funds - timberland	7,041,909			7,041,909
Total real estate funds	19,287,496			19,287,496
Total investments by fair value level	221,410,426	146,677,345	55,445,585	19,287,496
Investments measured at the net asset value (NAV)				
Private equity funds	3,419,312			
Total investments measured at NAV	3,419,312			
Total investments measured at fair value	$ 224,829,738			

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

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

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

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

Investments Measured at the NAV

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

	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption notice period
Private equity funds	$ 3,419,312	$ 8,379,194	Not eligible	N/A
Total investments measured at the NAV	$ 3,419,312	$ 8,379,194		

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

Interest Rate Risk

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

		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1 – 6	6 – 10	More than 10
Non-government backed CMOs	$ 537,112	$ -	$ -	$ -	$ 537,112
Temporary cash investments	7,370,970	-	-	-	-
		$ -	$ -	$ -	$ 537,112
Bond funds– maturity not determined	54,908,473				
Total – subject to interest rate risk	$ 62,816,555				

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 market 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, 2016 is as follows:

Rating	Fair Value
D	$ 350,133
U.S. Government Guaranteed	18,279,015
Not rated – bond funds	44,187,407
Total	$ 62,816,555

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, 2016. These investments were in private equity and real estate funds, which had fair values of $3,419,312 and $12,245,587, respectively and unfunded commitments of $8,379,194 and $16,922,130, respectively at June 30, 2016.

Unfunded commitments are drawn down throughout the life of the investment based on the cash needs of each individual limited partnership or real estate manager. 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, 2016, the City's total payroll for all employees was $51,215,507 and the City's total covered payroll amounted to $42,444,501, of which $29,869,267 was for general employees and $12,575,234 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.

Total contributions to the pension plan for the year ended June 30, 2016 amounted to $2,937,843, of which $507,813 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 7.0% 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 2.75% salary increase attributable to inflation. For general employees an increase of 3% is attributable to seniority/merit for the first 15 years of service and then 1% per year. For public safety employees an increase of 2.5% is attributable to seniority/merit for all years. The percentage increases are compounded annually, 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, with one year set back for males and one year set forward for females, 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 300% 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 70 and that public safety employees will retire by the age of 65. The probability of early retirement is considered for general employees between the ages of 55 and 70 and for public safety employees between the ages of 55 and 65.

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 $67,256 soft dollar transaction commissions (as defined by the Code of VA Section 51.1-1000) for the year ended June 30, 2016 and $277,219 for the year ended June 30, 2015.

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. In each of the past three years, there have been no settlements that exceeded insurance coverage.

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.

12. Net Pension Liability (Asset) of the City

The components of the net pension liability (asset) at June 30, 2016 are as follows:

Total pension liability	$ 204,224,720
Plan fiduciary net position	232,035,880
City's net pension liability (asset)	(27,811,160)
Plan fiduciary net position as a percentage of the total pension liability	113.6%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of July 1, 2015, 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
Cost-of-living adjustments	None assumed

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

The actuarial assumptions used in the July 1, 2015 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, 2016 (see the discussion of the pension plan's investment policy) and the final investment return assumption are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Domestic equity	5.51%	30.00%
International equity – developed	5.77%	10.00%
International equity – emerging	6.70%	10.00%
Domestic bonds	2.11%	30.00%
Real estate	4.11%	10.00%
Real estate – timber	2.44%	5.00%
Private equity	7.79%	5.00%
Total weighted average real return	**4.46%**	
Plus inflation	3.00%	
Total return without adjustment	7.46%	
Risk adjustment	(0.46%)	
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 (asset) to changes in the discount rate. The following presents the net pension liability (asset) 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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
City's net pension liability (asset)	($ 5,547,241)	($ 27,811,160)	($ 46,749,969)

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CITY OF DANVILLE, VIRGINIA
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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, 2016

