

# FINANCIAL STATEMENTS



CITY OF GALAX, VIRGINIA

FISCAL YEAR ENDED  
JUNE 30, 2016

**CITY OF GALAX, VIRGINIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Prepared By:  
Galax City Finance Department

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

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## INTRODUCTORY SECTION

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# CITY OF GALAX, VIRGINIA

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## CITY COUNCIL

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Willie Greene, Vice Mayor  
William Davis, Jr.  
Ches Helmick

C. M. Mitchell, Mayor

Margo Crouse  
John Garner  
Sharon Plichta

## CITY SCHOOL BOARD

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Dr. James Adams, Vice-Chair  
Stewart Merdian

Raymond Kohl, Chair

Helen Kyle  
Larry Spangler

## CITY SOCIAL SERVICES BOARD

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Keith Barker  
C.M. Mitchell

Regina Snow

Dr. Eugenia Larrowe  
Dr. Art Pemberton

## OTHER OFFICIALS

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City Manager ..... Keith Barker  
Director of Finance..... Judy Taylor-Gallimore  
Commissioner of the Revenue..... David Hankley  
Superintendent of Schools ..... Bill Sturgill  
Director of Social Services ..... Susan Clark  
City Attorney..... James Cornwell  
Chief of Police ..... Rick Clark

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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To the Honorable Members of  
the City Council of the  
City of Galax, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Change in Accounting Principle*

As described in Note 20 to the financial statements, in 2016, the City adopted new accounting guidance, GASB Statement Nos. 79 Certain External Investment Pools and Pool Participants and 82 Pension Issues - and amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding on pages 74 and 75-79 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

## *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galax, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

*Other Information (continued)*

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

The introductory section and statistical information 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 October 24, 2016, on our consideration of the City of Galax, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Galax, Virginia's internal control over financial reporting and compliance.

*Robinson, Turner, Co. Associates*

Blacksburg, Virginia  
October 24, 2016

## Basic Financial Statements

City of Galax, Virginia  
Statement of Net Position  
June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	IDA
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,952,316	\$ -	\$ 1,952,316	\$ 2,297,185	\$ 89,184
Taxes receivable	219,174	-	219,174	-	-
Accounts receivable	673,714	625,442	1,299,156	14,458	-
Internal balances	123,464	(123,464)	-	-	-
Due from component unit	9,750	-	9,750	-	-
Due from other governmental units	862,242	10,000	872,242	758,582	-
Inventories	-	-	-	30,607	-
Loans receivable	99,779	-	99,779	-	-
Prepaid items	14,249	-	14,249	103,644	-
Restricted assets:					
Cash and cash equivalents	78,864	70,799	149,663	208,537	-
Capital assets (net of accumulated depreciation):					
Land	2,051,349	149,374	2,200,723	439,368	-
Buildings and improvements	12,715,091	1,323,323	14,038,414	3,995,648	-
Machinery and equipment	1,356,935	272,131	1,629,066	511,720	-
Infrastructure	3,828,251	2,693,663	6,521,914	-	-
Construction in progress	3,500	41,126	44,626	-	-
Total assets	<u>\$ 23,988,678</u>	<u>\$ 5,062,394</u>	<u>\$ 29,051,072</u>	<u>\$ 8,359,749</u>	<u>\$ 89,184</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge on refunding	\$ 40,296	\$ -	\$ 40,296	\$ -	\$ -
Changes in proportionate share of pension liability	-	-	-	97,000	-
Pension contributions subsequent to measurement date	435,060	115,390	550,450	1,031,059	-
Total deferred outflows of resources	<u>\$ 475,356</u>	<u>\$ 115,390</u>	<u>\$ 590,746</u>	<u>\$ 1,128,059</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 303,041	\$ 39,835	\$ 342,876	\$ 64,459	\$ -
Wages and withholdings payable	265,781	56,342	322,123	-	-
Due to other governments	543,140	-	543,140	823,523	-
Customers' deposits	-	70,799	70,799	-	-
Accrued interest payable	89,085	-	89,085	-	-
Due to primary government	-	-	-	-	9,750
Long-term liabilities:					
Due within one year	804,811	169,836	974,647	138,844	-
Due in more than one year	9,490,715	1,904,791	11,395,506	12,199,881	-
Total liabilities	<u>\$ 11,496,573</u>	<u>\$ 2,241,603</u>	<u>\$ 13,738,176</u>	<u>\$ 13,226,707</u>	<u>\$ 9,750</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes paid in advance	\$ 11,532	\$ -	\$ 11,532	\$ -	\$ -
Items related to measurement of net pension liability	400,815	109,141	509,956	986,850	-
Total deferred inflows of resources	<u>\$ 412,347</u>	<u>\$ 109,141</u>	<u>\$ 521,488</u>	<u>\$ 986,850</u>	<u>\$ -</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 13,048,753	\$ 3,092,117	\$ 16,140,870	\$ 4,946,736	\$ -
Restricted					
Anthem stock proceeds	51,861	-	51,861	-	-
Blue Ridge Post book fund	14,519	-	14,519	-	-
Capital project funds	12,484	-	12,484	-	-
Cafeteria operations	-	-	-	208,537	-
Unrestricted	(572,503)	(265,077)	(837,580)	(9,881,022)	79,434
Total net position	<u>\$ 12,555,114</u>	<u>\$ 2,827,040</u>	<u>\$ 15,382,154</u>	<u>\$ (4,725,749)</u>	<u>\$ 79,434</u>

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Activities  
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Governmental Activities	Business-type Activities	Total	Component Units	
			Operating Contributions	Grants and Contributions				School Board	IDA
<b>PRIMARY GOVERNMENT:</b>									
Governmental activities:									
General government administration	\$ 1,593,969	\$ 20,272	\$ 89,742	\$ -	\$ (1,483,955)	\$ -	\$ (1,483,955)	\$ -	\$ -
Judicial administration	550,420	135,077	-	-	(415,343)	-	(415,343)	-	-
Public safety	2,968,540	56,880	551,428	-	(2,360,232)	-	(2,360,232)	-	-
Public works	2,498,899	375,802	1,849,314	370,384	96,601	-	96,601	-	-
Health and welfare	1,621,459	-	1,202,911	-	(418,548)	-	(418,548)	-	-
Education	4,027,300	-	-	-	(4,027,300)	-	(4,027,300)	-	-
Parks, recreation, and cultural	2,084,825	339,345	5,000	1,024,350	(716,130)	-	(716,130)	-	-
Community development	558,833	-	130,148	619,113	190,428	-	190,428	-	-
Interest on long-term debt	177,870	-	-	-	(177,870)	-	(177,870)	-	-
Total governmental activities	\$ 16,082,115	\$ 927,376	\$ 3,828,543	\$ 2,013,847	\$ (9,312,349)	\$ -	\$ (9,312,349)	\$ -	\$ -
Business-type activities:									
Water and sewer	\$ 2,511,724	\$ 2,519,732	\$ -	\$ 38,911	\$ -	\$ 46,919	\$ 46,919	\$ -	\$ -
Total primary government	\$ 18,593,839	\$ 3,447,108	\$ 3,828,543	\$ 2,052,758	\$ (9,312,349)	\$ 46,919	\$ (9,265,430)	\$ -	\$ -
<b>COMPONENT UNITS:</b>									
School Board	\$ 14,123,936	\$ 473,252	\$ 10,102,467	\$ -	\$ -	\$ -	\$ (3,548,217)	\$ (3,548,217)	\$ (1,037,733)
Industrial Development Authority	1,037,733	-	-	-	-	-	-	-	(1,037,733)
Total component units	\$ 15,161,669	\$ 473,252	\$ 10,102,467	\$ -	\$ -	\$ -	\$ (3,548,217)	\$ (3,548,217)	\$ (1,037,733)
General revenues:									
General property taxes	\$ 5,185,806				\$ 5,185,806				
Other local taxes:									
Local sales and use taxes	2,244,446				2,244,446				
Consumers' utility taxes	178,790				178,790				
Business license taxes	985,208				985,208				
Motor vehicle taxes	115,610				115,610				
Restaurant food taxes	2,075,561				2,075,561				
Lodging taxes	153,996				153,996				
Bank stock taxes	143,393				143,393				
Other local taxes	43,145				43,145				
Unrestricted revenues from the use of money and property	29,315				29,315			570	
Miscellaneous	222,549				222,549			29,077	
Grants and contributions not restricted to specific programs	505,191				505,191			3,756,823	
Transfers	(32,670)				32,670			-	
Total general revenues and transfers	\$ 11,850,340				\$ 32,670			\$ 3,786,470	
Change in net position	\$ 2,537,991				\$ 79,589			\$ 238,253	\$ (1,037,733)
Net position - beginning, as restated	10,017,123				2,747,451			(4,964,002)	1,117,167
Net position - ending	\$ 12,555,114				\$ 2,827,040			\$ (4,725,749)	\$ 79,434

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2016

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	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,031,180
Receivables (net of allowance for uncollectibles):	
Taxes receivable	219,174
Accounts receivable	673,714
Due from other funds	123,464
Due from component unit	9,750
Due from other governmental units	862,242
Loan receivable	99,779
Prepaid items	14,249
Total assets	\$ 4,033,552
<b>LIABILITIES</b>	
Accounts payable	\$ 303,041
Wages and withholdings payable	265,781
Due to other governments	543,140
Total liabilities	\$ 1,111,962
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	\$ 201,888
Unavailable revenue - meals tax	35,837
Property taxes paid in advance	11,532
Total deferred inflows of resources	\$ 249,257
Fund balance:	
Nonspendable	
Prepaid items	\$ 14,249
Loans receivable	99,779
Restricted	78,864
Committed	54,175
Unassigned	2,425,266
Total fund balances	\$ 2,672,333
Total liabilities, deferred inflows of resources, and fund balance	\$ 4,033,552

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
 Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Position  
 June 30, 2016

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Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 2,672,333	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$ 2,051,349	
Buildings and improvements	12,715,091	
Infrastructure	3,828,251	
Machinery and equipment	1,356,935	
Construction in progress	<u>3,500</u>	19,955,126
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The assets consist of unavailable taxes.		
Unavailable revenue	\$ 237,725	
Items related to measurement of net pension liability:		
Differences between expected and actual experience	(31,940)	
Difference between projected and actual earnings on pension plan investments	<u>(368,875)</u>	(163,090)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		435,060
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds, notes, and loans	\$ (6,946,669)	
Less: Unamortized charge on advance refunding	40,296	
Accrued interest payable	(89,085)	
Accrued landfill closure/postclosure monitoring liability	(708,458)	
Compensated absences	(388,280)	
Net OPEB obligation	(217,240)	
Net pension liability	<u>(2,034,879)</u>	(10,344,315)
Net position of governmental activities		<u><u>\$ 12,555,114</u></u>

The notes to the financial statements are an integral part of this statement.



City of Galax, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2016

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	<u>General</u>
<b>REVENUES</b>	
General property taxes	\$ 5,243,024
Other local taxes	5,964,380
Permits, privilege fees, and regulatory licenses	30,007
Fines and forfeitures	135,077
Revenue from the use of money and property	29,315
Charges for services	762,292
Miscellaneous	222,549
Recovered costs	174,056
Intergovernmental	5,323,231
Total revenues	\$ 17,883,931
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 1,503,411
Judicial administration	550,420
Public safety	3,031,605
Public works	2,380,453
Health and welfare	1,663,352
Education	3,769,847
Parks, recreation, and cultural	1,914,822
Community development	552,197
Nondepartmental	114,271
Capital projects	1,929,535
Debt service:	
Principal retirement	562,637
Interest and other fiscal charges	177,772
Total expenditures	\$ 18,150,322
Excess (deficiency) of revenues over (under) expenditures	\$ (266,391)
Net change in fund balances	\$ (266,391)
Fund balances - beginning	2,938,724
Fund balances - ending	\$ 2,672,333

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2016

---

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

Net change in fund balances - total governmental funds \$ (266,391)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded the depreciation in the current period.

Capital outlays	\$ 2,082,163	
Depreciation expense	<u>(902,007)</u>	1,180,156

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.

