

FINANCIAL STATEMENTS



CITY OF GALAX, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2018

CITY OF GALAX, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

Prepared By:
Galax City Finance Department

CITY OF GALAX, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2018

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INTRODUCTORY SECTION

CITY OF GALAX, VIRGINIA

CITY COUNCIL

C. M. Mitchell, Mayor

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

Margo Crouse
John Garner
Sharon Plichta

CITY SCHOOL BOARD

Raymond Kohl, Chair

Dr. James Adams, Vice-Chair
Melissa Peddy

Helen Kyle
Larry Spangler

CITY SOCIAL SERVICES BOARD

Keith Barker
Theda Early
Dr. Art Pemberton

Edit A. Marr Castillo
C.M. Mitchell
Regina Snow

OTHER OFFICIALS

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	Tammy Smith
City Attorney.....	Steve Durbin
Chief of Police	Rick Clark

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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, 2018, 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, 2018, 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 22 to the financial statements, in 2018, the City adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*.

Restatement of Beginning Balances

As described in Note 23 to the financial statements, in 2018, the City restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Emphasis of other Matters

The prior financial statements required restatement as described in Note 23 to the financial statements. 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 105 and 106-120 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.

Supplementary and 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 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.

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 November 12, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Galax, Virginia's 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, Farmer, Cox Associates

Blacksburg, Virginia
November 12, 2018

Basic Financial Statements

City of Galax, Virginia
Statement of Net Position
June 30, 2018

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board		IDA
				School Board	IDA	
ASSETS						
Cash and cash equivalents	\$ 3,247,919	\$ 515,190	\$ 3,763,109	\$ 2,429,747	\$ 78,974	
Taxes receivable	403,380	-	403,380	-	-	
Accounts receivable	830,646	682,755	1,513,401	17,464	-	
Due from other governmental units	1,081,202	75,404	1,156,606	969,989	-	
Inventories	-	-	-	25,226	-	
Loans receivable	101,666	-	101,666	-	-	
Prepaid items	127,220	21,809	149,029	139,848	-	
Restricted assets:						
Cash and cash equivalents	163,834	70,914	234,748	391,580	-	
Capital assets (net of accumulated depreciation):						
Land	3,035,976	149,374	3,185,350	465,929	-	
Buildings and improvements	14,902,925	1,126,677	16,029,602	4,157,240	-	
Machinery and equipment	1,403,486	230,802	1,634,288	528,404	-	
Infrastructure	944,387	2,439,325	3,383,712	-	-	
Construction in progress	1,807,744	1,301,660	3,109,404	-	-	
Total assets	\$ 28,050,385	\$ 6,613,910	\$ 34,664,295	\$ 9,125,427	\$ 78,974	
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charge on refunding	\$ 35,691	\$ -	\$ 35,691	\$ -	\$ -	
Pension related items	351,000	95,406	446,406	1,400,844	-	
OPEB related items	23,423	6,354	29,777	146,822	-	
Total deferred outflows of resources	\$ 410,114	\$ 101,760	\$ 511,874	\$ 1,547,666	\$ -	
LIABILITIES						
Accounts payable	\$ 807,584	\$ 559,539	\$ 1,367,123	\$ 44,335	\$ -	
Wages and withholdings payable	269,237	58,582	327,819	-	-	
Due to other governments	560,000	-	560,000	1,103,933	-	
Customers' deposits	6,003	70,914	76,917	-	-	
Accrued interest payable	68,269	-	68,269	-	-	
Long-term liabilities:						
Due within one year	725,200	160,958	886,158	119,790	-	
Due in more than one year	10,374,905	2,213,993	12,588,898	13,525,080	-	
Total liabilities	\$ 12,811,198	\$ 3,063,986	\$ 15,875,184	\$ 14,793,138	\$ -	
DEFERRED INFLOWS OF RESOURCES						
Deferred revenue - property taxes	\$ 11,486	\$ -	\$ 11,486	\$ -	\$ -	
Pension related items	843,545	229,264	1,072,809	1,508,407	-	
OPEB related items	49,928	13,450	63,378	128,540	-	
Total deferred inflows of resources	\$ 904,959	\$ 242,714	\$ 1,147,673	\$ 1,636,947	\$ -	
NET POSITION						
Net investment in capital assets	\$ 13,756,118	\$ 2,903,327	\$ 16,659,445	\$ 5,151,573	\$ -	
Restricted						
Blue Ridge Post book fund	14,506	-	14,506	-	-	
Revolving housing loans program	119,044	-	119,044	-	-	
Small business loans program	30,284	-	30,284	-	-	
Cafeteria operations	-	-	-	391,580	-	
Unrestricted	824,390	505,643	1,330,033	(11,300,145)	78,974	
Total net position	\$ 14,744,342	\$ 3,408,970	\$ 18,153,312	\$ (5,756,992)	\$ 78,974	