	2014	2015	2016
Total pension liability			
Service cost	$ 3,141,494	$ 3,259,683	$ 3,400,557
Interest	12,480,764	12,984,495	13,747,123
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	2,432,640	6,118,120
Changes of assumptions	-	-	-
Benefit payments, including refunds of member contributions	(10,380,124)	(11,594,274)	(11,623,173)
Net change in total pension liability	5,242,134	7,082,544	11,642,627
Total pension liability - beginning	180,257,415	185,499,549	192,582,093
Total pension liability - ending (a)	$ 185,499,549	$ 192,582,093	$ 204,224,720
Plan fiduciary net position			
Employer contributions	$ 5,849,278	$ 3,998,392	$ 2,937,843
Net investment income	38,756,248	5,204,202	645,251
Benefit payments, including refunds of member contributions	(10,380,124)	(11,594,274)	(11,623,173)
Administrative expenses	(109,411)	(143,714)	(125,428)
Other	-	-	-
Net change in plan fiduciary net position	34,115,991	(2,535,394)	(8,165,507)
Plan fiduciary net position - beginning	208,620,790	242,736,781	240,201,387
Plan fiduciary net position - ending (b)	$ 242,736,781	$ 240,201,387	$ 232,035,880
City's net pension liability (asset) - ending (a) - (b)	$ (57,237,232)	$ (47,619,294)	$ (27,811,160)
Plan fiduciary net position as a percentage of the total pension liability (asset)	130.9%	124.7%	113.6%
Covered employee payroll	$ 38,027,568	$ 39,745,625	$ 42,444,501
City's net pension liability (asset) as a percentage of covered employee payroll	-150.5%	-119.8%	-65.5%

See Notes to Required Supplementary Information on page 35.

This was 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, 2016

	2014	2015 *	2016
Actuarially determined contribution	$ 6,228,799	$ 3,583,779	$ 2,937,843
Contributions in relation to the actuarially determined contribution	5,849,278	3,998,392	2,937,843
Contribution (deficiency) / excess	$ (379,521)	$ 414,613	$ -
Covered employee payroll	$ 38,027,568	$ 39,745,625	$ 42,444,501
Contributions as a percentage of covered employee payroll	15.38%	10.06%	6.92%

See Notes to Required Supplementary Information.

* The excess contribution in 2015 is due to an additional contribution sent from the City of $414,613 to fund one-time retiree bonuses awarded during the fiscal year.

This was 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, 2016

	2014	2015	2016
Annual money-weighted rate of return, net of investment expense	19.0%	2.2%	0.45%

Notes to Required Supplementary Information:

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 (these have changed from the prior year):

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	2.75%
Salary increases	General Employees: 5.75% per year for the first 15 years of service, then 3.75% per year, including inflation Police and Fire Employees: 5.25%, including inflation
Investment rate of return	7.00%
Retirement age - general employees	3% at age 55 increasing to 100% at age 70+
Retirement age - police and fire employees	5% at age 55 increasing to 100% at age 65
Mortality	RP-2000 Mortality Tables, with one year setback for males and one year set forward for females, projected to 2025 using Scale BB For pre-retirement deaths, 75% of these rates are used. For disabled members, the RP 2000 Disabled tables are used.

This was 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.

CITY OF DANVILLE, VIRGINIA
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SUPPLEMENTARY INFORMATION

SECTION

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULES OF EXPENSES
Year Ended June 30, 2016

SCHEDULE OF INVESTMENT EXPENSES

Investment management services	$	553,310
Investment consultant services		62,500
Investment custodial services		34,569
Total investment expenses	$	650,379

SCHEDULE OF ADMINISTRATIVE EXPENSES

Staff salaries	$	49,043
Payments to consultants		43,296
General liability insurance		17,381
Employer's retirement contributions		3,443
Postage		4,157
Office supplies		1,963
Employer's social security		3,406
Travel		1,767
Printing and publications		973
Total administrative expenses	$	125,429

SCHEDULE OF PAYMENTS TO CONSULTANTS

Firm		Fee	Service
Boomershine Consulting	$	31,246	Actuary
Brown, Edwards and Company, LLP		10,300	Audit
Various doctors		1,750	Medical
Total payments to consultants	$	43,296	

CITY OF DANVILLE, VIRGINIA
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INVESTMENT

SECTION

DAHAB
ASSOCIATES

October 3, 2016

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, direct real estate and timber are 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 developed managers may invest no more than 25% of total assets in any one developed country and 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 March 13, 2015) allows for a target investment in domestic equities of 30%, international developed equities of 10%, emerging markets of 10%, real estate 10%, timber 5%, private equity 5%, and bonds of 30%.

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, 2016, the fund earned 0.8%. For the three and five year periods, the System has earned 7.5% and 6.7% respectively. For the longer ten year period the Fund earned a return of 5.4% per annum. Risk characteristics for the portfolio and its components are calculated quarterly using appropriate statistical methodologies.