Disposal of assets	\$ (40,550)	
Transfer of assets (net) to business-type activities	(32,670)	
Transfer of assets (net) from Component-Unit IDA	<u>1,024,350</u>	951,130

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

Property taxes	\$ (57,218)	
Meals tax	(24,231)	
Change in deferred inflows related to the measurement of the net pension liability	<u>444,998</u>	363,549

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued or incurred:		
Change in accrued landfill closure/postclosure liability	\$ (6,319)	
Principal repayments:		
Bonds, notes, and loan agreements	<u>562,637</u>	556,318

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

Change in compensated absences	\$ (12,456)	
Change in accrued interest payable	2,205	
Amortization of bond premium	(2,303)	
Change in net OPEB obligation	(35,690)	
Change in net pension liability	(210,114)	
Change in deferred outflows related to pension payments subsequent to the measurement date	<u>11,587</u>	(246,771)

Change in net position of governmental activities		<u><u>\$ 2,537,991</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Net Position  
Proprietary Funds  
June 30, 2016

	Enterprise Fund
	<u>Water and Sewer</u>
<b>ASSETS</b>	
Current assets:	
Accounts receivable (net of allowance for uncollectibles)	\$ 625,442
Due from other governmental units	10,000
Total current assets	\$ 635,442
Noncurrent assets:	
Restricted cash and cash equivalents	\$ 70,799
Capital assets:	
Land	149,374
Utility plant in service	18,038,224
Machinery and equipment	778,291
Buildings and improvements	1,823,395
Construction in progress	41,126
Accumulated depreciation	(16,350,793)
Total net capital assets	\$ 4,479,617
Total noncurrent assets	\$ 4,550,416
Total assets	\$ 5,185,858
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension contributions subsequent to measurement date	\$ 115,390
 <b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 39,835
Accrued payroll and related liabilities	56,342
Due to other funds	123,464
Customers' deposits	70,799
Compensated absences - current portion	77,336
Bonds payable - current portion	92,500
Total current liabilities	\$ 460,276
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 19,334
Bonds payable - net of current portion	1,295,000
Net OPEB obligation	36,364
Net pension liability	554,093
Total noncurrent liabilities	\$ 1,904,791
Total liabilities	\$ 2,365,067
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Items related to measurement of net pension liability	\$ 109,141
 <b>NET POSITION</b>	
Net investment in capital assets	\$ 3,092,117
Unrestricted	(265,077)
Total net position	\$ 2,827,040

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2016

	Enterprise Fund
	Water and Sewer
<b>OPERATING REVENUES</b>	
Charges for services:	
Water revenues pledged as security for revenue bonds	\$ 1,223,797
Sewer revenues pledged as security for revenue bonds	1,162,856
Tap fees	17,500
Penalties and interest	13,322
Other revenue	102,257
Total operating revenues	\$ 2,519,732
<b>OPERATING EXPENSES</b>	
Personnel services	\$ 1,432,172
Utilities and telecommunication	309,173
Materials and supplies	273,512
Repairs and maintenance	190,008
Contractual services	16,091
Depreciation	287,715
Total operating expenses	\$ 2,508,671
Operating income (loss)	\$ 11,061
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest expense	\$ (3,053)
Total nonoperating revenues (expenses)	\$ (3,053)
Income before contributions and transfers	\$ 8,008
Capital contributions and construction grants	38,911
Transfers in	32,670
Change in net position	\$ 79,589
Total net position - beginning	2,747,451
Total net position - ending	\$ 2,827,040

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2016

	<u>Enterprise Fund Water and Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 2,494,344
Payments to suppliers	(805,191)
Payments to employees	(1,482,407)
Other operating revenues	48,949
Net cash provided by (used for) operating activities	<u>\$ 255,695</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Additions to utility plant	\$ (81,139)
Principal payments on bonds	(197,500)
Contributions in aid of construction	32,163
Interest expense	(5,356)
Net cash provided by (used for) capital and related financing activities	<u>\$ (251,832)</u>
Net increase (decrease) in cash and cash equivalents	\$ 3,863
Cash and cash equivalents - beginning (including restricted of \$66,936)	66,936
Cash and cash equivalents - ending (including restricted of \$70,799)	<u>\$ 70,799</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	<u>\$ 11,061</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 287,715
(Increase) decrease in accounts receivable	(29,251)
(Increase) decrease in prepaid items	2,548
(Increase) decrease in deferred outflows of resources	(79)
Increase (decrease) in deferred inflows of resources	(121,172)
Increase (decrease) in customer deposits	3,863
Increase (decrease) in accrued payroll and related liabilities	8,322
Increase (decrease) in accounts payable	(18,955)
Increase (decrease) in due to primary government	48,949
Increase (decrease) in compensated absences	(328)
Increase (decrease) in net OPEB obligation	5,809
Increase (decrease) in net pension liability	57,213
Total adjustments	<u>\$ 244,634</u>
Net cash provided by (used for) operating activities	<u>\$ 255,695</u>
Schedule of non-cash capital activities	
Contribution of capital assets (at net book value) from the General Fund	<u>\$ 32,670</u>

The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016

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	<u>Agency Funds</u>
	<u>Special Welfare</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 22,228
Total assets	<u>\$ 22,228</u>
<b>LIABILITIES</b>	
Amounts held for social services clients	\$ 22,228
Total liabilities	<u>\$ 22,228</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GALAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

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**Note 1-Summary of Significant Accounting Policies:**

The financial statements of the City of Galax, Virginia ("the City") conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The City of Galax, Virginia (government) is a political subdivision of the Commonwealth of Virginia governed by an elected seven-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component units.

The Galax City School Board ("the School Board") operates the elementary and secondary public schools in the City. School Board members are appointed by City Council. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type. The School Board does not issue separate financial statements.

The Galax City Industrial Development Authority ("the IDA") encourages and provides financing for industrial development in the City. The IDA directors are appointed by the City Council. The IDA is fiscally dependent upon the City because the City provides significant funding and approves all debt issuances. In addition, the IDA does not have separate taxing powers. The IDA is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate industrial development. The IDA is presented as an enterprise fund type and does not issue separate financial statements.

Jointly Governed Organizations - The following entities are excluded from the accompanying financial statements:

The Galax-Carroll Regional Library was created by the City and the County of Carroll. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$226,716 to the Library for the current year. The City provides accounting services (payroll services) for this organization.

**Note 1-Summary of Significant Accounting Policies: (Continued)**

A. Financial Reporting Entity (Continued)

The City and the Counties of Carroll and Grayson participate in the Twin County E-911 Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$94,585 to the Commission for the current year. The City provides accounting services (payroll services) for this organization.

The City and the County of Grayson participate in supporting the Galax-Grayson Ambulance Service. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The organization's activities are primarily supported by user charges; however the City provided a contribution of \$55,910 during the fiscal year. The City provides accounting services (payroll services) for this organization.

The City and the Counties of Carroll and Grayson participate in the Regional Solid Waste Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. Operations are financed by tipping fees and the individual jurisdictions are required to fund any annual deficit(s). The City paid \$104,630 in tipping fees during the current year.

The City and the Counties of Carroll and Grayson participate in The Wired Road Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The primary purpose of the Authority is to develop and construct broadband infrastructure in the participating localities and then lease that infrastructure to third parties. The organization's activities are to be primarily supported by lease revenue.

The City and Counties of Carroll and Grayson participate in The Twin County Airport Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The Commission is charged with operating the Twin County Regional Airport. During the current year the City contributed \$59,179 to the Commission. The City has also entered into an agreement with The Twin County Airport Commission to be responsible for a one-third share of their debt service for hangar construction. The commitment could be reduced based on potential revenue from hangar rentals.

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**Note 1-Summary of Significant Accounting Policies: (Continued)**

A. Financial Reporting Entity (Continued)

Blue Ridge Crossroads Economic Development Authority (BRCEDA) is the regional industrial facilities authority that represents the City and the Counties of Carroll and Grayson. Each jurisdiction appoints two members and an alternate member. A moral obligation for debt service is currently in place for a regional project known as Wildwood. Contributions to BRCEDA during the current year were \$161,148. It is the hope of BRCEDA that this park project will be a catalyst for economic development in the region.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of net position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide statement of net position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

**Note 1-Summary of Significant Accounting Policies: (Continued)**

C. Measurement focus, basis of accounting, and financial statement presentation

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

Agency funds use the accrual basis of accounting, but have no measurement focus as they do not report equity.

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It is used to account for and report for all financial resources of the general government, except those required to be accounted for and reported in other funds.

**Note 1-Summary of Significant Accounting Policies: (Continued)**

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

The government reports the following major proprietary funds:

The *Water and Sewer* Fund accounts for the activities of the City's water and sewer system, which includes water distribution and sewage collections systems throughout the City.

Additionally, the government reports the following fund types:

*Fiduciary funds* account for and report assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. Agency funds include *Special Welfare*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance

1. Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Note 1-Summary of Significant Accounting Policies: (Continued)**

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (Continued)

2. Prepaid items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

3. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year.

**Note 1-Summary of Significant Accounting Policies: (Continued)**

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (Continued)

5. Capital assets (Continued)

Property, plant, equipment, and infrastructure of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-50
Buildings and improvements	20-40
Machinery and equipment	4-15

6. Restricted Assets

Restricted assets consist of cash and cash equivalents that are legally restricted for use by enabling state legislation.

7. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments, changes in proportion and differences between employer contributions and proportionate share of contributions, and contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

**Note 1-Summary of Significant Accounting Policies: (Continued)**

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (Continued)

8. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes and meals tax receivables are reported in the governmental funds balance sheet. These amounts are comprised of uncollected property taxes and meals tax due prior to June 30 and prepaid taxes, which are deferred and recognized as an inflow of resources in the period that the amounts become available. Under the accrual basis, amounts prepaid are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

9. Property Taxes

Property is assessed at its value on January 1. Real estate taxes are payable on December 5<sup>th</sup>. Personal property taxes are due and collectible annually on December 5<sup>th</sup>. Liens may be placed on property taxes that are uncollected after the due date, December 5<sup>th</sup>. The City bills and collects its own property taxes.

10. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$627,952 at June 30, 2016. The allowance consists of delinquent taxes in the amount of \$441,458; delinquent meals tax of \$47,104; and delinquent water, sewer, and garbage bills of \$46,143.

11. Use of Estimates

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

**Note 1-Summary of Significant Accounting Policies: (Continued)**

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (Continued)

12. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

13. Pensions

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

14. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

15. Fund equity

The City reports funds in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);

**Note 1-Summary of Significant Accounting Policies: (Continued)**

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (Continued)

15. Fund equity (Continued)

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

16. Net Position

Net position is the difference between a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

17. Net position flow assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.



**Note 2-Stewardship, Compliance, and Accountability:**

A. Budgetary information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund, Enterprise Fund and the School Operating Fund
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. Only the City Council can revise the appropriation for each fund. The City Manager is authorized to transfer budgeted amounts within general government functions; however, the School Board is authorized to transfer budgeted amounts within the school fund.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all City units.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the City's accounting system.

A. Excess of expenditures over appropriations

Expenditures did not exceed appropriations in any funds.

B. Deficit fund equity

At June 30, 2016, there were no funds with negative equity.

**Note 3-Deposits and Investments:**

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

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The Local Government Investment Pool (LGIP) is not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. The fair value of the positions in the external investment pools (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Interest Rate Risk

The City has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

<u>Investment Maturities (in years)</u>			
<u>Investment Type</u>	<u>Fair Value</u>	<u>1 Year</u>	<u>1-5 Years</u>
Local Government Investment Pool	\$ 12,484	\$ 12,484	\$ -
Totals	\$ 12,484	\$ 12,484	\$ -

Custodial Credit Risk

At year end, the City was not exposed to any custodial credit risk for deposits or investments. The City limits deposits to those banks fully collateralized under the Commonwealth's Security for Public Deposits Act. The City policy in regards to investments requires that all investments be held in the City's name.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 3-Deposits and Investments: (Continued)**

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2016 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	\$ 12,484

**Note 4-Due from Other Governmental Units:**

The following amounts represent amounts due from other governments at year-end:

	Primary Government		Component Unit- School Board
	Governmental Activities	Business-type Activities	
Due from other local government agencies	\$ -	\$ 10,000	\$ 1,198
Commonwealth of Virginia:			
Local sales tax	369,335	-	-
Categorical aid-State sales tax	-	-	205,809
Categorical aid-Shared expenses	4,902	-	-
Categorical aid-Other	25,578	-	128,000
Non-categorical aid	56,755	-	-
Categorical aid-Virginia Public Assistance	27,382	-	-
Categorical aid-Comprehensive Services Act	89,963	-	-
Federal Government:			
Categorical aid-Virginia Public Assistance	44,058	-	-
Categorical aid-Other	244,269	-	423,575
Totals	\$ 862,242	\$ 10,000	\$ 758,582

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 5-Component-Unit Contribution and Obligations:**

Primary government contributions to component units for the year ended June 30, 2016, consisted of payments to School Board of \$3,756,823.

Component unit contributions to the primary government for the year ended June 30, 2016, consisted of transfer of assets from the IDA at net book value of \$1,024,350.

Fund	Due to Primary Government/ Component Unit	Due from Primary Government/ Component Unit
Primary Government:		
General Fund	\$ -	\$ 9,750
Component Unit		
IDA	\$ 9,750	\$ -
Totals	\$ 9,750	\$ 9,750

At year end, the Component-Unit IDA carries a liability to the Primary Government for funds due to the City under an agreement between the IDA and City for the IDA to match a portion of a grant the City received.

**Note 6-Interfund Transfers and Balance:**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization. During the fiscal year, the City (Governmental type activities) transferred an asset with a net book value of \$32,670 to the Water and Sewer Fund.

	Due From	Due To
General Fund	\$ 123,464	\$ -
Water and Sewer Fund	-	123,464
Total	\$ 123,464	\$ 123,464

Cash transfers to the Water and Sewer Fund have been necessary in the past to cover customer deposits in the Fund. Amounts due will be returned to the General Fund as resources are available.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 7-Long-Term Obligations:Primary Government - Governmental Activities Obligations:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2016.

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General Obligation Bonds	\$ 3,302,250	\$ -	\$ (130,000)	\$ 3,172,250
Note Payable	51,536	-	(51,536)	-
Literary Fund Loans	4,155,520	-	(381,101)	3,774,419
Landfill closure/postclosure liability	702,139	6,319	-	708,458
Compensated absences	375,824	294,324	(281,868)	388,280
Net OPEB obligation	181,550	41,122	(5,432)	217,240
Net pension liability	1,824,765	1,491,096	(1,280,982)	2,034,879
	<u>\$ 10,593,584</u>	<u>\$ 1,832,861</u>	<u>\$ (2,130,919)</u>	<u>\$ 10,295,526</u>
Total	<u>\$ 10,593,584</u>	<u>\$ 1,832,861</u>	<u>\$ (2,130,919)</u>	<u>\$ 10,295,526</u>

For governmental activities, compensated absences and the landfill closure/postclosure liability are generally liquidated in the General Fund.

Annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30,	General Obligation Bonds		Literary Fund Loans	
	Principal	Interest	Principal	Interest
2017	\$ 132,500	\$ 84,057	\$ 381,101	\$ 80,733
2018	194,000	80,469	381,101	71,800
2019	198,750	75,838	381,101	62,867
2020	203,500	71,085	381,101	53,933
2021	208,500	66,206	250,000	45,000
2022-2027	747,500	266,617	1,250,000	150,000
2028-2031	859,250	155,233	750,015	30,000
2032-2035	628,250	34,347	-	-
Totals	<u>\$ 3,172,250</u>	<u>\$ 833,852</u>	<u>\$ 3,774,419</u>	<u>\$ 494,333</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 7-Long-Term Obligations: (Continued)**

**Primary Government - Governmental Activities Obligations: (Continued)**

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<b>General Obligation Bonds:</b>						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 1,758,250	\$ 132,500
VML/VACO Loan	3.25%	July-14	2034	1,414,000	1,414,000	-
Total General Obligation Bonds					<u>\$ 3,172,250</u>	<u>\$ 132,500</u>
<b>Literary Fund Loans:</b>						
State Literacy Loan	3.00%	April-98	2019	2,622,035	\$ 524,419	\$ 131,101
State Literacy Loan	2.00%	May-08	2028	5,000,000	3,250,000	250,000
Total Literary Fund Loans					<u>\$ 3,774,419</u>	<u>\$ 381,101</u>
<b>Other Obligations:</b>						
Landfill closure/post-closure liability	n/a	n/a	n/a	n/a	\$ 708,458	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	388,280	291,210
Net OPEB Obligation	n/a	n/a	n/a	n/a	217,240	-
Net Pension Liability	n/a	n/a	n/a	n/a	2,034,879	-
Total Other Obligations					<u>\$ 3,348,857</u>	<u>\$ 291,210</u>
Total Long-term obligations					<u>\$ 10,295,526</u>	<u>\$ 804,811</u>

**Primary Government - Business-type Activities Obligations:**

The following is a summary of long-term obligations transactions of the Enterprise Fund for the year ended June 30, 2016.

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
Revenue bonds	\$ 1,585,000	\$ -	\$ (197,500)	\$ 1,387,500
Umamortized bond premium	963	-	(963)	-
Compensated absences	96,998	77,270	(77,598)	96,670
Net OPEB obligation	30,555	6,693	(884)	36,364
Net pension liability	496,880	406,021	(348,808)	554,093
Total	<u>\$ 2,210,396</u>	<u>\$ 489,984</u>	<u>\$ (625,753)</u>	<u>\$ 2,074,627</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 7-Long-Term Obligations: (Continued)**

Primary Government - Business-type Activities Obligations: (Continued)

For business-type activities, compensated absences are generally liquidated in the Proprietary Fund. Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2017	\$ 92,500	\$ -
2018	92,500	-
2019	92,500	-
2020	92,500	-
2021	92,500	-
2022-2026	462,500	-
2027-2031	462,500	-
<b>Totals</b>	<b>\$ 1,387,500</b>	<b>\$ -</b>

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 1,387,500	\$ 92,500
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	96,670	77,336
Net OBEP Obligation	n/a	n/a	n/a	n/a	36,364	-
Net Pension Liability	n/a	n/a	n/a	n/a	554,093	-
Total Other Obligations					<u>\$ 687,127</u>	<u>\$ 77,336</u>
Total Long-term obligations					<u>\$ 2,074,627</u>	<u>\$ 169,836</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 8-Long-Term Obligations-Component Units:**

Discretely Presented Component Unit - School Board Obligations:

The following is a summary of long-term obligations transactions of the Component Unit-School Board for the year ended June 30, 2016.

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Net OPEB obligation	\$ 218,874	\$ 64,490	\$ (18,720)	\$ 264,644
Compensated absences	175,186	138,518	(140,149)	173,555
Net Pension liability	11,492,494	2,824,950	(2,416,918)	11,900,526
<b>Total</b>	<b>\$ 11,886,554</b>	<b>\$ 3,027,958</b>	<b>\$ (2,575,787)</b>	<b>\$ 12,338,725</b>

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Net OPEB Obligation	n/a	n/a	n/a	n/a	\$ 264,644	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	173,555	138,844
Net Pension Liability	n/a	n/a	n/a	n/a	11,900,526	-
<b>Total long-term obligations</b>					<b>\$ 12,338,725</b>	<b>\$ 138,844</b>

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**Note 9-Pension Plan:**

*Plan Description*

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by the VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report, participate in the VRS plan through the City of Galax and the participating entities report their proportionate information on the basis of a cost-sharing plan.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b>                      Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b>                      Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b>                      The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> </ul>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b>                      Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b>                      VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b>                      Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b>                      Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p><b>Eligible Members</b>                      Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• School division employees</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Hybrid Opt-In Election (Cont.)</b>                      The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b>                      The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members</b>                      Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b>                      Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b>                      Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b>                      A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b>                      Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b>                      Same as Plan 1.</p>	<p><b>Creditable Service</b>  <b><u>Defined Benefit Component:</u></b>                      Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b>                      Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b>                      Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b>                      Same as Plan 1.</p>	<p><b>Vesting</b>  <u><b>Defined Benefit Component:</b></u>                      Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u><b>Defined Contributions Component:</b></u>                      Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting (Cont.)</p>	<p>Vesting (Cont.)</p>	<p>Vesting (Cont.)  <u>Defined Contributions Component: (Cont.)</u>                      Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>                      The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p><b>Calculating the Benefit</b>                      See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <u>Defined Benefit Component:</u>                      See definition under Plan 1</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Calculating the Benefit (Cont.)</b>                      An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit (Cont.)</b></p>	<p><b>Calculating the Benefit (Cont.)</b>  <u><b>Defined Contribution Component:</b></u>                      The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b>                      A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>                      A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>                      Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b>  <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b>  <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b>                      Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b>  <u><b>Defined Benefit Component:</b></u>  <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u>                      Not applicable.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Normal Retirement Age</b>                      VRS: Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b>                      Age 60.</p>	<p><b>Normal Retirement Age</b>                      VRS: Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b>                      Same as Plan 1.</p>	<p><b>Normal Retirement Age</b>  <u><b>Defined Benefit Component:</b></u>                      VRS: Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u>                      Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b>                      VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b>                      Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>                      VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b>                      Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <u><b>Defined Benefit Component:</b></u>                      VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u>                      Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b>                      VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b>                      VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b>  <u><b>Defined Benefit Component:</b></u>                      VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>



**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>                      The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u>                      For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>                      The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u>                      Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <u>Defined Benefit Component:</u>                      Same as Plan 2.</p> <p><u>Defined Contribution Component:</u>                      Not applicable.</p> <p><u>Eligibility:</u>                      Same as Plan 1 and Plan 2.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u>                      The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u>                      Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u>                      Same as Plan 1 and Plan 2.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Disability Coverage</b>                      Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b>                      Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b>                      Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b>                      Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b>                      Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b>  <u><b>Defined Benefit Component:</b></u>                      Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>•Hybrid Retirement Plan members are ineligible for ported service.</li> <li>•The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>•Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><u><b>Defined Contribution Component:</b></u>                      Not applicable.</p>

**Note 9-Pension Plan: (Continued)**

*Plan Description (Continued)*

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

*Contributions*

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

The City's contractually required contribution rate for the year ended June 30, 2016 was 11.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$550,450 and \$538,783 for the years ended June 30, 2016 and June 30, 2015, respectively.

*Net Pension Liability*

At June 30, 2016, the City reported a liability of \$2,588,972 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. In order to allocate the net pension liability to all the employers included in the plan, the City is required to determine its proportionate share of the net pension. Contributions as of June 30, 2015 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2016 and 2015, the City's proportion was 78.62%.

**Note 9-Pension Plan: (Continued)**

*Actuarial Assumptions - General Employees*

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

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

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

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

**Note 9-Pension Plan: (Continued)**

***Actuarial Assumptions - General Employees (Continued)***

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

Largest 10 - Non-LEOS:

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

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

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

***Actuarial Assumptions - Public Safety Employees***

The total pension liability for Public Safety employees in the City of Galax Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

**Note 9-Pension Plan: (Continued)**

*Actuarial Assumptions - Public Safety Employees (Continued)*

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

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

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

**Note 9-Pension Plan: (Continued)***Long-Term Expected Rate of Return*

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

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

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.



**Note 9-Pension Plan: (Continued)**

*Discount Rate*

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the City Retirement Plan Net Pension Liability	5,257,871	2,588,972	363,971

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 9-Pension Plan: (Continued)**

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

For the year ended June 30, 2016, the City recognized pension expense of \$239,941. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 40,637
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	469,319
Employer contributions subsequent to the measurement date	<u>550,450</u>	<u>-</u>
Total	<u>\$ 550,450</u>	<u>\$ 509,956</u>

\$550,450 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2017	\$ (196,575)
2018	(196,575)
2019	(201,249)
2020	84,443
Thereafter	-

**Note 9-Pension Plan: (Continued)**

**Component Unit School Board (nonprofessional)**

*Plan Description*

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

*Employees Covered by Benefit Terms*

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

	<b><u>Component Unit School Board Nonprofessional</u></b>
Inactive members or their beneficiaries currently receiving benefits	16
Inactive members:	
Vested inactive members	-
Non-vested inactive members	4
Inactive members active elsewhere in VRS	<u>3</u>
Total inactive members	7
Active members	<u>29</u>
Total covered employees	<u><u>52</u></u>

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Note 9-Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

*Contributions*

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 10.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$51,508 and \$56,560 for the years ended June 30, 2016 and June 30, 2015, respectively.

*Net Pension Liability*

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

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**Note 9-Pension Plan: (Continued)**

**Component Unit School Board (nonprofessional) (Continued)**

*Changes in Net Pension Liability*

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 2,134,097	\$ 1,777,603	\$ 356,494
Changes for the year:			
Service cost	\$ 52,788	\$ -	\$ 52,788
Interest	146,030	-	146,030
Differences between expected and actual experience	(92,264)	-	(92,264)
Contributions - employer	-	56,560	(56,560)
Contributions - employee	-	27,173	(27,173)
Net investment income	-	81,921	(81,921)
Benefit payments, including refunds of employee contributions	(95,913)	(95,913)	-
Administrative expenses	-	(1,116)	1,116
Other changes	-	(16)	16
Net changes	\$ 10,641	\$ 68,609	\$ (57,968)
Balances at June 30, 2015	\$ 2,144,738	\$ 1,846,212	\$ 298,526

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Component Unit School Board (nonprofessional) Net Pension Liability	551,589	298,526	83,666

**Note 9-Pension Plan: (Continued)**

**Component Unit School Board (nonprofessional) (Continued)**

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

For the year ended June 30, 2016, the Component Unit School Board (nonprofessional) recognized pension expense of \$7,214. At June 30, 2016, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Component Unit School Board (nonprofessional)</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 69,313
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	47,537
Employer contributions subsequent to the measurement date	<u>51,508</u>	<u>-</u>
Total	<u>\$ 51,508</u>	<u>\$ 116,850</u>

\$51,508 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<b><u>Year ended June 30</u></b>	<b><u>Component Unit School Board (nonprofessional)</u></b>
2017	\$ (41,600)
2018	(41,600)
2019	(42,059)
2020	8,409
Thereafter	-

**Note 9-Pension Plan: (Continued)**

**Component Unit School Board (professional)**

*Plan Description*

Additional information related to the plan description, plan contribution requirements, System long-term expected rate of return, and discount rate is included in the first section of this note.

*Contributions*

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$979,551 and \$991,404 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of \$11,602,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.09218% as compared to 0.09215% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$876,787. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

Note 9-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

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

	<u>Component Unit School Board (professional)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 160,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	710,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	97,000	-
Employer contributions subsequent to the measurement date	<u>979,551</u>	<u>-</u>
Total	<u>\$ 1,076,551</u>	<u>\$ 870,000</u>

\$979,551 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (professional)</u>
2017	\$ (290,000)
2018	(290,000)
2019	(290,000)
2020	113,000
Thereafter	(16,000)



Note 9-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

*Actuarial Assumptions*

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

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.95%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

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

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

Note 9-Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Long-Term Expected Rate of Return*

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

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

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

**Note 9-Pension Plan: (Continued)**

**Component Unit School Board (professional) (Continued)**

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	16,979,000	11,602,000	7,176,000

***Pension Plan Fiduciary Net Position***

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

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**Note 10-Other Postemployment Benefits - City Health Insurance:**

A. Plan Description

The City provides health care benefits for retired employees and their beneficiaries through a single-employer healthcare plan ("the Plan"). The Plan provides for participation by eligible retirees of the City in the health insurance programs available to City employees. The Plan will provide retiring employees the option to continue health insurance offered by the City. An eligible City retiree may receive this benefit until the retiree is eligible to receive Medicare. To be eligible for this benefit a retiree must have 15 years of service with the City. The benefits, employee contributions and the employer contributions are governed by the City and can be amended through City Council action. The Plan does not issue a publicly available financial report.