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, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Operating		Capital		Primary Government		Component Units	
	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,480,900	\$ 14,220	\$ 97,878	\$ 975,000	\$ (393,802)	\$ (393,802)	\$ -	\$ -
Judicial administration	602,234	135,173	-	-	(467,061)	(467,061)	-	-
Public safety	2,926,174	55,329	492,200	44,988	(2,333,657)	(2,333,657)	-	-
Public works	2,839,475	400,087	1,927,466	495,940	(15,982)	(15,982)	-	-
Health and welfare	2,175,163	-	1,722,223	-	(452,940)	(452,940)	-	-
Education	4,042,549	-	-	-	(4,042,549)	(4,042,549)	-	-
Parks, recreation, and cultural	2,053,054	322,255	4,500	-	(1,726,299)	(1,726,299)	-	-
Community development	357,353	-	30,530	16,300	(310,523)	(310,523)	-	-
Interest on long-term debt	408,069	-	-	-	(408,069)	(408,069)	-	-
Total governmental activities	\$ 16,384,971	\$ 927,064	\$ 4,274,797	\$ 1,532,228	\$ (10,150,882)	\$ (10,150,882)	\$ -	\$ -
Business-type activities:								
Water and sewer	\$ 2,480,848	\$ 2,877,709	\$ -	\$ 114,701	\$ -	\$ 511,562	\$ 511,562	\$ -
Stormwater	33,743	118,110	-	-	-	84,367	84,367	\$ -
Total business-type activities	\$ 2,514,591	\$ 2,995,819	\$ -	\$ 114,701	\$ -	\$ 595,929	\$ 595,929	\$ -
Total primary government	\$ 19,399,562	\$ 3,922,883	\$ 4,274,797	\$ 1,646,929	\$ (10,150,882)	\$ 595,929	\$ (9,554,953)	\$ -
COMPONENT UNITS:								
School Board	\$ 14,569,447	\$ 347,917	\$ 10,801,702	\$ -	\$ -	\$ -	\$ -	\$ (3,419,828)
Industrial Development Authority	77	-	-	-	-	-	-	(77)
Total component units	\$ 14,569,524	\$ 347,917	\$ 10,801,702	\$ -	\$ -	\$ -	\$ -	\$ (3,419,828)
General revenues:								
General property taxes				\$ 5,552,609	\$ -	\$ 5,552,609	\$ -	\$ -
Other local taxes:								
Local sales and use taxes				2,259,147	-	2,259,147	-	-
Consumers' utility taxes				180,186	-	180,186	-	-
Business license taxes				970,078	-	970,078	-	-
Motor vehicle taxes				116,106	-	116,106	-	-
Restaurant food taxes				2,117,260	-	2,117,260	-	-
Lodging taxes				164,314	-	164,314	-	-
Bank stock taxes				204,125	-	204,125	-	-
Other local taxes				60,181	-	60,181	-	-
Unrestricted revenues from the use of money and property				43,272	836	44,108	1,011	-
Miscellaneous				104,353	-	104,353	143,593	-
Grants and contributions not restricted to specific programs				478,658	-	478,658	3,707,288	-
Total general revenues	\$ 12,250,289	\$ -	\$ 836	\$ 12,251,125	\$ -	\$ 3,351,892	\$ -	-
Change in net position	\$ 2,099,407	\$ 596,765	\$ 2,696,172	\$ 432,064	\$ -	\$ (77)	\$ -	-
Net position - beginning, as restated	12,644,935	2,812,205	15,457,140	(6,189,056)	\$ 79,051	\$ -	\$ -	-
Net position - ending	\$ 14,744,342	\$ 3,408,970	\$ 18,153,312	\$ (5,756,902)	\$ 78,974	\$ -	\$ -	-

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

City of Galax, Virginia
Balance Sheet
Governmental Funds
June 30, 2018

General**ASSETS**

Cash and cash equivalents	\$ 3,411,753
Receivables (net of allowance for uncollectibles):	
Taxes receivable	403,380
Accounts receivable	830,646
Due from other governmental units	1,081,202
Loan receivable	101,666
Prepaid items	127,220
Total assets	<u>\$ 5,955,867</u>

LIABILITIES

Accounts payable	\$ 807,584
Wages and withholdings payable	269,237
Due to other governments	560,000
Amounts held for others	6,003
Total liabilities	<u>\$ 1,642,824</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	\$ 360,004
Unavailable revenue - meals tax	38,794
Property taxes paid in advance	11,486
Total deferred inflows of resources	<u>\$ 410,284</u>

FUND BALANCES

Nonspendable	
Prepaid items	\$ 127,220
Loans receivable	101,666
Restricted	62,168
Committed	67,637
Unassigned	3,544,068
Total fund balances	<u>\$ 3,902,759</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,955,867</u>

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, 2018

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 3,902,759
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Capital assets used in governmental activities are not financial resources and, therefore,
 are not reported in the funds.