Respectfully,

Richard E. Dahab, CFA
Chairman

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 7.0%.

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

	Actual	**Target**
Domestic Equities	41 %	30 %
International Equities	12 %	10 %
Emerging Markets	10 %	10 %
Bonds	24 %	30 %
Real Estate	5 %	10 %
Real Estate – Timber	3 %	5 %
Private Equity	2 %	5 %
Cash	3 %	- %

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.

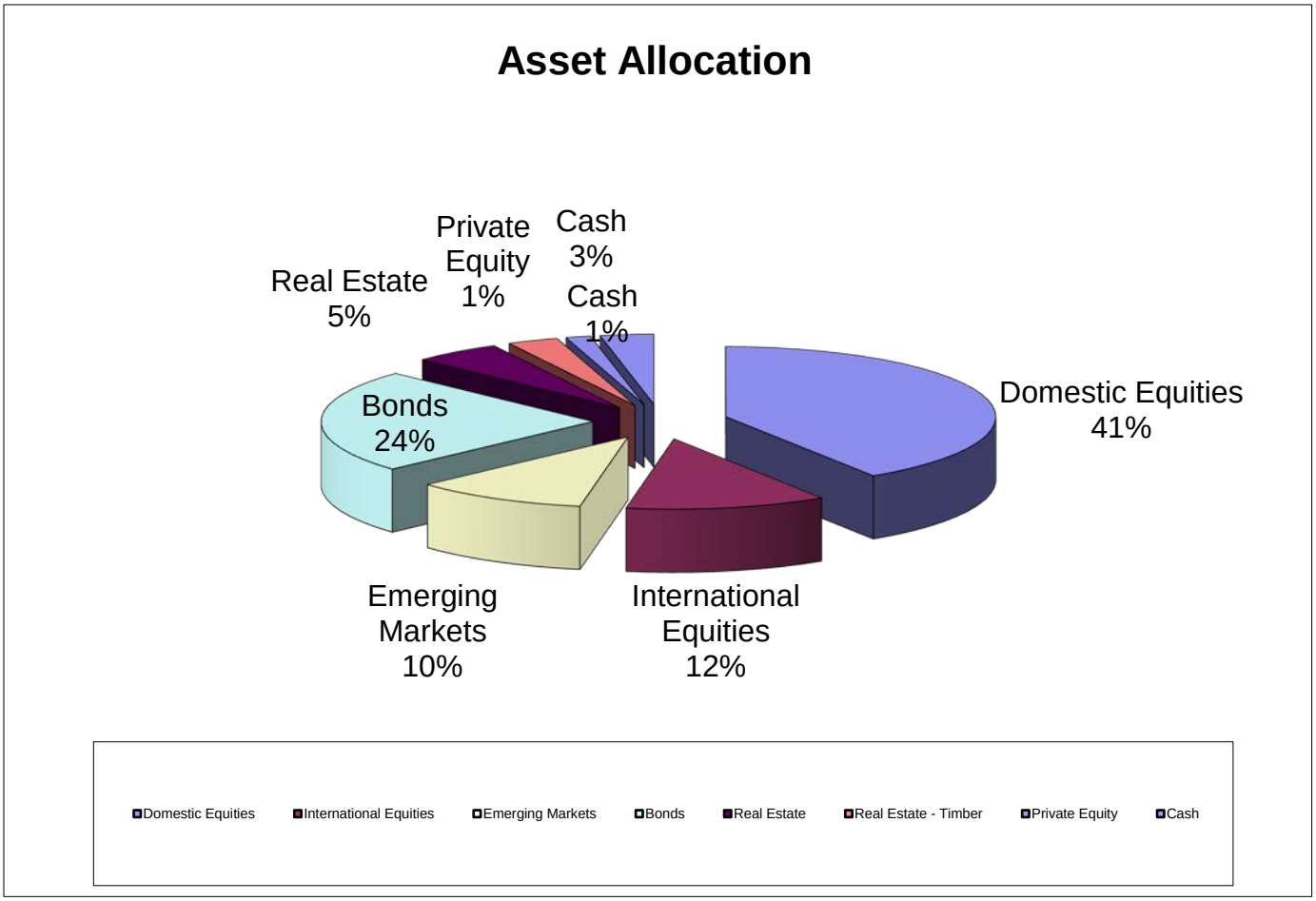
EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
INVESTMENT RESULTS
June 30, 2016