B. Funding Policy

The City currently pays for post-retirement health care benefits on a pay-as-you-go basis. The City currently has 141 employees that are eligible for the program. In addition, for retirees of the City, 100 percent of premiums are the responsibility of the retiree. The rates (monthly premiums) were as follows at July 1, 2014:

Participants	Single	Employee/Spouse
<u>Employee</u>	<u>\$ 620</u>	<u>\$ 1,260</u>

C. Annual OPEB Cost and Net OPEB Obligation

The City is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2016, the City's annual OPEB cost (expense) was \$47,815 and the ARC was \$47,990. The obligation calculation is as follows:

Annual required contribution	\$ 47,990
Interest on net OPEB obligation	8,484
Adjustment to annual required contribution	(8,659)
Annual OPEB cost (expense)	<u>\$ 47,815</u>
Contributions made	6,316
Increase in net OPEB obligation	<u>\$ 41,499</u>
Net OPEB obligation - beginning of year	212,105
Net OPEB obligation - ending of year	<u>\$ 253,604</u>

**Note 10-Other Postemployment Benefits - City Health Insurance: (Continued)**

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 47,815	13%	\$ 253,603
6/30/2015	47,848	14%	212,105
6/30/2014	34,831	19%	170,817

D. Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2014 (the most recent valuation date), was as follows:

Actuarial accrued liability (AAL)	\$ 428,204
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 428,204
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,216,393
UAAL as a percentage of covered payroll	8.21%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information, as it becomes available, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**Note 10-Other Postemployment Benefits - City Health Insurance: (Continued)**

E. Actuarial methods and Assumptions (Continued)

In the July 1, 2014, most recent actuarial valuation, the unit credit cost method was used. Under this method, stable employer contributions are produced in amounts that increase at the same rate as the employer's payroll. The actuarial assumptions included: discount rate at 4%, salary increases (inflation) of 2.5%/year and medical trend rate at 6.5%/year. The UAAL is being amortized as a level percentage over the remaining amortization period, which at July 1, 2014, was 30 years.

**Note 11-Other Postemployment Benefits - School Board Health Insurance:**

A. Plan Description

The School Board provides health care benefits for retired employees and their beneficiaries through a single-employer healthcare plan ("the Plan"). The Plan provides for participation by eligible retirees of the School Board in the health insurance programs available to School Board employees. The Plan will provide retiring employees the option to continue health insurance offered by the School Board. An eligible School Board retiree may receive this benefit until the retiree is eligible to receive Medicare. To be eligible for this benefit a retiree must have 10 years of service with the School Board. The benefits, employee contributions and the employer contributions are governed by the School Board and can be amended through School Board action. The Plan does not issue a publicly available financial report.

B. Funding Policy

The School Board currently pays for post-retirement health care benefits on a pay-as-you-go basis. The School Board currently has 187 employees that are eligible for the program. In addition, for retirees of the School Board, 100 percent of premiums are the responsibility of the retiree. The rates (monthly premiums) were as follows at July 1, 2014:

Participants	Single	Employee/Spouse
Employee	\$ 693	\$ 1,281

C. Annual OPEB Cost and Net OPEB Obligation

The School Board is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 11-Other Postemployment Benefits - School Board Health Insurance: (Continued)**

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

For 2015, the School Board’s annual OPEB cost (expense) was \$64,490 and the ARC was \$64,670. The obligation calculation is as follows:

Annual required contribution	\$ 64,670
Interest on net OPEB obligation	8,755
Adjustment to annual required contribution	<u>(8,935)</u>
Annual OPEB cost (expense)	\$ 64,490
Contributions made	<u>18,720</u>
Increase in net OPEB obligation	\$ 45,770
Net OPEB obligation - beginning of year	<u>218,874</u>
Net OPEB obligation - ending of year	<u>\$ 264,644</u>

The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 64,490	29%	\$ 264,644
6/30/2015	64,528	29%	218,874
6/30/2014	47,920	44%	173,066

D. Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2014 (the most recent valuation date), was as follows:

Actuarial accrued liability (AAL)	\$ 563,375
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 563,375
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 6,695,000
UAAL as a percentage of covered payroll	8.41%

**Note 11-Other Postemployment Benefits - School Board Health Insurance: (Continued)**

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information, as it becomes available, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, most recent actuarial valuation, the unit credit cost method was used. Under this method, stable employer contributions are produced in amounts that increase at the same rate as the employer's payroll. The actuarial assumptions included: discount rate at 4%, salary increases (inflation) of 2.5%/year and a medical trend rate at 6.5%/year. Mortality rates are based on the 1994 GAM. The UAAL is being amortized as a level percentage over the remaining amortization period, which at July 1, 2014, was 30 years.

**Note 12-Other Post-Employment Benefits - VRS Health Insurance Credit:**

**Professional Employees - Discretely Presented Component Unit School Board:**

A. Plan Description

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.



**Note 12-Other Post-Employment Benefits - VRS Health Insurance Credit: (Continued)**

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.06% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2016, 2015, and 2014 were \$74,267, \$72,649, and \$74,805, respectively, and equaled the required contributions.

**Note 13-Unearned and Deferred/Unavailable Revenue:**

Unearned and unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

Primary Government:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$201,888 at June 30, 2016.

Unavailable Meals Tax Revenue - Unavailable revenue representing uncollected meals tax not available for funding of current expenditures totaled \$35,837 at June 30, 2016.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2016 but paid in advance by the taxpayers totaled \$11,532. Property taxes paid on advance of an enforceable legal claim by the City are considered deferred inflows under the full and modified accrual basis of accounting and are treated accordingly in the statement of net position and balance sheet.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 14-Capital Assets:**

Capital asset activity for the year ended June 30, 2016 was as follows:

## Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,786,536	\$ 264,813	\$ -	\$ 2,051,349
Construction in progress	2,865,022	1,794,124	(4,655,646)	3,500
Total capital assets not being depreciated	<u>\$ 4,651,558</u>	<u>\$ 2,058,937</u>	<u>\$ (4,655,646)</u>	<u>\$ 2,054,849</u>
Capital assets, being depreciated:				
Infrastructure	\$ 1,787,269	\$ 3,310,830	\$ (40,550)	\$ 5,057,549
Buildings and improvements	16,028,197	2,318,549	-	18,346,746
Machinery and equipment	4,882,098	220,459	(95,240)	5,007,317
Total capital assets being depreciated	<u>\$ 22,697,564</u>	<u>\$ 5,849,838</u>	<u>\$ (135,790)</u>	<u>\$ 28,411,612</u>
Accumulated depreciation:				
Infrastructure	\$ (545,941)	\$ (683,357)	\$ -	\$ (1,229,298)
Buildings and improvements	(5,531,321)	(100,334)	-	(5,631,655)
Machinery and equipment	(3,448,020)	(264,932)	62,570	(3,650,382)
Total accumulated depreciation	<u>\$ (9,525,282)</u>	<u>\$ (1,048,623)</u>	<u>\$ 62,570</u>	<u>\$ (10,511,335)</u>
Total capital assets being depreciated, net	<u>\$ 13,172,282</u>	<u>\$ 4,801,215</u>	<u>\$ (73,220)</u>	<u>\$ 17,900,277</u>
Governmental activities capital assets, net	<u><u>\$ 17,823,840</u></u>	<u><u>\$ 6,860,152</u></u>	<u><u>\$ (4,728,866)</u></u>	<u><u>\$ 19,955,126</u></u>

Current year increases for assets and accumulated depreciation include the transfer of a hydraulic hammer at a value of \$16,400 net of accumulated depreciation of \$16,400 from Business-type activities.

Current year increases for assets and accumulated depreciation include the transfer of land and a building at a value of \$1,154,566 net of accumulated depreciation of \$130,216 from Component-unit IDA.

Current year decreases for assets and accumulated depreciation include the transfer of a backhoe and air compressor at a value of \$79,340 net of accumulated depreciation of \$46,670 to Business-type activities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016**Note 14-Capital Assets: (Continued)**

## Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 149,374	\$ -	\$ -	\$ 149,374
Construction in progress	71,489	31,205	(61,568)	41,126
Total capital assets not being depreciated	<u>\$ 220,863</u>	<u>\$ 31,205</u>	<u>\$ (61,568)</u>	<u>\$ 190,500</u>
Capital assets, being depreciated:				
Infrastructure	\$ 17,976,656	\$ 61,568	\$ -	\$ 18,038,224
Building and improvements	1,823,395	-	-	1,823,395
Machinery and equipment	665,417	129,274	(16,400)	778,291
Total capital assets being depreciated	<u>\$ 20,465,468</u>	<u>\$ 190,842</u>	<u>\$ (16,400)</u>	<u>\$ 20,639,910</u>
Accumulated depreciation:				
Infrastructure	\$ (15,183,629)	\$ (160,932)	\$ -	\$ (15,344,561)
Building and improvements	(411,199)	(88,873)	-	(500,072)
Machinery and equipment	(437,980)	(84,580)	16,400	(506,160)
Total accumulated depreciation	<u>\$ (16,032,808)</u>	<u>\$ (334,385)</u>	<u>\$ 16,400</u>	<u>\$ (16,350,793)</u>
Total capital assets being depreciated, net	<u>\$ 4,432,660</u>	<u>\$ (143,543)</u>	<u>\$ -</u>	<u>\$ 4,289,117</u>
Business-type activities capital assets, net	<u>\$ 4,653,523</u>	<u>\$ (112,338)</u>	<u>\$ (61,568)</u>	<u>\$ 4,479,617</u>

Current year increases for assets and accumulated depreciation include the transfer of a backhoe and air compressor at a value of \$79,340 net of accumulated depreciation of \$46,670 from Governmental activities.

Current year decreases for assets and accumulated depreciation include the transfer of a hydraulic hammer at a value of \$16,400 net of accumulated depreciation of \$16,400 to Governmental activities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 14-Capital Assets: (Continued)**

Primary Government: (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 15,357
Public safety	199,040
Public works	203,211
Health and welfare	815
Education	257,453
Parks, recreation, and culture	<u>226,131</u>
 Total depreciation expense-governmental activities	 <u><u>\$ 902,007</u></u>
 Business-type activities:	
Water and sewer	<u><u>\$ 287,715</u></u>

Capital asset activity for the School Board for the year ended June 30, 2016 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 439,368	\$ -	\$ -	\$ 439,368
Total capital assets not being depreciated	<u>\$ 439,368</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 439,368</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,018,027	\$ -	\$ -	\$ 9,018,027
Machinery and equipment	1,673,502	143,399	-	1,816,901
Total capital assets being depreciated	<u>\$ 10,691,529</u>	<u>\$ 143,399</u>	<u>\$ -</u>	<u>\$ 10,834,928</u>
Accumulated depreciation:				
Buildings and improvements	\$ (4,823,287)	\$ (199,092)	\$ -	\$ (5,022,379)
Machinery and equipment	(1,222,644)	(82,537)	-	(1,305,181)
Total accumulated depreciation	<u>\$ (6,045,931)</u>	<u>\$ (281,629)</u>	<u>\$ -</u>	<u>\$ (6,327,560)</u>
Total capital assets being depreciated, net	<u>\$ 4,645,598</u>	<u>\$ (138,230)</u>	<u>\$ -</u>	<u>\$ 4,507,368</u>
School Board capital assets, net	<u><u>\$ 5,084,966</u></u>	<u><u>\$ (138,230)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,946,736</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 14-Capital Assets: (Continued)**

Capital asset activity for the IDA for the year ended June 30, 2016 was as follows:

Discretely Presented Component Unit - IDA:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 231,219	\$ -	\$ (231,219)	\$ -
Capital assets, being depreciated:				
Buildings	\$ 923,347	\$ -	\$ (923,347)	\$ -
Accumulated depreciation:				
Buildings	\$ (130,216)	\$ -	\$ 130,216	\$ -
Total capital assets being depreciated, net	\$ 793,131	\$ -	\$ (793,131)	\$ -
IDA capital assets, net	<u>\$ 1,024,350</u>	<u>\$ -</u>	<u>\$ (1,024,350)</u>	<u>\$ -</u>

Current year decreases for assets and accumulated depreciation include the transfer of land and a building at a value of \$1,154,566 net of accumulated depreciation of \$130,216 to Governmental activities.

**Note 15-Risk Management:**

The City and its component unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The City participates with other localities in a public entity risk pool for its coverage of workers compensation, crime coverage, boiler and machinery, property insurance, automobile coverage, general liability, and public official's liability insurance with the Virginia Municipal Group. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City pays the Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit or depletion of all available excess insurance, the pool may assess all members in the year in which such deficit occurs.

The Component-unit School Board participates with other divisions in a public entity risk pool for its coverage of workers compensation, crime coverage, boiler and machinery, property insurance, automobile coverage, general liability, and public official's liability insurance with the Virginia School Board Association Property and Casualty Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The School Board pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit or depletion of all available excess insurance, the pool may assess all members in the year in which such deficit occurs.

**Note 15-Risk Management: (Continued)**

The City and its component unit - School Board continue to carry commercial insurance for all other risk of loss. Settle claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 16-Contingent Liabilities:**

Federal programs in which the City and its component units participate were audited in accordance with the provisions of Title 2 U.S *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

**Note 17-Landfill Closure and Post-closure Care Cost:**

The City closed its former landfill site in 1994. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure.

The presence of certain contaminants has been detected in the groundwater, which thereby extends the monitoring period in excess of the initial requirement. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City as discussed below. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances. The cumulative amount of estimated postclosure care and corrective costs to date for this site, less cash paid for such costs to date, totals \$708,458. This amount is included in the long-term liabilities in the primary government.

The City's current plan of remediation is monitored natural attenuation. This remedy consists of monitoring wells on the site for what is expected to be approximately thirty years beginning in the year 2010. It is the City and its external engineer's belief that during thirty years, the groundwater contaminants will decrease to an acceptable level and the City will be released by the DEQ from all other monitoring requirements.

The City uses the financial test method of demonstrating assurance for postclosure care and corrective action costs.

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

Note 18-Commitments and Contingencies:

Construction Commitments

The City was involved in several construction projects during the fiscal year, as presented below:

Project	Contract Amount	Contract Amount Outstanding at June 30, 2016
Shaw Street Storm Drainage Improvements Project	\$ 37,400	\$ 17,150
Route 58 Construction	45,000	7,535
Route 58 Construction	26,000	25,325
Route 58 Construction	1,102,279	849,227
Blue Ridge Crossroads Commerce Park	4,000	2,800

Wired Road Authority

During 2009, the Wired Road Authority entered a lease agreement and received a loan in the amount of \$260,000 to complete a broadband infrastructure project. The Authority is responsible for the debt service on the lease. The City has a non-binding commitment to make the debt service payments for the Authority. The balance remaining on the lease at the end of the year is \$88,272. At year end, the City reports an amount of \$63,316 for the reimbursement of amounts paid by the City on the Authority's behalf.