Land	\$ 3,035,976
Buildings and improvements	14,902,925
Infrastructure	944,387
Machinery and equipment	1,403,486
Construction in progress	<u>1,807,744</u>
	22,094,518

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	398,798
---------------------	---------

Deferred outflows of resources are not available to pay for current-period expenditures and,
 therefore, are not reported in the funds.

Pension related items	\$ 351,000
OPEB related items	<u>23,423</u>
	374,423

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

Bonds, loans, and capital leases	\$ (8,374,091)
Less: Unamortized charge on advance refunding	35,691
Accrued interest payable	(68,269)
Accrued landfill closure/postclosure monitoring liability	(634,682)
Compensated absences	(340,043)
Net OPEB liabilities	(617,066)
Net pension liability	<u>(1,134,223)</u>
	(11,132,683)

Deferred inflows of resources are not due and payable in the current period and, therefore,
 are not reported in the funds.

Pension related items	\$ (843,545)
OPEB related items	<u>(49,928)</u>
	(893,473)

Net position of governmental activities	\$ 14,744,342
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The notes to the financial statements are an integral part of this statement.

Exhibit 5

City of Galax, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	<u>General</u>
REVENUES	
General property taxes	\$ 5,615,048
Other local taxes	6,074,177
Permits, privilege fees, and regulatory licenses	24,815
Fines and forfeitures	135,173
Revenue from the use of money and property	43,272
Charges for services	767,076
Miscellaneous	104,353
Recovered costs	143,131
Intergovernmental	5,265,695
Total revenues	<u>\$ 18,172,740</u>
EXPENDITURES	
Current:	
General government administration	\$ 1,468,439
Judicial administration	602,234
Public safety	2,981,497
Public works	2,848,899
Health and welfare	2,238,392
Education	5,215,905
Parks, recreation, and cultural	1,871,870
Community development	357,239
Nondepartmental	77,179
Capital projects	1,020,007
Debt service:	
Principal retirement	477,317
Bond issuance cost	185,500
Interest and other fiscal charges	174,309
Total expenditures	<u>\$ 19,518,787</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,346,047)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of general obligation bond and capital leases	\$ 942,137
Total other financing sources (uses)	<u>\$ 942,137</u>
Net change in fund balances	\$ (403,910)
Fund balances - beginning	4,306,669
Fund balances - ending	<u>\$ 3,902,759</u>

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, 2018

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

Net change in fund balances - total governmental funds	\$ (403,910)
--	--------------

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 depreciation expense in the current period.

Capital outlays	\$ 2,432,608
Depreciation expense	<u>(1,047,536)</u>
	1,385,072

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	\$ (5,524)
Transfer of assets (net) from Component Unit School Board	261,562
Donation of assets	<u>1,019,988</u>
	1,276,026

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

Property taxes	\$ (62,439)
Meals tax	<u>(2,780)</u>
	(65,219)

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:	
Issuance of general obligation bond	\$ (918,351)
Issuance of capital lease	(23,786)
Change in accrued landfill closure/postclosure liability	82,986
Principal repayments:	
General obligation bonds and literary fund loans	446,126
Capital leases	<u>31,191</u>
	(381,834)

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	\$ 20,311
Change in accrued interest payable	(45,957)
Amortization of deferred charge on refunding	(2,303)
Pension expense	318,210
OPEB expense	<u>(989)</u>
	289,272