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 6/30/2016	Annualized 3 - Year	Annualized 5 - Year
ERS Total Portfolio	2.20 %	7.90 %	6.90 %
ERS Domestic Equity Segment	3.80 %	11.70 %	11.90 %
S & P 500 Index	4.00 %	11.70 %	12.10 %
Russell 3000 Index	2.10 %	11.10 %	11.60 %
Russell 1000 Growth Index	3.00 %	13.10 %	12.30 %
Russell 1000 Value Index	2.90 %	9.90 %	11.30 %
ERS International Equity Segment	-10.30 %	2.40 %	0.40 %
MSCI EAFE Index	-9.70 %	2.50 %	2.10 %
ERS Emerging Markets Equity Segment	-6.60 %	-0.70 %	-1.60 %
MSCI Emerging Markets Index	-11.70 %	-1.20 %	-3.40 %
ERS Fixed Income Segment*	4.10 %	3.60 %	3.60 %
Barclays Aggregate Bond Index	6.00 %	4.10 %	3.80 %
ERS Real Estate - Timber Segment	9.10 %	3.40 %	2.10 %
NCREIF Timber Index	3.50 %	7.80 %	6.70 %
ERS Real Estate Segment	0.00 %	0.00 %	0.00 %
NCREIF ODCE Index	11.80 %	13.00 %	12.70 %
ERS Private Equity Segment	-7.10 %	4.90 %	7.20 %
Cambridge Private Equity Index	-0.70 %	9.80 %	10.50 %

* Includes Government and Agency Issues

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
ASSET ALLOCATION
June 30, 2016



	Value	Percent
Domestic Equities	$ 94,934,550	41%
International Equities	27,702,960	12%
Emerging Markets	24,039,836	10%
Bonds	55,445,585	24%
Real Estate	12,245,587	5%
Real Estate - Timber	7,041,909	3%
Private Equity	3,419,312	2%
Cash	7,370,969	3%
Totals	$ 232,200,708	100%

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
LIST OF LARGEST ASSETS HELD
Year Ended June 30, 2016

Largest Bond Holdings (By Fair Value)

	Par	Bonds	Fair Value
1)	$ 10,740,517	CF Panagora BD Index Fund GT	$ 36,629,458
2)	176,592	Northern Trust Collective Short Term Government Bond Index Fund	18,279,015
3)	100,196	Commercial Mortgage-Backed Master Adj Rate Mtgs Tr 2007	88,699
4)	84,861	Commercial Mortgage-Backed WAMU Mtg Pass-thru CTFS Ser 2007	75,814
5)	81,775	Commercial Mortgage-Backed CHL Mtg Pass-thru Tr 2007	67,572
6)	77,282	Commercial Mortgage-Backed Citigroup Mtg Ln Tr Ser 2005	65,426
7)	67,655	Commercial Mortgage-Backed WAMU Mtg Pass-thru CTFS Ser 2007 Cl 2	59,178
8)	98,283	Commercial Mortgage-Backed Alternative Ln Tr 2006	47,871
9)	48,785	Commercial Mortgage-Backed RFMSI Ser 2006	41,683
10)	49,519	Commercial Mortgage-Backed WAMU Mtg Pass-thru CTFS Ser 2006	41,499

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, 2016

	Assets Under Management at 6/30/16 (at Fair Value)	Fees And Commissions Paid
INVESTMENT MANAGERS' FEES		
Equity Managers		
Loomis, Sayles and Company, L.P.	$ 30,783,266	$ 157,049
Northern Trust Asset Management	18,279,015	15,353
CS McKee Investment Managers*	-	88,580
State Street Global Advisors	34,981,043	15,611
Lazard Asset Management	37,287,356	209,122
HGK Asset Management	14,455,467	-
Hamilton Lane	3,419,312	-
Mutual Fund Manager		
PanAgora Asset Management, Inc.	66,374,478	52,193
Real Estate Managers		
BTG Pactual Timberland Investment Group, LLC	7,041,909	15,402
American Realty Advisors	10,079,717	-
Intercontinental Real Estate Corporation	2,165,870	-
Total investment managers' fees		$ 553,310
OTHER INVESTMENT SERVICE FEES		
Investment Custodian		
The Northern Trust Company		$ 34,569
Investment Consultant		
Dahab Associates, Inc.		62,500
Total other investment service fees		$ 97,069
Total investment expense		$ 650,379

BOARD OF TRUSTEES

The members of the Board of Trustees serve without compensation.