Shared Service Fees

The City shares services with Carroll County and Grayson County for costs incurred for the localities courts and sheriff offices. Due to the nature of these services the final amount due to each County is not known until after the financial statement audit has been completed. It is management's policy to record a liability and expenditure during the current period that is equal to the amount paid during the prior year to account for unbilled shared service fees. Any difference caused during the true-up after year end is recorded in the year the bill is paid. During the current year, the shared service liability due to Carroll County and Grayson County is estimated at \$543,140. The true-up amount recorded during the current year for 2015 actual cost was (\$35,782).

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2016

**Note 19-Restricted and Committed Funds and Restricted Net Position:**

	General Fund	Component Unit School Fund
Governmental Activities/Funds:		
Restricted:		
Anthem stock proceeds	\$ 51,861	\$ -
Blue Ridge Post book fund	14,519	-
Capital Project funds	12,484	-
Cafeteria funds	-	208,537
	\$ 78,864	\$ 208,537
Total restricted balances		
Governmental Funds:		
Committed funds:		
Police narcotics	\$ 9,667	\$ -
Police DARE	6,147	-
Fire Department grants	38,361	-
	\$ 54,175	\$ -
Total committed funds		

**Note 20-Adoption of Accounting Principles:**

**Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants***

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 2.

**Governmental Accounting Standards Board Statement No. 82 *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73***

The Authority implemented provisions of Governmental Accounting Standards Board (GASB) Statement No. 82 during the fiscal year. The objective of this Statement is to address certain issues that have been raised with respect to Statements. No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.



**Note 21-Upcoming Pronouncements:**

Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

**Note 22 - Subsequent Events:**

Subsequent to year end, City Council authorized the issuance of a bond anticipation note and a revenue anticipation note in the amounts of \$1,500,000 and \$600,000, respectively. Amounts are expected to be repaid with future tax revenues and bond proceeds.

## Required Supplementary Information

City of Galax, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 5,048,900	\$ 5,048,900	\$ 5,243,024	\$ 194,124
Other local taxes	5,812,000	5,812,000	5,964,380	152,380
Permits, privilege fees, and regulatory licenses	20,500	20,500	30,007	9,507
Fines and forfeitures	130,500	130,500	135,077	4,577
Revenue from the use of money and property	48,580	48,580	29,315	(19,265)
Charges for services	776,200	776,200	762,292	(13,908)
Miscellaneous	81,700	190,214	222,549	32,335
Recovered costs	499,833	499,833	174,056	(325,777)
Intergovernmental:	6,045,752	6,448,955	5,323,231	(1,125,724)
Total revenues	\$ 18,463,965	\$ 18,975,682	\$ 17,883,931	\$ (1,091,751)
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,568,444	\$ 1,557,736	\$ 1,503,411	\$ 54,325
Judicial administration	610,950	610,950	550,420	60,530
Public safety	2,943,721	3,182,870	3,031,605	151,265
Public works	2,495,220	2,475,377	2,380,453	94,924
Health and welfare	1,778,062	1,778,062	1,663,352	114,710
Education	4,079,846	4,032,346	3,769,847	262,499
Parks, recreation, and cultural	1,929,776	1,950,279	1,914,822	35,457
Community development	667,322	713,827	552,197	161,630
Nondepartmental	231,115	209,465	114,271	95,194
Capital projects	2,152,140	2,919,876	1,929,535	990,341
Debt service:				
Principal retirement	590,000	590,000	562,637	27,363
Interest and other fiscal charges	177,869	177,869	177,772	97
Total expenditures	\$ 19,224,465	\$ 20,198,657	\$ 18,150,322	\$ 2,048,335
Excess (deficiency) of revenues over (under) expenditures	\$ (760,500)	\$ (1,222,975)	\$ (266,391)	\$ 956,584
Net change in fund balances	\$ (760,500)	\$ (1,222,975)	\$ (266,391)	\$ 956,584
Fund balances - beginning	760,500	1,222,975	2,938,724	1,715,749
Fund balances - ending	\$ -	\$ -	\$ 2,672,333	\$ 2,672,333

Note 1: GAAP serves as the budgetary basis of accounting

City of Galax, Virginia  
Schedule of OPEB Funding  
For the Year Ended June 30, 2016

Primary Government:

City Health Care Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2014	\$ -	\$ 428,204	\$ 428,204	0.00%	\$ 5,216,393	8.21%
July 1, 2012	-	336,490	336,490	0.00%	4,549,428	7.40%
July 1, 2010	-	295,788	295,788	0.00%	4,713,716	6.28%

Discretely Presented Component Unit:

School Board Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2014	\$ -	\$ 563,375	\$ 563,375	0.00%	\$ 6,695,000	8.41%
July 1, 2012	-	435,711	435,711	0.00%	5,800,144	7.51%
July 1, 2010	-	486,866	486,866	0.00%	6,219,691	7.83%

City of Galax, Virginia  
 Schedule of Employer's Proportionate Share of Net Pension Liability  
 For the Year Ended June 30, 2016

Actuarial Valuation Date	Proportion of the Net Pension Liability (NPL)	Proportionate Share of the NPL	Covered Payroll	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
(1)	(2)	(3)	(4)	(5)	(6)
<b>Primary Government - City Retirement Plan</b>					
2015	78.62%	\$ 2,588,972	\$ 4,692,751	55.17%	87.59%
2014	78.62%	2,321,645	4,588,421	50.60%	88.34%
<b>Component Unit School Board (professional)</b>					
2015	0.09218%	\$ 11,602,000	\$ 6,853,703	169.28%	70.68%
2014	0.09215%	11,136,000	6,740,206	165.22%	70.88%

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

City of Galax, Virginia  
 Schedule of Components of and Changes in Net Pension Liability and Related Ratios  
 Component Unit School Board (nonprofessional)  
 For the Year Ended June 30, 2016

	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service cost	\$ 52,788	\$ 59,100
Interest	146,030	138,221
Changes of benefit terms	-	-
Differences between expected and actual experience	(92,264)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(95,913)	(75,607)
<b>Net change in total pension liability</b>	<u>\$ 10,641</u>	<u>\$ 121,714</u>
<b>Total pension liability - beginning</b>	<u>2,134,097</u>	<u>2,012,383</u>
<b>Total pension liability - ending (a)</b>	<u><u>\$ 2,144,738</u></u>	<u><u>\$ 2,134,097</u></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 56,560	\$ 58,635
Contributions - employee	27,173	27,537
Net investment income	81,921	242,426
Benefit payments, including refunds of employee contributions	(95,913)	(75,607)
Administrative expense	(1,116)	(1,285)
Other	(16)	13
<b>Net change in plan fiduciary net position</b>	<u>\$ 68,609</u>	<u>\$ 251,719</u>
<b>Plan fiduciary net position - beginning</b>	<u>1,777,603</u>	<u>1,525,884</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 1,846,212</u></u>	<u><u>\$ 1,777,603</u></u>
<b>School Division's net pension liability - ending (a) - (b)</b>	\$ 298,526	\$ 356,494
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	86.08%	83.30%
<b>Covered payroll</b>	\$ 554,534	\$ 552,382
<b>School Division's net pension liability as a percentage of covered payroll</b>	53.83%	64.54%

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

City of Galax, Virginia  
 Schedule of Employer Contributions  
 For the Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2016	\$ 550,450	\$ 550,450	\$ -	\$ 4,768,294	11.54%
2015	538,784	538,784	-	4,692,751	11.48%
<b>Component Unit School Board (nonprofessional)</b>					
2016	\$ 51,508	\$ 51,508	-	\$ 507,791	10.14%
2015	56,560	56,560	-	554,534	10.20%
2014	58,635	58,635	-	552,382	10.61%
2013	59,223	59,223	-	557,134	10.63%
2012	46,062	46,062	-	518,711	8.88%
2011	44,814	44,814	-	504,659	8.88%
2010	43,050	43,050	-	502,916	8.56%
2009	41,852	41,852	-	488,930	8.56%
2008	23,360	23,360	-	442,422	5.28%
2007	23,984	23,984	-	454,249	5.28%
<b>Component Unit School Board (professional)</b>					
2016	\$ 979,551	\$ 979,551	-	\$ 7,006,311	13.98%
2015	991,404	991,404	-	6,853,703	14.47%
2014	785,908	785,908	-	6,740,206	11.66%
2013	762,537	762,537	-	6,539,768	11.66%

Current year contributions are from City and School Board records and prior year contributions are from the VRS actuarial valuation performed each year.

Schedule is intended to show information for 10 years. Prior to 2015 the City information reported in the City's reported included participants that are not reported in the City's report. Therefore, no additional data is currently available for the City. Data prior to 2013 for the Component Unit School Board professional was not available. Additional years will be included as they become available.

City of Galax, Virginia  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2016

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In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

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

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Component Unit School Board - Professional Employees

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



## Other Supplementary Information

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD**

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**MAJOR GOVERNMENTAL FUND**

School Operating Fund - The School Operating Fund accounts for and reports the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the City's General Fund.

City of Galax, Virginia  
Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2016

		<u>School Operating Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	2,505,722
Receivables (net of allowance for uncollectibles):		
Accounts receivable		14,458
Due from other governmental units		758,582
Inventories		30,607
Prepaid items		103,644
Total assets		<u>\$ 3,413,013</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$	64,459
Salaries payable		823,523
Total liabilities		<u>\$ 887,982</u>
Fund balances:		
Nonspendable		
Prepaid and inventory	\$	134,251
Restricted		
School cafeterias		208,537
Unassigned		2,182,243
Total fund balances		<u>\$ 2,525,031</u>
Total liabilities and fund balances		<u>\$ 3,413,013</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above		\$ 2,525,031
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	439,368
Buildings and improvements		3,995,648
Machinery and equipment		511,720
		<u>4,946,736</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability		
Differences between expected and actual experience	\$	(229,313)
Difference between projected and actual earnings on pension plan investments		(986,850)
		<u>(1,216,163)</u>
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		
		1,031,059
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	\$	(173,555)
Net OPEB obligation		(264,644)
Net pension liability		(11,900,526)
Adjustments for changes in proportionate share of net pension liability		97,000
		<u>(12,241,725)</u>
Net position of governmental activities		<u>\$ (4,725,749)</u>

City of Galax, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds - Discretely Presented Component Unit - School Board  
For the Year Ended June 30, 2016

		Total Governmental Funds
<b>REVENUES</b>		
Revenue from the use of money and property	\$	570
Charges for services		473,252
Miscellaneous		29,077
Recovered costs		3,398
Intergovernmental		13,859,290
Total revenues		\$ 14,365,587
<b>EXPENDITURES</b>		
Current:		
Education	\$	14,272,406
Total expenditures		\$ 14,272,406
Excess (deficiency) of revenues over (under) expenditures	\$	93,181
Net change in fund balances	\$	93,181
Fund balances - beginning		2,431,850
Fund balances - ending	\$	2,525,031
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:		
Net change in fund balances - total governmental funds - per above	\$	93,181
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.		
Capital outlays	\$	143,399
Depreciation expense		(281,629)
		(138,230)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows related to the measurement of the net pension liability		774,381
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		
Change in compensated absences	\$	1,631
Change in net OPEB obligation		(45,770)
Change in net pension liability		(408,032)
Change in deferred outflows related to pensions		(38,908)
		(491,079)
Change in net position of governmental activities	\$	238,253

City of Galax, Virginia  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Discretely Presented Component Unit - School Board  
 For the Year Ended June 30, 2016

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 570	\$ 70
Charges for services	280,305	305,050	473,252	168,202
Miscellaneous	20,180	20,180	29,077	8,897
Recovered costs	1,500	1,500	3,398	1,898
Intergovernmental	13,908,791	13,920,767	13,859,290	(61,477)
Total revenues	<u>\$ 14,211,276</u>	<u>\$ 14,247,997</u>	<u>\$ 14,365,587</u>	<u>\$ 117,590</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 14,212,276	\$ 14,248,997	\$ 14,272,406	\$ (23,409)
Total expenditures	<u>\$ 14,212,276</u>	<u>\$ 14,248,997</u>	<u>\$ 14,272,406</u>	<u>\$ (23,409)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	<u>\$ 93,181</u>	<u>\$ 94,181</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Total other financing sources (uses)	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ (1,000)</u>
Net change in fund balances	\$ -	\$ -	\$ 93,181	\$ 93,181
Fund balances - beginning	-	-	2,431,850	2,431,850
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,525,031</u>	<u>\$ 2,525,031</u>

DISCRETELY PRESENTED COMPONENT UNIT - INDUSTRIAL  
DEVELOPMENT AUTHORITY

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MAJOR ENTERPRISE FUND

Industrial Development Authority (IDA) - The IDA operating fund account is an enterprise fund that accounts for operations of the City's Component-unit IDA.