Change in net position of governmental activities

\$ 2,099,407

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, 2018

	Enterprise Fund			
	Water and Sewer		Stormwater	
	ASSETS			
Current assets:				
Cash and cash equivalents	\$ 334,344	\$ 180,846	\$ 515,190	
Accounts receivable (net of allowance for uncollectibles)	682,000	755	682,755	
Due from other governmental units	75,404	-	75,404	
Prepaid items	21,735	74	21,809	
Total current assets	\$ 1,113,483	\$ 181,675	\$ 1,295,158	
Noncurrent assets:				
Restricted cash and cash equivalents	\$ 70,914	\$ -	\$ 70,914	
Capital assets:				
Land	149,374	-	149,374	
Utility plant in service	18,112,564	-	18,112,564	
Machinery and equipment	750,554	-	750,554	
Buildings and improvements	1,823,395	-	1,823,395	
Construction in progress	1,301,660	-	1,301,660	
Accumulated depreciation	(16,889,709)	-	(16,889,709)	
Total net capital assets	\$ 5,247,838	\$ -	\$ 5,247,838	
Total noncurrent assets	\$ 5,318,752	\$ -	\$ 5,318,752	
Total assets	\$ 6,432,235	\$ 181,675	\$ 6,613,910	
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 86,888	\$ 8,518	\$ 95,406	
OPEB related items	6,278	76	6,354	
Total deferred outflows of resources	\$ 93,166	\$ 8,594	\$ 101,760	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 33,188	\$ -	\$ 33,188	
Construction and retainage payable	526,351	-	526,351	
Accrued payroll and related liabilities	57,062	1,520	58,582	
Customers' deposits	70,914	-	70,914	
Compensated absences - current portion	68,458	-	68,458	
Bond payable - current portion	92,500	-	92,500	
Total current liabilities	\$ 848,473	\$ 1,520	\$ 849,993	
Noncurrent liabilities:				
Compensated absences - net of current portion	\$ 17,115	\$ -	\$ 17,115	
Bond payable - net of current portion	1,725,660	-	1,725,660	
Net OPEB liabilities	164,218	2,325	166,543	
Net pension liability	299,851	4,824	304,675	
Total noncurrent liabilities	\$ 2,206,844	\$ 7,149	\$ 2,213,993	
Total liabilities	\$ 3,055,317	\$ 8,669	\$ 3,063,986	
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 225,136	\$ 4,128	\$ 229,264	
OPEB related items	13,252	198	13,450	
Total deferred inflows of resources	\$ 238,388	\$ 4,326	\$ 242,714	
NET POSITION				
Net investment in capital assets	\$ 2,903,327	\$ -	\$ 2,903,327	
Unrestricted	328,369	177,274	505,643	
Total net position	\$ 3,231,696	\$ 177,274	\$ 3,408,970	

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

Exhibit 8

City of Galax, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Enterprise Fund		
	Water and Sewer	Stormwater	Total
OPERATING REVENUES			
Charges for services:			
Water revenues pledged as security for revenue bonds	\$ 1,388,649	\$ -	\$ 1,388,649
Sewer revenues pledged as security for revenue bonds	1,393,508	-	1,393,508
Stormwater fees	-	118,110	118,110
Tap fees	8,000	-	8,000
Penalties and interest	17,298	-	17,298
Other revenue	70,254	-	70,254
Total operating revenues	\$ 2,877,709	\$ 118,110	\$ 2,995,819
OPERATING EXPENSES			
Personnel services	\$ 1,400,598	\$ 21,265	\$ 1,421,863
Utilities and telecommunication	312,702	-	312,702
Materials and supplies	319,798	-	319,798
Repairs and maintenance	148,499	-	148,499
Contractual services	4,104	12,478	16,582
Depreciation	291,841	-	291,841
Total operating expenses	\$ 2,477,542	\$ 33,743	\$ 2,511,285
Operating income (loss)	\$ 400,167	\$ 84,367	\$ 484,534
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 437	\$ 399	\$ 836
Interest expense	(3,306)	-	(3,306)
Total nonoperating revenues (expenses)	\$ (2,869)	\$ 399	\$ (2,470)
Income before contributions and transfers	\$ 397,298	\$ 84,766	\$ 482,064
Capital contributions and construction grants		114,701	-
Change in net position	\$ 511,999	\$ 84,766	\$ 596,765
Total net position - beginning, as restated		2,719,697	92,508
Total net position - ending	\$ 3,231,696	\$ 177,274	\$ 3,408,970