*Manager terminated

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF DANVILLE, VIRGINIA
SCHEDULE OF COMMISSIONS
Year Ended June 30, 2016

Brokerage Firm	Number of Shares Traded	Total Commissions	Commissions per Share
Instinet	35,746	$ 7,150	$ 0.200
Weeden And & Co	103,350	2,067	0.020
* Other Commissions	10,000	200	0.020
Total Commissions	149,096	$ 9,417	

* 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, 2016

Type of Investment	Fair Value	Percent of total Fair Value
Fixed Income:		
Corporate Bonds	$ 37,166,570	16.01%
U.S. Government Bonds	18,279,015	7.87%
Total Fixed Income	55,445,585	23.88%
Common Stock:		
Equity Index Fund	118,974,385	51.24%
Foreign	27,702,960	11.93%
Financial and Utility	-	0.00%
Consumer and Services	-	0.00%
Industrials	-	0.00%
Healthcare and Pharmaceuticals	-	0.00%
Technology	-	0.00%
Total Common Stock	146,677,345	63.17%
Alternative Investments:		
Timberland	7,041,909	3.03%
Real Estate	12,245,587	
Private Equity	3,419,312	1.47%
Total Alternative Investments	22,706,808	9.78%
Short-term Investments:		
Cash and Cash Equivalents	7,370,970	3.17%
Total investments	$ 232,200,708	100.00%

CITY OF DANVILLE, VIRGINIA
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ACTUARIAL

SECTION

BOOMERSHINE
CONSULTING GROUP, L.L.C.
ACTUARIAL & RETIREMENT PLAN SOLUTIONS

November 28, 2016

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. 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, 2016, are presented in this report.

The purpose of this report is to provide the information needed for the funding and contributions for the Employees' Retirement System of the City of Danville (the City), in accordance with actuarial principles and best practices. The accounting report under GASB 67/68 for this plan is sent under separate cover, and serves a different purpose. All the figures presented in this report are to be used for funding purposes.

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 have been updated since the previous valuation of the System, based on an experience study covering 2011 through 2015.

Financing Objective and City's Contribution Rate

The financing objectives of the Retirement System are:

(a) to fully fund all current costs based on the normal contribution rate payable by the City determined under the funding method; and

(b) to amortize the unfunded accrued liability, or surplus, based on accrued liability contributions payable by the City over 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, 2017 be based on a total contribution rate of 6.60%, which represents the normal cost plus an amortization of the Unfunded Accrued Liability. The assets used to determine this contribution rate is the smoothed asset value.

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.

Executive Center I, 3300 North Ridge Rd., Suite 300 | Ellicott City, MD 21043 | tel: 410.418.5525 | fax: 410.418.5644
www.boomershineconsulting.com

Actuarial Assumptions and Methods

The Entry Age Normal method is the actuarial cost method used to determine the plans liability and cost. The actuarial assumptions used for the July 1, 2015 valuation were adopted effective July 1, 2010. A new set of assumptions was adopted as of July 1, 2016 by the Board, based on the recommendations of the actuary.

Included in this report are two schedules (Section 2), which present outlines of the actuarial assumptions and methods used to prepare the current and prior actuarial valuation results. For valuation purposes, assets are valued using a Five-Year Moving Average method.

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, - in excess of the current assets of the Retirement System.

The unfunded accrued liability (surplus) is $1,156,823 as of July 1, 2016, and the funding ratio based on the Valuation Assets is 99.5%.

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 Sections 3 and 5 of the report.

Actuarial Certification

Boomershine Consulting Group has conducted an actuarial valuation of this Plan as of July 1, 2016. The employee data and financial information used in this valuation were reviewed, but not audited by us. On the basis of our review, we believe the information to be sufficiently complete and reliable.

The assumptions and methods used for this valuation satisfy the parameters outlined by the Actuarial Standards Board in relevant Actuarial Standards of Practice. In our opinion, each assumption used in this valuation is reasonable taking into account the experience of the Plan and reasonable expectations. The methods employed in this valuation are consistent with generally accepted actuarial principles and practices.