City of Galax, Virginia  
 Discretely Presented Component Unit  
 City of Galax, Virginia - Industrial Development Authority  
 Statement of Net Position - Proprietary Fund  
 June 30, 2016

	Enterprise Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 89,184
Total assets	\$ 89,184
<b>LIABILITIES</b>	
Current liabilities:	
Due to primary government	\$ 9,750
Total liabilities	\$ 9,750
<b>Net Position</b>	
Unrestricted	\$ 79,434
Total net position	\$ 79,434

City of Galax, Virginia  
 Discretely Presented Component Unit  
 City of Galax, Virginia - Industrial Development Authority  
 Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund  
 For the Year Ended June 30, 2016

	Enterprise Fund
<b>OPERATING EXPENSES</b>	
Miscellaneous	\$ 13,383
Total operating expenses	\$ 13,383
Operating income (loss)	\$ (13,383)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Contribution to primary government	\$ (1,024,350)
Total nonoperating revenues (expenses)	\$ (1,024,350)
Change in net position	\$ (1,037,733)
Total net position - beginning	1,117,167
Total net position - ending	\$ 79,434



City of Galax, Virginia  
Discretely Presented Component Unit  
City of Galax, Virginia - Industrial Development Authority  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended June 30, 2016

	Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 30,000
Payments to suppliers	(60,185)
Net cash provided by (used for) operating activities	\$ (30,185)
Net increase (decrease) in cash and cash equivalents	\$ (30,185)
Cash and cash equivalents - beginning	119,369
Cash and cash equivalents - ending	\$ 89,184
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ (13,383)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in intergovernmental receivables	30,000
Increase (decrease) in accounts payable	(26,568)
Increase (decrease) in due to primary government	(20,234)
Total adjustments	\$ (16,802)
Net cash provided by (used for) operating activities	\$ (30,185)
<b>Schedule of non-cash capital activities:</b>	
Contribution of capital assets (at net book value) to primary government	\$ (1,024,350)

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 3,235,000	\$ 3,235,000	\$ 3,383,476	\$ 148,476
Real and personal public service corporation taxes	110,000	110,000	110,672	672
Personal property taxes	535,000	535,000	516,633	(18,367)
Furniture and fixtures	335,000	335,000	341,421	6,421
Machinery and tools taxes	785,000	785,000	790,168	5,168
Delinquent administrative fee	1,900	1,900	4,125	2,225
Penalties	17,000	17,000	49,056	32,056
Interest	30,000	30,000	47,473	17,473
Total general property taxes	\$ 5,048,900	\$ 5,048,900	\$ 5,243,024	\$ 194,124
Other local taxes:				
Local sales and use taxes	\$ 2,230,000	\$ 2,230,000	\$ 2,244,446	\$ 14,446
Consumers' utility taxes	180,000	180,000	178,790	(1,210)
Local consumption tax	50,000	50,000	47,002	(2,998)
Local admissions tax	17,000	17,000	20,374	3,374
Business license taxes	1,100,000	1,100,000	985,208	(114,792)
Motor vehicle licenses	115,000	115,000	115,610	610
Bank stock taxes	130,000	130,000	143,393	13,393
Hotel and motel room taxes	140,000	140,000	153,996	13,996
Restaurant food taxes	1,850,000	1,850,000	2,075,561	225,561
Total other local taxes	\$ 5,812,000	\$ 5,812,000	\$ 5,964,380	\$ 152,380
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 4,500	\$ 4,500	\$ 3,866	\$ (634)
Building permits and other licenses	16,000	16,000	26,141	10,141
Total permits, privilege fees, and regulatory licenses	\$ 20,500	\$ 20,500	\$ 30,007	\$ 9,507
Fines and forfeitures:				
Court fines and forfeitures	\$ 130,000	\$ 130,000	\$ 134,842	\$ 4,842
Parking fines	500	500	235	(265)
Total fines and forfeitures	\$ 130,500	\$ 130,500	\$ 135,077	\$ 4,577
Revenue from use of money and property:				
Revenue from use of money	\$ 80	\$ 80	\$ 1,756	\$ 1,676
Revenue from use of property	48,500	48,500	27,559	(20,941)
Total revenue from use of money and property	\$ 48,580	\$ 48,580	\$ 29,315	\$ (19,265)
Charges for services:				
Charges for animal adoptions	\$ 5,900	\$ 5,900	\$ 7,009	\$ 1,109
Charges for courthouse maintenance	5,500	5,500	4,511	(989)
Charges for parking spaces	2,000	2,000	1,692	(308)
Charges for courtroom security	18,000	18,000	19,864	1,864
Other charges for services	22,500	22,500	20,272	(2,228)
Sheriff's fees	100	100	-	(100)
Charges for sanitation and waste removal	378,500	378,500	369,599	(8,901)
Charges for parks and recreation	343,700	343,700	339,345	(4,355)
Total charges for services	\$ 776,200	\$ 776,200	\$ 762,292	\$ (13,908)

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Miscellaneous:				
Miscellaneous	\$ 43,200	\$ 43,200	\$ 54,248	\$ 11,048
Sale of surplus	6,000	6,000	959	(5,041)
Sale of cemetery lots	8,000	8,000	11,425	3,425
Donations and contributions	21,500	130,014	154,283	24,269
Asset forfeiture funds	3,000	3,000	1,634	(1,366)
Total miscellaneous	<u>\$ 81,700</u>	<u>\$ 190,214</u>	<u>\$ 222,549</u>	<u>\$ 32,335</u>
Recovered costs:				
Wired Road	\$ 31,658	\$ 31,658	-	\$ (31,658)
Juvenile probation	30,000	30,000	23,511	(6,489)
Animal Shelter	72,206	72,206	56,160	(16,046)
IDA	268,369	268,369	9,750	(258,619)
Sanitation recovered costs	2,500	2,500	2,579	79
Police recovered costs	52,000	52,000	56,163	4,163
Bottom Area project	11,000	11,000	16,835	5,835
Other recovered costs	32,100	32,100	9,058	(23,042)
Total recovered costs	<u>\$ 499,833</u>	<u>\$ 499,833</u>	<u>\$ 174,056</u>	<u>\$ (325,777)</u>
Total revenue from local sources	<u>\$ 12,418,213</u>	<u>\$ 12,526,727</u>	<u>\$ 12,560,700</u>	<u>\$ 33,973</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications sales and use taxes	\$ 238,000	\$ 238,000	\$ 226,050	\$ (11,950)
Recordation tax	10,000	10,000	13,451	3,451
Motor vehicle carriers' tax	28,000	28,000	30,658	2,658
Mobile home titling tax	2,000	2,000	5,020	3,020
Personal property tax relief funds	230,000	230,000	230,012	12
Total noncategorical aid	<u>\$ 508,000</u>	<u>\$ 508,000</u>	<u>\$ 505,191</u>	<u>\$ (2,809)</u>
Categorical aid:				
Shared expenses:				
Commissioner of the revenue	\$ 57,000	\$ 57,000	\$ 58,337	\$ 1,337
Registrar/electoral board	27,000	27,000	31,405	4,405
Total shared expenses	<u>\$ 84,000</u>	<u>\$ 84,000</u>	<u>\$ 89,742</u>	<u>\$ 5,742</u>
Other categorical aid:				
599 Funds (Police funding)	\$ 313,000	\$ 313,000	\$ 313,500	\$ 500
Comprehensive services act	286,380	286,380	269,956	(16,424)
Street and highway funds	1,765,000	1,841,604	1,842,887	1,283
Litter control	6,000	6,000	6,427	427
Virginia Commission for the Arts	5,000	5,000	5,000	-
Public assistance and welfare administration	351,721	351,721	331,550	(20,171)
VTC Marketing Leveraging Grant	5,000	5,000	17,175	12,175
EMS 4 for Life Funding	-	-	6,063	6,063
Highway planning and construction grants	1,030,000	1,030,000	295,526	(734,474)
Asset forfeiture funds	6,500	6,500	6,085	(415)

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Other categorical aid: (Continued)				
Brownfields assistance grant	\$ -	\$ 20,000	\$ 20,000	\$ -
Other categorical aid	69,533	79,533	16,847	(62,686)
Total other categorical aid	<u>\$ 3,838,134</u>	<u>\$ 3,944,738</u>	<u>\$ 3,131,016</u>	<u>\$ (813,722)</u>
Total categorical aid	<u>\$ 3,922,134</u>	<u>\$ 4,028,738</u>	<u>\$ 3,220,758</u>	<u>\$ (807,980)</u>
Total revenue from the Commonwealth	<u>\$ 4,430,134</u>	<u>\$ 4,536,738</u>	<u>\$ 3,725,949</u>	<u>\$ (810,789)</u>
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ 637,993	\$ 637,993	\$ 601,405	\$ (36,588)
Community development block grants	420,570	420,570	435,819	15,249
Public safety grants	30,500	124,999	138,379	13,380
Community improvement grants	100,000	100,000	183,294	83,294
FEMA safer grant	65,207	65,207	64,344	(863)
DMV grants	25,000	25,000	-	(25,000)
Highway planning and construction grants	283,848	392,848	74,858	(317,990)
Rural Development grants	52,500	52,500	-	(52,500)
RBEG grant	-	74,700	67,973	(6,727)
High intensity drug trafficking grant	-	12,000	3,560	(8,440)
Building entrepreneurial economics grant	-	3,750	25,000	21,250
Cooperative forestry assistance grant	-	2,650	2,650	-
Total categorical aid	<u>\$ 1,615,618</u>	<u>\$ 1,912,217</u>	<u>\$ 1,597,282</u>	<u>\$ (314,935)</u>
Total revenue from the federal government	<u>\$ 1,615,618</u>	<u>\$ 1,912,217</u>	<u>\$ 1,597,282</u>	<u>\$ (314,935)</u>
Total General Fund	<u>\$ 18,463,965</u>	<u>\$ 18,975,682</u>	<u>\$ 17,883,931</u>	<u>\$ (1,091,751)</u>
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 500	\$ 500	\$ 570	\$ 70
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 158,508	\$ 158,508
Transportation of pupils	50	50	-	(50)
Payments from other divisions	275,255	300,000	308,692	8,692
Tuition and payments from other divisions	5,000	5,000	6,052	1,052
Total charges for services	<u>\$ 280,305</u>	<u>\$ 305,050</u>	<u>\$ 473,252</u>	<u>\$ 168,202</u>
Miscellaneous:				
Donations	\$ -	\$ -	\$ 8,191	\$ 8,191
E-rate	19,680	19,680	19,680	-
Other miscellaneous	500	500	1,206	706
Total miscellaneous	<u>\$ 20,180</u>	<u>\$ 20,180</u>	<u>\$ 29,077</u>	<u>\$ 8,897</u>

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
Other recovered costs	\$ 1,500	\$ 1,500	\$ 3,398	\$ 1,898
Total revenue from local sources	\$ 302,485	\$ 327,230	\$ 506,297	\$ 179,067
Intergovernmental:				
Revenues from local governments:				
Contribution from the City of Galax, Virginia	\$ 4,066,823	\$ 3,966,823	\$ 3,756,823	\$ (210,000)
Total revenues from local governments	\$ 4,066,823	\$ 3,966,823	\$ 3,756,823	\$ (210,000)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 1,100,000	\$ 1,105,000	\$ 1,147,449	\$ 42,449
Basic school aid	4,165,249	4,165,568	4,168,592	3,024
Remedial summer education	45,247	56,120	56,121	1
Regular foster care	-	-	2,620	2,620
Adult secondary education	7,859	7,859	12,843	4,984
Gifted and talented	44,541	44,576	44,541	(35)
Remedial education	228,394	228,569	228,392	(177)
Virginia preschool initiative	126,359	126,359	126,359	-
Textbook payment	91,187	91,396	91,186	(210)
Vocational SOQ payments	102,351	102,429	102,350	(79)
Social security fringe benefits	264,406	264,608	264,404	(204)
Retirement fringe benefits	522,178	522,578	522,174	(404)
Group life insurance benefits	17,058	17,072	17,058	(14)
Early reading intervention	29,933	27,631	27,631	-
Homebound education	7,653	9,748	9,748	-
Special education	449,206	449,550	449,202	(348)
Regional program tuition	125,000	106,718	103,545	(3,173)
Vocation equipment	21,469	21,469	3,866	(17,603)
Vocational occupational preparedness	4,043	3,866	23,044	19,178
At risk payments	286,919	287,291	286,919	(372)
Mentor teacher program	1,581	1,581	1,050	(531)
Primary class size	298,214	299,601	299,601	-
Technology	128,000	128,000	128,000	-
Standards of Learning algebra readiness	35,464	28,441	28,441	-
School Food	9,185	11,478	11,580	102
Other State revenue	38,678	38,678	43,069	4,391
English as a second language	146,525	143,369	143,369	-
Compensation supplement	73,301	73,314	73,259	(55)
Early reading specialist	22,295	22,295	22,295	-
Other state funds	5,036	7,079	7,079	-
Total categorical aid	\$ 8,397,331	\$ 8,392,243	\$ 8,445,787	\$ 53,544
Total revenue from the Commonwealth	\$ 8,397,331	\$ 8,392,243	\$ 8,445,787	\$ 53,544