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, 2018

	Enterprise Fund		
	<u>Water and Sewer</u>	<u>Stormwater</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,858,645	\$ 117,724	\$ 2,976,369
Payments to suppliers	(788,482)	(12,303)	(800,785)
Payments to employees	(1,493,339)	(19,021)	(1,512,360)
Net cash provided by (used for) operating activities	<u>\$ 576,824</u>	<u>\$ 86,400</u>	<u>\$ 663,224</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds activities	<u>\$ (123,464)</u>	<u>\$ -</u>	<u>\$ (123,464)</u>
	<u>\$ (123,464)</u>	<u>\$ -</u>	<u>\$ (123,464)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (252,213)	\$ -	\$ (252,213)
Principal payments on bond payable	(621,500)	-	(621,500)
Contributions in aid of construction	44,297	5,000	49,297
Proceeds from indebtedness	615,660	-	615,660
Interest expense	(3,846)	-	(3,846)
Net cash provided by (used for) capital and related financing activities	<u>\$ (217,602)</u>	<u>\$ 5,000</u>	<u>\$ (212,602)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 437	\$ 399	\$ 836
Net cash provided by (used for) investing activities	<u>\$ 437</u>	<u>\$ 399</u>	<u>\$ 836</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 236,195</u>	<u>\$ 91,799</u>	<u>\$ 327,994</u>
Cash and cash equivalents - beginning (including restricted of \$69,374)	168,197	89,037	257,234
Cash and cash equivalents - ending (including restricted of \$70,914)	<u>\$ 404,392</u>	<u>\$ 180,836</u>	<u>\$ 585,228</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 400,167	\$ 84,367	\$ 484,534
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 291,841	\$ -	\$ 291,841
(Increase) decrease in accounts receivable	(20,604)	(386)	(20,990)
(Increase) decrease in prepaid items	(1,724)	175	(1,549)
(Increase) decrease in deferred outflows of resources	100,723	(7,099)	93,624
Increase (decrease) in deferred inflows of resources	137,796	4,326	142,122
Increase (decrease) in customer deposits	1,540	-	1,540
Increase (decrease) in accrued payroll and related liabilities	(828)	406	(422)
Increase (decrease) in accounts payable	(1,655)	-	(1,655)
Increase (decrease) in compensated absences	(6)	-	(6)
Increase (decrease) in net OPEB liabilities	(12,975)	(213)	(13,188)
Increase (decrease) in net pension liability	(317,451)	4,824	(312,627)
Total adjustments	<u>\$ 176,657</u>	<u>\$ 2,033</u>	<u>\$ 178,690</u>
Net cash provided by (used for) operating activities	<u>\$ 576,824</u>	<u>\$ 86,400</u>	<u>\$ 663,224</u>

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

Exhibit 10

City of Galax, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

Agency Funds

Special
Welfare

ASSETS

Cash and cash equivalents	\$ 26,950
Total assets	<u>\$ 26,950</u>

LIABILITIES

Amounts held for social services clients	\$ 26,950
Total liabilities	<u>\$ 26,950</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, 2018

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 \$235,575 to the Library for the current year. The City provides accounting services (payroll services) for this organization.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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 \$141,109 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 \$107,200 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 \$56,560 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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 \$161,147. 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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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, which 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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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:

Assets	Years
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 and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liabilities measurement date. For more detailed information on these items, reference the related notes.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

9. Property Taxes

Property is assessed at its value on January 1. Real estate taxes are payable on December 5th. Personal property taxes are due and collectible annually on December 5th. Liens may be placed on property taxes that are uncollected after the due date, December 5th. 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 \$526,529 at June 30, 2018. The allowance consists of delinquent taxes in the amount of \$463,418; delinquent meals tax of \$12,221; and delinquent water, sewer, and garbage bills of \$50,890.

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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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. Other Postemployment Benefits (OPEB)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

14. Other Postemployment Benefits (OPEB) (Continued)

Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the VRS Teacher Employee HIC Program; and the additions to/deductions from the VRS Teacher Employee HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

15. 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.

16. 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);

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;

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

16. Fund equity (Continued)

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.

17. 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.

18. 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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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.

B. Excess of expenditures over appropriations

There was no expenditure in excess of appropriations as measured at the fund basis level.

C. Deficit fund equity

At June 30, 2018, there were no funds with negative equity.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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).

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.

Investment Maturities (in years)				
Investment Type	Fair Value	1 Year	1-5 Years	
Local Government Investment Pool	\$ 876,751	\$ 876,751	\$ -	
Totals	\$ 876,751	\$ 876,751	\$ -	

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.

External Investment Pool

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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3-Deposits and Investments: (Continued)

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2018 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		
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>	
		AAAm
LGIP	\$	876,751

Note 4-Due from Other Governmental Units:

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

	Primary Government		
	Governmental Activities	Business-type Activities	Component Unit-School Board
Due from other local government agencies	\$ -	\$ 75,404	\$ -
Commonwealth of Virginia:			
Local sales tax	383,968	-	-
Categorical aid-State sales tax	-	-	144,545
Categorical aid-Shared expenses	5,014	-	-
Categorical aid-Other	440,929	-	128,000
Non-categorical aid	42,468	-	-
Categorical aid-Virginia Public Assistance	42,628	-	-
Categorical aid-Comprehensive Services Act	62,763	-	-
Federal Government:			
Categorical aid-Virginia Public Assistance	62,213	-	-
Categorical aid-Other	41,219	-	697,444
Totals	\$ 1,081,202	\$ 75,404	\$ 969,989

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 5-Component Unit Contribution and Obligations:

Primary government contributions to component units for the year ended June 30, 2018, consisted of payments to School Board of \$5,204,750. In addition, the School Board transferred Galax Elementary to the City at a net book value of \$261,562.