The information as presented in this Actuarial Report for funding purposes fully and fairly discloses the actuarial position of the Plan. All of the schedules presented within this report were prepared by Boomershine Consulting Group, including the following:

- Summary of Principal Plan Provisions
- Valuation Methods and Assumptions
- Schedule of Active Member Valuation Data
- Solvency Test
- Development of Unfunded Actuarial Accrued Liability
- Actuarial Cost and Liability Summary
- Analysis of Financial Experience
- History of Funding Progress

The undersigned are members of the American Academy of Actuaries, and are qualified to render the actuarial opinions presented in this report.

Respectfully Submitted,

BOOMERSHINE CONSULTING GROUP, L.L.C.

Gregory M. Stump, FSA, EA, MAAA, FCA
Chief Actuary

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

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, 2016.

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.

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 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 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 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.

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.

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.

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.

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, 2016

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:	
	Healthly and Disabled Lives	RP-2000 Mortality Tables, with one year set back for males and one year set forward for femailes, projected to 2025 using Scale BB – The probabilities are illustrated in the tables below. For disabled members, the RP 2000 Disabled tables are used.
2.	Disability:	
	a. General Employees	300% of United Auto Workers Disability rates. The probabilities are illustrated in the tables below.
	b. Police 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 5.75% per year for general employees for the first 15 years of service, then 3.75% and 5.25% for public safety employees for all years, of which 2.75% 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. The investment return is assumed to be net of these as well as investment expenses.

7. Retirement age:

a. General Employees

Age	Probability of Retirement
55	.030
56	.036
57	.043
58	.052
59	.062
60	.075
61	.090
62	.107
63	.129
64	.155
65	.250
66	.250
66	.250
67	.250
68	.250
69	.250
70+	1.00

b. Policemen and Firemen

Age	Probability of Retirement
55	.050
56	.063
57	.078
58	.098
59	.122
60	.153
61	.191
62	.238
63	.298
64	.373
65 – 70+	1.00

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

	Mortality (Healthy Lives)				
Age	Male	Female	Disability	Termination	Salary Ratio
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

	Mortality (Healthy Lives)				
Age	Male	Female	Disability	Termination	Salary Ratio
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 the federal (415) limitation for defined benefit plans.

6. Total contributions made by the City have been included in the calculations as of July 1, 2016.

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

Valuation Date	Number	Annual Payroll	Average Salary	Percent Increase (Decrease)
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
6/30/2015	691	30,232,352	43,752	5.9
6/30/2016	706	31,029,264	43,951	0.5

POLICEMEN AND FIREMEN ACTIVE MEMBERS

Valuation Date	Number	Annual Payroll	Average Salary	Percent Increase (Decrease)
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
6/30/2015	242	12,833,418	53,031	8.4
6/30/2016	246	13,162,746	53,507	0.9

ALL ACTIVE MEMBERS

Valuation Date	Number	Annual Payroll	Average Salary	Percent Increase (Decrease)
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
6/30/2015	933	43,065,770	46,158	6.6
6/30/2016	952	44,192,010	46,420	0.6

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

	Added to Rolls		Removed from Rolls		On Rolls at Year End		Percent Increase in Annual Allowances	Retirees as a Percentage of Active Members	
Year Ended	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		Number	Pay
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
6/30/2015	54	983,389	20	281,571	599	* 11,022,071	6.5	64.2	25.6
6/30/2016	40	472,695	19	96,058	615	11,601,476	5.3	64.6	26.3

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

*The annual allowances will not agree to the amount reported on page 21 as benefits paid to participants due to one-time retiree bonuses paid during the fiscal year.

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
6/30/2007	$ 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	187,932,189	194,075,656	103.3%	(6,143,467)	40,449,816	(15.19)%
6/30/2015	198,700,213	206,132,066	103.7%	(7,431,853)	43,065,770	(17.26)%
6/30/2016	211,011,377	209,854,554	99.5%	1,156,823	44,192,010	2.62%

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

	Aggregate Actuarial Accrued Liabilities for					Percentages of Accrued Liabilities Covered by Actuarial Value of Assets	
Valuation Date	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
6/30/2007	$ 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
6/30/2015	100,193,761	16,601,222	81,905,230	98,506,452	206,132,066	100.0	100.0
6/30/2016	107,370,355	16,385,717	87,255,305	103,641,022	209,854,554	100.0	99.0