City of Galax, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
School breakfast program	\$ -	\$ -	\$ 133,038	\$ 133,038
School lunch program	544,000	560,802	468,341	(92,461)
Title I	482,600	494,591	504,962	10,371
Title VI-B, Special education flow-through	246,941	241,668	238,691	(2,977)
Vocational education	29,775	30,782	30,782	-
Title VI-B, Special education pre-school	12,791	14,034	14,034	-
Rural and low income schools	25,530	23,683	23,683	-
English language acquisition grant	22,053	21,231	31,734	10,503
Advanced placement program	999	999	-	(999)
Improving teacher quality	64,520	64,520	62,591	(1,929)
Twenty-first century community learning centers	-	94,000	133,396	39,396
Other federal funds	15,428	15,391	15,428	37
Total categorical aid	<u>\$ 1,444,637</u>	<u>\$ 1,561,701</u>	<u>\$ 1,656,680</u>	<u>\$ 94,979</u>
Total revenue from the federal government	<u>\$ 1,444,637</u>	<u>\$ 1,561,701</u>	<u>\$ 1,656,680</u>	<u>\$ 94,979</u>
Total School Operating Fund	<u>\$ 14,211,276</u>	<u>\$ 14,247,997</u>	<u>\$ 14,365,587</u>	<u>\$ 117,590</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 14,211,276</u>	<u>\$ 14,247,997</u>	<u>\$ 14,365,587</u>	<u>\$ 117,590</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
General government administration:				
Legislative:				
Mayor and Council	\$ 39,055	\$ 36,055	\$ 32,986	\$ 3,069
General and financial administration:				
City Manager	\$ 472,951	\$ 467,451	\$ 473,027	\$ (5,576)
City Attorney	75,000	65,000	60,002	4,998
Marketing	161,055	155,033	170,236	(15,203)
Commissioner of revenue	192,412	198,512	197,796	716
Finance department	555,504	546,504	483,528	62,976
Total general and financial administration	\$ 1,456,922	\$ 1,432,500	\$ 1,384,589	\$ 47,911
Board of elections:				
Electoral Board	\$ 25,241	\$ 34,091	\$ 23,271	\$ 10,820
Registrar	47,226	55,090	62,565	(7,475)
Total board of elections	\$ 72,467	\$ 89,181	\$ 85,836	\$ 3,345
Total general government administration	\$ 1,568,444	\$ 1,557,736	\$ 1,503,411	\$ 54,325
Judicial administration:				
Courts:				
General district court	\$ 44,750	\$ 44,750	\$ 43,158	\$ 1,592
Magistrate	1,200	1,200	710	490
Shared services	565,000	565,000	506,552	58,448
Total courts	\$ 610,950	\$ 610,950	\$ 550,420	\$ 60,530
Total judicial administration	\$ 610,950	\$ 610,950	\$ 550,420	\$ 60,530
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,086,933	\$ 2,088,835	\$ 1,997,508	\$ 91,327
Narcotics	6,500	28,598	24,396	4,202
Community policing	6,500	6,500	5,202	1,298
COPS grant	49,618	49,618	51,444	(1,826)
Total law enforcement and traffic control	\$ 2,149,551	\$ 2,173,551	\$ 2,078,550	\$ 95,001
Fire and rescue services:				
Fire programs	\$ 274,850	\$ 285,000	\$ 267,303	\$ 17,697
E911 programs	113,470	163,469	162,042	1,427
Ambulance and rescue services	155,207	155,207	118,821	36,386
Total fire and rescue services	\$ 543,527	\$ 603,676	\$ 548,166	\$ 55,510
Correction and detention:				
Juvenile probation	\$ 93,419	\$ 228,419	\$ 235,016	\$ (6,597)
Correction and probation	4,475	4,475	3,941	534
Total correction and detention	\$ 97,894	\$ 232,894	\$ 238,957	\$ (6,063)

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Other protection:				
Animal control	\$ 29,605	\$ 29,605	\$ 36,745	\$ (7,140)
Medical examiner	200	200	80	120
Animal shelter	107,868	107,868	89,432	18,436
Safe routes to schools	15,076	35,076	39,675	(4,599)
Total other protection	<u>\$ 152,749</u>	<u>\$ 172,749</u>	<u>\$ 165,932</u>	<u>\$ 6,817</u>
Total public safety	<u>\$ 2,943,721</u>	<u>\$ 3,182,870</u>	<u>\$ 3,031,605</u>	<u>\$ 151,265</u>
Public works:				
Engineering:				
Engineering	\$ 170,526	\$ 170,526	\$ 174,637	\$ (4,111)
Maintenance of highways, streets and bridges:				
Highways, streets, bridges and sidewalks	\$ 1,517,299	\$ 1,532,696	\$ 1,458,810	\$ 73,886
Street lighting	73,000	73,000	71,292	1,708
Traffic signals	27,600	27,600	23,006	4,594
Total maint. of highways, streets and bridges	<u>\$ 1,617,899</u>	<u>\$ 1,633,296</u>	<u>\$ 1,553,108</u>	<u>\$ 80,188</u>
Sanitation and waste removal:				
Refuse collection and disposal	\$ 262,926	\$ 257,926	\$ 251,329	\$ 6,597
Landfill	52,000	39,500	27,394	12,106
Total sanitation and waste removal	<u>\$ 314,926</u>	<u>\$ 297,426</u>	<u>\$ 278,723</u>	<u>\$ 18,703</u>
Maintenance of general buildings and grounds:				
Building maintenance	\$ 257,006	\$ 260,666	\$ 276,082	\$ (15,416)
Property maintenance	134,863	113,463	97,903	15,560
Total maintenance of general buildings and grounds	<u>\$ 391,869</u>	<u>\$ 374,129</u>	<u>\$ 373,985</u>	<u>\$ 144</u>
Total public works	<u>\$ 2,495,220</u>	<u>\$ 2,475,377</u>	<u>\$ 2,380,453</u>	<u>\$ 94,924</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 112,958	\$ 112,958	\$ 112,958	\$ -
Mental health and mental retardation:				
Mental health contribution	\$ 34,983	\$ 34,983	\$ 34,983	\$ -
Welfare:				
Welfare administration and programs	\$ 1,588,719	\$ 1,588,719	\$ 1,474,009	\$ 114,710
Contributions to welfare agencies	41,402	41,402	41,402	-
Total welfare	<u>\$ 1,630,121</u>	<u>\$ 1,630,121</u>	<u>\$ 1,515,411</u>	<u>\$ 114,710</u>
Total health and welfare	<u>\$ 1,778,062</u>	<u>\$ 1,778,062</u>	<u>\$ 1,663,352</u>	<u>\$ 114,710</u>
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 13,023	\$ 13,023	\$ 13,024	\$ (1)
Contribution to the City School Board	4,066,823	4,019,323	3,756,823	262,500
Total education	<u>\$ 4,079,846</u>	<u>\$ 4,032,346</u>	<u>\$ 3,769,847</u>	<u>\$ 262,499</u>



City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Parks, recreation, and cultural:				
Parks and recreation:				
Parks	\$ 59,700	\$ 59,700	\$ 56,150	\$ 3,550
Recreation	1,202,649	1,200,949	1,193,484	7,465
Rosewald Felts	1,000	1,000	2,074	(1,074)
Rex Theater	30,200	22,345	22,222	123
Golf Course	216,556	215,514	177,637	37,877
Farmer's Market	3,750	3,750	2,950	800
Total parks and recreation	\$ 1,513,855	\$ 1,503,258	\$ 1,454,517	\$ 48,741
Cultural enrichment:				
Museum	\$ 31,745	\$ 31,745	\$ 44,325	\$ (12,580)
Chestnut Creek School of the Arts	140,000	140,000	140,000	-
Art programs and contributions	18,000	3,000	3,000	-
CCSA woodkworking ship	-	46,100	45,984	116
Total cultural enrichment	\$ 189,745	\$ 220,845	\$ 233,309	\$ (12,464)
Library:				
Regional library	\$ 226,176	\$ 226,176	\$ 226,996	\$ (820)
Total parks, recreation, and cultural	\$ 1,929,776	\$ 1,950,279	\$ 1,914,822	\$ 35,457
Community development:				
Planning and community development:				
Planning and development	\$ 139,381	\$ 171,086	\$ 163,848	\$ 7,238
Broadband	31,658	31,658	-	31,658
Bottom area project	333,200	348,000	227,201	120,799
BRCEDA	163,083	163,083	161,148	1,935
Total planning and community development	\$ 667,322	\$ 713,827	\$ 552,197	\$ 161,630
Total community development	\$ 667,322	\$ 713,827	\$ 552,197	\$ 161,630
Nondepartmental:				
Nondepartmental	\$ 231,115	\$ 209,465	\$ 114,271	\$ 95,194
Capital projects:				
Capital projects	\$ 2,152,140	\$ 2,919,876	\$ 1,929,535	\$ 990,341
Debt service:				
Principal retirement	\$ 590,000	\$ 590,000	\$ 562,637	\$ 27,363
Interest and other fiscal charges	177,869	177,869	177,772	97
Total debt service	\$ 767,869	\$ 767,869	\$ 740,409	\$ 27,460
Total General Fund	\$ 19,224,465	\$ 20,198,657	\$ 18,150,322	\$ 2,048,335
<b>Discretely Presented Component Unit - School Board</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Administration and health services	\$ 778,275	\$ 773,475	\$ 675,304	\$ 98,171

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board (Continued)				
School Operating Fund: (Continued)				
Education: (Continued)				
Instruction costs:				
Instructional costs	\$ 10,226,525	\$ 10,265,307	\$ 10,183,615	\$ 81,692
Operating costs:				
Pupil transportation	\$ 468,263	\$ 470,569	\$ 555,785	\$ (85,216)
Operation and maintenance of school plant	1,394,899	1,290,794	1,233,207	57,587
School food service	570,797	587,819	779,690	(191,871)
Facilities	-	-	37,850	(37,850)
Technology	647,565	735,370	806,955	(71,585)
Total operating costs	<u>\$ 3,081,524</u>	<u>\$ 3,084,552</u>	<u>\$ 3,413,487</u>	<u>\$ (328,935)</u>
Debt service:				
Debt service	\$ 125,952	\$ 125,663	\$ -	\$ 125,663
Total School Operating Fund	<u>\$ 14,212,276</u>	<u>\$ 14,248,997</u>	<u>\$ 14,272,406</u>	<u>\$ (23,409)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 14,212,276</u>	<u>\$ 14,248,997</u>	<u>\$ 14,272,406</u>	<u>\$ (23,409)</u>

Note: Appropriations are enforced at the fund level only.  
School Expenditures include disbursements of the decentralized cafeterias, which are not subject to appropriation.

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## STATISTICAL INFORMATION

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City of Galax, Virginia  
Government-Wide Expenses by Function  
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Total
2015-16	\$ 1,593,969	\$ 550,420	\$ 2,968,540	\$ 2,498,899	\$ 1,621,459	\$ 4,027,300	\$ 2,084,825	\$ 558,833	\$ 177,870	\$ 2,511,724	\$ 18,593,839
2014-15	1,574,606	665,677	2,796,916	2,441,402	1,425,069	3,928,234	2,023,767	560,934	198,755	2,562,104	18,177,464
2013-14	1,552,436	601,213	2,990,921	2,594,079	1,423,738	3,879,492	2,016,590	728,676	157,580	2,949,673	18,894,398
2012-13	1,543,098	394,278	2,790,642	2,556,297	1,508,926	4,269,959	2,040,066	399,464	230,446	2,725,663	18,458,839
2011-12	1,496,085	618,300	2,803,284	2,084,134	1,664,552	3,700,277	1,749,789	2,004,859	235,567	2,572,434	18,929,281
2010-11	1,403,607	525,130	2,764,659	2,142,439	1,601,606	3,395,746	1,537,985	648,415	249,393	2,423,328	16,692,308
2009-10	1,354,495	516,416	2,572,717	1,399,049	1,730,389	3,878,868	1,728,558	1,041,925	278,631	2,436,820	16,937,868
2008-09	1,410,590	421,172	2,523,114	3,671,499	1,683,602	1,498,542	1,838,667	922,152	279,653	2,539,619	16,788,610
2007-08	1,216,686	252,958	2,380,854	2,913,678	1,878,593	2,804,597	1,460,945	570,362	325,285	2,587,485	16,391,443
2006-07	1,781,858	19,150	1,622,046	2,199,901	1,557,938	3,651,186	1,449,683	201,354	229,297	2,424,384	15,136,797

Table 2

City of Galax, Virginia  
Government-Wide Revenues  
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs		
2015-16	\$ 3,447,108	\$ 3,828,543	\$ 2,052,758	\$ 5,185,806	\$ 5,940,149	\$ 29,315	\$ 222,549	\$ 505,191	\$ 21,211,419		
2014-15	3,426,178	3,637,090	2,085,511	5,008,653	5,802,799	38,320	190,713	504,695	20,693,959		
2013-14	3,411,297	3,935,728	694,719	4,890,742	5,571,854	39,350	93,493	505,750	19,142,933		
2012-13	3,288,734	3,766,099	151,082	4,725,836	5,564,801	43,230	131,054	516,143	18,186,979		
2011-12	3,786,646	4,881,858	269,036	4,107,727	4,737,461	118	127,348	465,184	18,375,378		
2010-11	4,246,388	3,955,984	396,163	3,870,781	4,652,947	25,654	22,744	472,432	17,643,093		
2009-10	3,380,558	3,458,555	1,618,233	3,922,184	4,630,039	1,238	72,478	481,486	17,564,771		
2008-09	3,090,007	3,807,358	1,687,649	3,582,227	4,292,452	28,292	48,352	443,907	16,980,244		
2007-08	2,994,718	3,696,593	483,792	3,834,008	4,533,937	394,984	31,333	492,427	16,461,792		
2006-07	2,924,540	3,672,182	-	3,890,380	4,759,332	342,730	132,585	274,273	15,996,022		

City of Galax, Virginia  
 Governmental Expenditures by Function (1)  
 Last Ten Fiscal Years

Fiscal Year	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation & Cultural	Community Development	Non-Departmental	Debt Service	Capital Projects	Totals
2015-16	\$ 1,503,411	\$ 550,420	\$ 3,031,605	\$ 2,380,453	\$ 1,663,352	\$ 14,285,430	\$ 1,914,822	\$ 552,197	\$ 114,271	\$ 740,409	\$ 1,929,535	\$ 28,665,905
2014-15	1,365,936	665,677	2,926,728	2,485,768	1,455,978	14,457,429	1,856,206	437,928	373,928	786,543	2,327,615	29,139,736
2013-14	1,379,004	601,213	2,985,642	2,562,375	1,418,426	13,536,865	1,884,408	616,302	253,793	775,335	676,722	26,690,085
2012-13	1,303,062	537,064	2,762,814	2,788,217	1,512,532	13,631,180	1,851,395	369,643	276,414	785,988	322,753	26,141,062
2011-12	1,456,338	615,081	2,849,754	2,050,229	1,654,794	16,316,471	1,796,614	2,004,859	-	757,000	-	29,501,140
2010-11	1,362,204	521,213	2,839,033	2,170,537	1,575,688	15,838,839	1,483,293	648,415	-	768,050	-	27,207,272
2009-10	1,328,623	516,030	2,602,251	2,091,801	1,723,290	17,213,809	1,910,866	1,041,925	-	792,798	-	29,221,393
2008-09	1,645,052	421,062	2,537,988	3,787,262	1,677,544	13,179,538	2,267,225	899,677	-	501,901	2,331,368	29,248,617
2007-08	1,207,346	252,753	2,590,060	2,563,386	1,857,486	12,534,267	1,421,845	703,970	-	5,607,283	5,916,422	34,654,818
2006-07	1,204,142	175,625	2,116,872	2,341,894	1,542,713	11,512,602	1,452,742	200,323	-	474,784	220,054	21,241,751

Note: (1) Includes General Fund of the Primary Government and Discretely Presented Component Unit School Board.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit School Board.