At June 30, 2018, there were no component unit obligations.

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 fiscal year 2018, there were no interfund transfers.

At June 30, 2018, there were no interfund obligations.

Note 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, 2018.

	Balance July 1, 2017, as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
General Obligation Bonds	\$ 7,398,750	\$ 918,351	\$ (315,025)	\$ 8,002,076
Literary Fund Loans	393,318	-	(131,101)	262,217
Capital leases	117,203	23,786	(31,191)	109,798
Landfill closure/postclosure liability	717,668	-	(82,986)	634,682
Compensated absences	360,354	267,972	(288,283)	340,043
Net OPEB liabilities	666,206	26,723	(75,863)	617,066
Net pension liability	<u>2,327,442</u>	<u>1,629,861</u>	<u>(2,823,080)</u>	<u>1,134,223</u>
Total	<u>\$ 11,980,941</u>	<u>\$ 2,866,693</u>	<u>\$ (3,747,529)</u>	<u>\$ 11,100,105</u>

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

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 7-Long-Term Obligations: (Continued)

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
2019	\$ 291,718	\$ 219,053	\$ 131,101	\$ 7,867
2020	301,599	218,592	131,116	3,933
2021	444,734	210,244	-	-
2022	1,346,225	182,104	-	-
2023	351,551	154,555	-	-
2024-2028	1,852,750	620,696	-	-
2029-2033	1,992,250	351,565	-	-
2034-2037	1,421,249	80,979	-	-
Totals	<u>\$ 8,002,076</u>	<u>\$ 2,037,788</u>	<u>\$ 262,217</u>	<u>\$ 11,800</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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
General Obligation Bonds:						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 1,490,750	\$ 137,750
2017 A GO Bond	1.83%	June-17	2022	509,000	409,000	100,000
2017 B GO Bond	2.55%	June-17	2032	711,000	668,000	40,000
2018 C Refunding Bond	2.98%	June-17	2037	4,553,000	4,517,000	10,000
RD Loan	3.25%	March-18	2023	21,000	19,975	3,968
School Bond Anticipation Note*	3.76%	March-18	2022	897,351	897,351	-
Total General Obligation Bonds					<u>\$ 8,002,076</u>	<u>\$ 291,718</u>
Literary Fund Loan:						
State Literacy Loan	3.00%	April-98	2019	2,622,035	\$ 262,217	\$ 131,101
Total Literary Fund Loan					<u>\$ 262,217</u>	<u>\$ 131,101</u>
Other Obligations:						
Capital lease	n/a	n/a	n/a	n/a	\$ 109,798	\$ 30,347
Landfill closure/post- closure liability	n/a	n/a	n/a	n/a	634,682	-
Compensated Absences	n/a	n/a	n/a	n/a	340,043	272,034
Net OPEB Liabilities	n/a	n/a	n/a	n/a	617,066	-
Net Pension Liability	n/a	n/a	n/a	n/a	1,134,223	-
Total Other Obligations					<u>\$ 2,835,812</u>	<u>\$ 302,381</u>
Total Long-term obligations					<u>\$ 11,100,105</u>	<u>\$ 725,200</u>

*Bond is still in draw down phase as of June 30, 2018

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 7-Long-Term Obligations: (Continued)

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, 2018.

	Balance July 1, 2017, as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
Revenue bonds	\$ 1,295,000	\$ 615,660	\$ (92,500)	\$ 1,818,160
Note payable	529,000	-	(529,000)	-
Compensated absences	85,579	68,457	(68,463)	85,573
Net OPEB liabilities	179,731	7,243	(20,431)	166,543
Net pension liability	<u>617,302</u>	<u>445,711</u>	<u>(758,338)</u>	<u>304,675</u>
 Total	 <u>\$ 2,706,612</u>	 <u>\$ 1,137,071</u>	 <u>\$ (1,468,732)</u>	 <u>\$ 2,374,951</u>

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 Bond	
	Principal	Interest
2019	\$ 92,500	\$ -
2020	333,787	-
2021	466,873	-
2022	92,500	-
2023	92,500	-
2024-2028	462,500	-
2029-2033	<u>277,500</u>	<u>-</u>
 Totals	 <u>\$ 1,818,160</u>	 <u>\$ -</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 7-Long-Term Obligations: (Continued)