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, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
UAL as of July 1	$ (7,431,853)	$ (6,143,467)	$ 4,186,291	$ 32,349,707	$ 20,678,919	$ 20,587,388
Normal cost (NC) as of July 1	3,400,557	3,674,296	3,141,494	3,829,022	3,835,893	3,843,287
Interest for one year on UAL and NC	(282,191)	(201,865)	512,945	2,532,511	1,716,037	1,710,147
Contribution with interest	(3,038,928)	(4,135,969)	(6,050,540)	(5,462,385)	(5,098,812)	(5,120,922)
Expected UAL as of July 1	(7,352,415)	(6,807,005)	1,790,190	33,248,855	21,132,037	21,019,900
Adjustment due to change in actuarial assumptions	5,105,391	N/A	N/A	(30,716,477)	N/A	N/A
Actual UAL as of July 1	1,156,823	(7,431,853)	(6,143,467)	4,186,291	32,349,707	20,678,919
Net increase (decrease) in UAL	$ (3,403,847)	$ (624,848)	$ (7,933,657)	$ 1,653,913	$ 11,217,670	$ (340,981)

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

	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
A. Plan experience						
1. Investment return on actuarial value of assets	$ (1,722,581)	$ 6,742,968	$ 10,366,297	$ 15,681,697	$ 23,118,189	$ 16,487,971
2. New entrants		-	-	-	-	-
3. Liability Gain/(Loss)	(1,681,266)	(6,118,120)	(2,432,640)	16,688,693	(11,900,519)	(16,828,952)
4. Net plan experience [gain/(loss)]	(3,403,847)	(624,848)	7,933,657	32,370,390	11,217,670	(340,981)
B. Plan changes	-	-	-	-	-	-
C. Assumption changes	5,105,391	N/A	N/A	(30,716,477)	N/A	N/A
D. Net (increase) decrease in UAL	$ (3,403,847)	$ (624,848)	$ 7,933,657	$ 1,653,913	$ 11,217,670	$ (340,981)

CITY OF DANVILLE, VIRGINIA
FOUNDED 1793
SEAL
CHARTERED 1830

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Additions										
Employer contributions	$ 3,308,019	$ 3,902,716	$ 4,494,303	$ 4,611,297	$ 4,950,582	$ 4,929,208	$ 5,280,687	$ 5,849,278	$ 3,998,392	$ 2,937,842
Investment income (loss) - (net of expenses)	30,585,674	(11,863,225)	(40,504,078)	17,263,703	36,597,190	(1,137,468)	22,861,602	38,756,248	5,204,202	645,252
Total additions	33,893,693	(7,960,509)	(36,009,775)	21,875,000	41,547,772	3,791,740	28,142,289	44,605,526	9,202,594	3,583,094
Deductions										
Benefit payments	7,657,163	8,250,601	8,734,869	8,976,431	9,273,682	9,798,011	10,032,957	10,345,166	11,436,684	11,601,476
Administrative expenses	105,768	117,956	118,776	118,562	131,158	109,792	107,025	109,411	143,714	125,428
Refunds	133,982	59,566	136,262	3,660	190,414	15,871	74,438	34,958	157,590	21,697
Total deductions	7,896,913	8,428,123	8,989,907	9,098,653	9,595,254	9,923,674	10,214,420	10,489,535	11,737,988	11,748,601
Change in net position	$ 25,996,780	$ (16,388,632)	$ (44,999,682)	$ 12,776,347	$ 31,952,518	$ (6,131,934)	$ 17,927,869	$ 34,115,991	$ (2,535,394)	$ (8,165,507)

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: Age and Service Benefits	Retirees: Disabilities	Retirees: Vested	Beneficiaries	Total Benefits
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
6/30/2015	8,162,974	2,030,589	354,181	888,940	11,436,684
6/30/2016	8,188,654	2,101,636	398,273	912,913	11,601,476

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
Last Ten Fiscal Years

	Years Credited Service					
Retirement Effective Date	5-10	10-15	15-20	20-25	25-30	30+
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
July 1, 2014 to June 30, 2015						
Average monthly benefit	$ 340.07	916.25	550.44	1,152.97	2,295.94	3,471.74
Average final monthly salaries	$ 2,501.82	4,346.44	2,251.16	3,300.95	4,428.54	5,070.09
Number of active retirees	11	2	4	5	4	15
July 1, 2015 to June 30, 2016						
Average monthly benefit	$ 417.26	817.01	773.04	1,866.97	2,095.57	2,817.80
Average final monthly salaries	$ 3,441.52	4,197.03	2,814.56	3,706.05	4,106.14	5,188.37
Number of active retirees	6	7	7	4	6	7