City of Galax, Virginia  
Governmental Revenues by Source (1)  
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue from use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2015-16	\$ 5,243,024	\$ 5,964,380	\$ 30,007	\$ 135,077	\$ 29,885	\$ 1,235,544	\$ 251,626	\$ 177,454	\$ 15,425,698	\$ 28,492,695
2014-15	5,068,041	5,785,608	21,470	119,843	39,017	1,232,726	236,417	226,067	16,351,303	29,080,492
2013-14	4,817,729	5,574,405	18,839	112,962	39,800	1,130,665	130,179	217,555	14,381,023	26,423,157
2012-13	4,641,973	5,570,787	26,096	142,786	43,230	1,194,579	385,226	182,339	13,547,049	25,734,065
2011-12	4,087,009	4,798,066	19,390	104,879	112,220	1,768,475	144,811	942	14,296,633	25,332,425
2010-11	3,870,688	4,675,312	16,353	114,770	127,190	2,203,561	170,396	181	13,078,590	24,257,041
2009-10	3,816,000	4,560,283	18,849	103,750	130,041	1,741,837	282,077	3,601	14,371,445	25,027,883
2008-09	3,570,161	4,296,653	20,162	89,124	68,520	1,550,100	116,451	1,299	15,331,075	25,043,545
2007-08	3,692,282	4,529,736	24,176	153,381	520,585	1,627,701	195,078	453	13,225,335	23,968,727
2006-07	3,763,326	4,759,332	31,418	123,191	525,018	1,216,582	141,053	27,058	12,558,189	23,145,167

Note: (1) Includes General Fund of the Primary Government and includes Discretely Presented Component Unit School Board.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit School Board.

Table 5

City of Galax, Virginia  
Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	Current Tax Levy	Collected within the Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2015-16	\$ 5,117,544	\$ 5,012,946	97.96%	\$ -	\$ 5,012,946	97.96%
2014-15	4,909,132	4,758,955	96.94%	83,147	4,842,102	98.63%
2013-14	4,849,276	4,654,991	95.99%	131,319	4,786,310	98.70%
2012-13	4,643,429	4,428,347	95.37%	153,504	4,581,851	98.67%
2011-12	3,999,533	3,831,544	95.80%	127,428	3,958,972	98.99%
2010-11	3,728,831	3,588,318	96.23%	121,830	3,710,148	99.50%
2009-10	3,916,477	3,776,354	96.42%	110,004	3,886,358	99.23%
2008-09	3,923,267	3,699,935	94.31%	178,037	3,877,972	98.85%
2007-08	3,991,116	3,795,947	95.11%	149,303	3,945,250	98.85%
2006-07	4,212,069	3,823,553	90.78%	170,370	3,993,923	94.82%

(1) Exclusive of penalties and interest.



Table 6

City of Galax, Virginia  
Assessed Value of Taxable Property  
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property (1)	Public Service Companies (2)	Total
2015-16	\$ 458,384,400	\$ 111,389,059	\$ 14,751,447	\$ 584,524,906
2014-15	457,205,000	110,616,317	15,688,304	583,509,621
2013-14	452,108,700	108,178,991	14,644,537	574,932,228
2012-13	449,458,875	102,868,300	13,364,028	565,691,203
2011-12	443,963,100	99,871,993	14,483,951	558,319,044
2010-11	444,067,400	96,562,916	13,770,881	554,401,197
2009-10	442,517,089	82,983,895	13,567,565	539,068,549
2008-09	441,047,000	102,287,271	13,938,302	557,272,573
2007-08	358,067,015	98,479,264	13,145,695	469,691,974
2006-07	356,511,315	116,885,023	12,232,851	485,629,189

(1) Assessed at 100% of fair market value.

(2) Assessed by the State Corporation Commission.

Table 7

City of Galax, Virginia  
Property Tax Rates (1)  
Last Ten Fiscal Years

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Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2015-16	\$ 0.73	\$ 0.73	\$ 2.25	\$ 1.50
2014-15	0.69	0.69	2.25	1.50
2013-14	0.69	0.69	2.25	1.50
2012-13	0.67	0.67	2.25	1.50
2011-12	0.62	0.62	1.68	1.42
2010-11	0.57	0.70	1.68	1.42
2009-10	0.57	0.70	1.68	1.42
2008-09	0.55	0.55	1.42	1.42
2007-08	0.50	0.50	1.42	1.42
2006-07	0.70	0.70	1.42	1.42

(1) Per \$100 of assessed value.

Table 8

City of Galax, Virginia  
Ratio of Net General Bonded Debt to  
Assessed Value and Net Bonded Debt Per Capita  
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2015-16	7,034	5,845,249	\$ 6,946,669	6,946,669	1.19%	988
2014-15	7,034	5,835,096	7,509,306	7,509,306	1.29%	1,068
2013-14	7,035	5,749,322	6,690,956	6,690,956	1.16%	951
2012-13	6,928	5,656,912	7,275,989	7,275,989	1.29%	1,050
2011-12	6,877	5,583,190	7,402,698	7,402,698	1.33%	1,076
2010-11	7,077	5,544,012	7,873,915	7,873,915	1.42%	1,113
2009-10	6,880	5,390,685	8,348,105	8,348,105	1.55%	1,213
2008-09	6,823	5,572,726	8,822,196	8,822,196	1.58%	1,293
2007-08	6,796	4,696,920	9,435,220	9,435,220	2.01%	1,388
2006-07	6,796	4,856,292	9,418,978	9,418,978	1.94%	1,386

(1) Source: United States Census Bureau

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans.

Excludes revenue bonds, landfill closure/post-closure care liability, capital leases, and compensated absences.

Table 9

City of Galax, Virginia  
 Ratio of Annual Debt Service Expenditures for General Bonded  
 Debt to Total General Governmental Expenditures (1)  
 Last ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2015-16	\$ 562,637	\$ 177,772	\$ 740,409	\$ 28,665,905	2.58%
2014-15	595,650	190,893	786,543	29,139,736	2.70%
2013-14	607,493	167,842	775,335	26,690,085	2.90%
2012-13	555,677	230,311	785,988	26,141,062	3.01%
2011-12	526,929	230,071	757,000	29,501,140	2.57%
2010-11	517,681	250,369	768,050	27,207,272	2.82%
2009-10	516,911	275,887	792,798	29,221,393	2.71%
2008-09	300,835	201,066	501,901	29,248,617	1.72%
2007-08	5,261,321	345,962	5,607,283	34,654,818	16.18%
2006-07	293,452	181,332	474,784	21,241,751	2.24%

(1) Includes General Fund of the Primary Government and Operating funds of the Discretely Presented Component Unit - School Board.

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## COMPLIANCE SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' 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*

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To the Honorable Members of  
the City Council of the  
City of Galax, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Galax, Virginia's basic financial statements, and have issued our report thereon dated October 24, 2016.

### Internal Control over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Robinson, Faimer, Co. Associates*

Blacksburg, Virginia  
October 24, 2016

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## Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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To the Honorable Members of  
the City Council of the  
City of Galax, Virginia

### Report on Compliance for Each Major Federal Program

We have audited the City of Galax, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Galax, Virginia's major federal programs for the year ended June 30, 2016. City of Galax, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the City of Galax, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Galax, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Galax, Virginia's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the City of Galax, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



## Report on Internal Control over Compliance

Management of the City of Galax, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Galax, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Galax, Virginia's internal control over compliance.

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

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

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

*Robinson, Turner, Cox Associates*

Blacksburg, Virginia  
October 24, 2016

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Expenditures to Suprecipients
<b>DEPARTMENT OF AGRICULTURE:</b>				
Pass through payments from:				
<i>Department of Social Services:</i>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010110/0040110/0040111	\$ 111,638	
<i>Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	40591	\$133,038	
National School Lunch Program	10.555	40623	\$413,401	
<i>State Department of Agriculture:</i>				
Food Distribution-Schools (Note C)	10.555	Unknown	54,940	468,341
Summer Food Service Program for Children (Note C)	10.559	Unknown		15,428
Total Child Nutrition Cluster				616,807
Cooperative Forestry Assitance	10.664	Unknown		2,650
Technical Assistance and Training Grants	10.761	Unknown		25,000
Rural Business Enterprise Grants	10.769	Unknown		67,973
Total Department of Agriculture				\$ 824,068
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>				
Pass through payments from:				
<i>Department of Social Services:</i>				
Promoting Safe and Stable Families	93.556	0950110/0950111	\$ 11,589	
Temporary Assistance for Needy Families	93.558	0400111	118,114	
Refugee and Entrant Assistance - State Administered Programs	93.566	0500110/0500111	111	
Low Income Home Energy Assistance	93.568	0600410/0600411	13,705	
Social Services Block Grant	93.667	1000110/1000111	81,032	
Chafee Foster Care Independence Program	93.674	9150110/9150111	625	
Children's Health Insurance Program	93.767	0540110/0540111	4,557	
Medical Assistance Program	93.778	1200110/1200111	138,254	
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900110/0900111	451	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760110/0760111	21,340	
Foster Care - Title IV E	93.658	1100110/1100111	52,001	
Adoption Assistance	93.659	1120110/1120111	47,988	
Total Department of Health and Human Services				\$ 489,767
<b>DEPARTMENT OF JUSTICE:</b>				
Pass through payments from:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Unknown	\$ 34,195	
Total Department of Justice				\$ 34,195
<b>DEPARTMENT OF HOMELAND SECURITY:</b>				
Direct payments:				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	NA	\$ 64,344	
Pass through payments from:				
<i>Department of Emergency Management:</i>				
Emergency Management Performance Grants	97.042	158	7,500	
State Homeland Security Grant Program	97.073	52709	73,926	
Total Department of Homeland Security				\$ 145,770
<b>DEPARTMENT OF TRANSPORTATION:</b>				
Pass through payments from:				
<i>Department of Motor Vehicles:</i>				
Highway Planning and Construction	20.205	Unknown	\$ 74,858	
Alcohol Impaired Driving Countermeasurers Incentive Grants I	20.601	Unknown	22,758	
Total Department of Transportation				\$ 97,616
<b>EXECUTIVE OFFICE OF THE PRESIDENT:</b>				
Direct payments:				
High Intensity Drug Trafficking Areas Porgram	95.001	Unknown	\$ 3,560	
Total Executive Office of the President				\$ 3,560
<b>APPALACHIAN REGIONAL COMMISSION</b>				
Pass through payments from:				
<i>Department of Housing and Community Development:</i>				
Appalachian Area Development	23.002	Unknown	\$ 183,294	
Total Appalachian Regional Commission				\$ 183,294

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Expenditures to Suprecipients
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>				
Pass through payments from:				
<i>Department of Housing and Community Development:</i>				
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	50790	\$ 435,819	
Total Department of Housing and Urban Development			<u>\$ 435,819</u>	
<b>DEPARTMENT OF EDUCATION:</b>				
Pass through payments from:				
<i>Department of Education:</i>				
Career and Technical Education -- Basic Grants to States	84.048	61095	\$ 30,782	
Supporting Effective Instruction State Grant	84.367	61480	62,591	
English Language Acquisition State Grants	84.365	unknown	31,734	\$ 9,820
Rural Education	84.358	43481	23,683	
Title I Grants to Local Educational Agencies	84.010	42901	504,962	
Twenty-First Century Community Learning Centers	84.287	unknown	133,396	
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	73071	\$238,691	
Special Education - Preschool Grants	84.173	62521	14,034	252,725
Total Special Education Cluster (IDEA)				
Total Department of Education			<u>\$ 1,039,873</u>	<u>\$ 9,820</u>
Total Expenditures of Federal Awards			<u>\$ 3,253,962</u>	<u>\$ 9,820</u>

## Note to Schedule of Expenditures of Federal Awards

## Note A--Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Galax, Virginia under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budgets Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the City of Galax, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Galax, Virginia.

## Note B--Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

(2) Pass-through entity identifying number are presented where available.

## Note C--Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed

## Note D--Relationship to the Financial Statements:

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Primary government:	
General Fund-Intergovernmental	\$ 5,323,231
Less: Revenue from the Commonwealth	(3,725,949)
Component Unit School Board:	
School Operating Fund-Intergovernmental	13,859,290
Less: Revenue from Local Governments	(3,756,823)
Less: Revenue from the Commonwealth	<u>(8,445,787)</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards:	\$ 3,253,962

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016

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Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section, 200.516 (a)? No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555/10.559 84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Section IV - Status of Prior Audit Findings

There were no prior audit findings related to federal awards.