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 Bond:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 1,202,500	\$ 92,500
VRA Bond*	0.00%	January-18	2040	615,660	615,660	-
Total Revenue Bonds					<u>\$ 1,818,160</u>	<u>\$ 92,500</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 85,573	\$ 68,458
Net OPEB Liabilities	n/a	n/a	n/a	n/a	166,543	-
Net Pension Liability	n/a	n/a	n/a	n/a	304,675	-
Total Other Obligations					<u>\$ 556,791</u>	<u>\$ 68,458</u>
Total Long-term obligations					<u>\$ 2,374,951</u>	<u>\$ 160,958</u>

*Bond is still in draw down phase as of June 30, 2018

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, 2018.

	Balance July 1, 2017, as restated	Increases	Decreases	Balance June 30, 2018
Net OPEB liabilities	\$ 2,339,717	\$ 129,836	\$ (266,423)	\$ 2,203,130
Compensated absences	165,515	116,635	(132,412)	149,738
Net pension liability	13,230,899	1,660,427	(3,599,324)	11,292,002
Total	<u>\$ 15,736,131</u>	<u>\$ 1,906,898</u>	<u>\$ (3,998,159)</u>	<u>\$ 13,644,870</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Long-Term Obligations-Component Units: (Continued)

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 Liabilities	n/a	n/a	n/a	n/a	\$ 2,203,130	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	149,738	119,790
Net Pension Liability	n/a	n/a	n/a	n/a	<u>11,292,002</u>	<u>-</u>
Total long-term obligations					<u>\$ 13,644,870</u>	<u>\$ 119,790</u>

Note 9-Capital Leases:

The City has entered into capital leases for the purchase of a garbage truck and Dell computer equipment. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

Total capital assets acquired through capital leases are as follows:

Garbage truck	\$ 140,725
Accumulated Depreciation	(21,109)
Net Book Value of Capital Asset	<u>\$ 119,616</u>

The Dell computer equipment did not meet capitalization threshold, therefore it was not capitalized.

Present value of future minimum lease payments:

Year Ending June 30,	Capital Leases
2019	\$ 33,242
2020	33,242
2021	24,685
2022	24,686
Total minimum lease payments	\$ 115,855
Less: amount representing interest	(6,057)
Present value of future minimum lease payments	<u>\$ 109,798</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) 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>Hybrid Opt-In Election (Cont.) 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>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <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>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) Defined Contribution Component: (Cont.)</p> <p>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"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit Defined Benefit Component: See definition under Plan 1.</p>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) 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.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: 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%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Political subdivision hazardous duty employees: 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.	Political subdivision hazardous duty employees: Same as Plan 1.	Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><u>Normal Retirement Age</u> <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</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>Earliest Unreduced Retirement Eligibility 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>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility 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>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</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>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>Earliest Reduced Retirement Eligibility 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>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</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>Cost-of-Living Adjustment (COLA) in Retirement 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>Eligibility: 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>Cost-of-Living Adjustment (COLA) in Retirement 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>Eligibility: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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></p> <p>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">• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.• The member retires on disability.• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1 and Plan 2.</p>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage 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.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage 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. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service 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.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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 employer contribution rate for the year ended June 30, 2018 was 8.60% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$412,124 and \$419,962 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

At June 30, 2018, the City reported a liability of \$1,438,898 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017. 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, 2017 and 2016 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2017 and 2016, the City's proportion was 80.15% and 79.48%, respectively.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2016, 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, 2017.

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:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates, females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates, females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City of Galax Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

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.

Mortality rates:

Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2019, 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, 2019 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		
	1% Decrease (6.00%)	Discount (7.00%)	1% Increase (8.00%)
City's proportionate share of the City Retirement Plan Net Pension Liability	\$ 4,224,932	\$ 1,438,898	\$ (887,661)

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

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

For the year ended June 30, 2018, the City recognized pension expense of \$313. 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.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 584,146
Change in assumptions	-	181,071
Change in proportionate share	34,282	1,591
Net difference between projected and actual earnings on pension plan investments	-	306,001
Employer contributions subsequent to the measurement date	412,124	-
Total	\$ 446,406	\$ 1,072,809

\$412,124 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, 2019. 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:

Year ended June 30	Primary Government	
2019	\$ (475,737)	
2020	(199,393)	
2021	(167,104)	
2022	(196,293)	
Thereafter		-

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Component Unit School Board Nonprofessional</u>
Inactive members or their beneficiaries currently receiving benefits	19
Inactive members:	
Vested inactive members	2
Non-vested inactive members	6
Inactive members active elsewhere in VRS	7
Total inactive members	15
Active members	25
Total covered employees	59

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

Contributions

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2018 was 8.88% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the political subdivision's plan was 7.39%.