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, 2016

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*						Options Selected**			
		1	2	3	4	5	6	1	2	3	5
Deferred	274	-	-	-	-	-	274	-	-	-	-
$0-100	9	-	2	-	4	1	2	3	1	5	-
101-200	30	5	7	-	1	17	-	26	3	1	-
201-300	27	3	10	-	7	7	-	15	4	8	-
301-400	31	8	10	7	4	2	-	20	7	4	-
401-500	30	4	8	5	6	7	-	22	2	6	-
501-600	22	4	8	1	6	3	-	15	4	3	-
601-700	28	3	8	6	4	7	-	18	6	3	1
701-800	23	4	6	6	3	4	-	16	6	1	-
801-900	33	6	10	5	9	3	-	18	4	11	-
901-1000	24	4	10	4	6	-	-	14	4	5	1
1001-1100	12	2	3	1	5	1	-	5	1	6	-
1101-1200	27	5	15	5	1	1	-	17	3	6	1
1201-1300	21	4	6	3	8	-	-	9	3	7	2
1301-1400	14	1	5	3	2	3	-	10	-	2	2
1401-1500	17	2	7	3	5	-	-	9	2	5	1
1501-1600	21	6	3	6	4	2	-	11	6	4	-
1601-1700	13	4	4	5	-	-	-	11	-	2	-
1701-1800	13	4	4	3	-	2	-	9	2	2	-
1801-1900	10	4	2	3	-	1	-	6	3	1	-
1901-2000	15	4	4	5	1	1	-	9	3	3	-
2001-2100	8	3	5	-	-	-	-	4	1	2	1
2101-2200	9	2	6	1	-	-	-	5	-	4	-
2201-2300	8	4	2	-	2	-	-	3	4	1	-
2301-2400	8	4	1	3	-	-	-	7	-	1	-
2401-2500	13	5	5	2	1	-	-	7	4	2	-
Over 2500	149	55	66	26	2	-	-	88	20	33	8
Totals	889	150	217	103	81	62	276	377	93	128	17

* Type of Retirement

1 Service retirement for age and/or service
2 Early retirement
3 Non-occupational/occupational disability
4 Joint survivorship - benefit paid to beneficiary
5 Vested retirement
6 Deferred future benefits (includes occupational disability)

** Options Selected (See Page 10)

1 Life
2 100% spousal
3 50% spousal
5 Social Security Option

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.

CITY OF DANVILLE, VIRGINIA
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COMPLIANCE

SECTION

BROWNEDWARDS
certified public accountants

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
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, 2016, 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 23, 2016.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. **Given these limitations we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Item 15-1, which we consider to be a significant deficiency.**

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*.**

Employees' Retirement System of the City of Danville, Virginia's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 23, 2016

EMPLOYEES' RETIREMENT SYSTEM OF
THE CITY OF DANVILLE, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016

A. FINDING – FINANCIAL STATEMENT AUDIT

15-1: Segregation of Duties (Significant Deficiency)

Condition:

An important aspect of any internal control system is the segregation of duties. Due to turnover in personnel in the past year, not all duties at the System have been adequately segregated. In an ideal system, no individual would perform more than one duty in connection with any transaction or series of transactions. With limited staff, sufficiently separating duties can be difficult or even impossible. As with all areas of internal control, management and those charged with governance should make careful decisions about the cost versus benefit of any internal control.

Recommendation:

We recommend that management take steps to eliminate performance of conflicting duties where possible or to implement effective compensating controls. Such duties are: the Retirement Accountant should not have access to create new retirees in the system; this function should be performed by Human Resources only. Year end 1099-Rs should be processed by someone separate from Human Resources and the Retirement Accountant, so no manipulation in the filing could be performed. This would allow notification from the IRS for any discrepancies in retiree information. These discrepancies should be investigated by someone besides the Retirement Accountant.

Management's Response:

Management concurs with the recommendation above. Management will take actions to effectively segregate duties or implement compensating controls where complete segregation is not feasible.

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