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 \$43,597 and \$42,353 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2016	\$ 2,226,215	\$ 1,872,316	\$ 353,899
Changes for the year:			
Service cost	\$ 46,631	\$ -	\$ 46,631
Interest	152,273	-	152,273
Changes in assumptions	(20,700)	-	(20,700)
Differences between expected and actual experience	(78,673)	-	(78,673)
Contributions - employer	-	42,353	(42,353)
Contributions - employee	-	23,533	(23,533)
Net investment income	-	227,065	(227,065)
Benefit payments, including refunds of employee contributions	(101,759)	(101,759)	-
Administrative expenses	-	(1,321)	1,321
Other changes	-	(202)	202
Net changes	\$ (2,228)	\$ 189,669	\$ (191,897)
Balances at June 30, 2017	\$ 2,223,987	\$ 2,061,985	\$ 162,002

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		
	1% Decrease (6.00%)	Discount (7.00%)	1% Increase (8.00%)
Component Unit School Board (nonprofessional) Net Pension Liability	\$ 413,669	\$ 162,002	\$ (52,195)

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2018, the Component Unit School Board (nonprofessional) recognized pension expense of \$(40,271). At June 30, 2018, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 92,836
Change in assumptions	-	13,227
Net difference between projected and actual earnings on pension plan investments	-	30,344
Employer contributions subsequent to the measurement date	<u>43,597</u>	-
Total	<u>\$ 43,597</u>	<u>\$ 136,407</u>

\$43,597 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 ending June 30, 2019. 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:

Year ended June 30	Component Unit School Board (nonprofessional)	
2019	\$ (87,411)	
2020	(29,319)	
2021	(213)	
2022	(19,464)	
Thereafter		-

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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. Contributions to the pension plan from the School Board were \$1,152,247 and \$1,032,736 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the school division reported a liability of \$11,130,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.09051% as compared to 0.09189% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$806,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 788,000
Change in assumptions	162,000	-
Net difference between projected and actual earnings on pension plan investments	-	404,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	43,000	180,000
Employer contributions subsequent to the measurement date	<u>1,152,247</u>	-
Total	<u>\$ 1,357,247</u>	<u>\$ 1,372,000</u>

\$1,152,247 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 ending June 30, 2019. 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>	Component Unit School Board (professional)	
2019	\$ (452,000)	
2020	(57,000)	
2021	(185,000)	
2022	(414,000)	
Thereafter	(59,000)	

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-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, 2016, 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, 2017.

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-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 45,417,520
Plan Fiduciary Net Position	<u>33,119,545</u>
Employers' Net Pension Liability (Asset)	<u>\$ 12,297,975</u>

Plan Fiduciary Net Position as a Percentage
of the Total Pension Liability 72.92%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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	\$ 16,622,000	\$ 11,130,000	\$ 6,588,000

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11-Other Postemployment Benefits - City Health Insurance:

Plan Description

In addition to the pension benefits described in Note 10, the City administers a cost-sharing defined benefit healthcare plan. Several entities participate in the defined benefit healthcare plan through the City and the participating entities report their proportionate information on the basis of a cost-sharing plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the City's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees consisting of medical insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. 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 10 years of service with the City and the employee must be eligible to retire from the City under the Virginia Retirement System. The benefits, employee contributions and the employer contributions are governed by the City Council and can be amended through Council action.

Contributions

The Council does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2018 was \$4,107.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11-Other Postemployment Benefits - City Health Insurance: (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	Based on assumptions for State Employee and Law Officers members published in the June 30, 2017 Virginia Retirement actuarial valuation.
Discount Rate	3.56%

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements on scale MP-2015, and other adjustments.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

Per GASB guidance, the single rate that produces the same present value of expected benefit payments as (1) expected long-term rate of return on plan assets during the period when projected assets are sufficient to pay future retiree benefits, and (2) the 20-year municipal bond rate after assets are projected to be exhausted. Fidelity 20-Year Municipal GO AA Index was used because it meets the GASB requirements and is based on a large amount of municipal security data.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current discount rate:

Rate		
1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
\$ 412,429	\$ 378,065	\$ 346,630

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11-Other Postemployment Benefits - City Health Insurance: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.80% decreasing to an ultimate rate of 3.10%) or one percentage point higher (7.80% decreasing to an ultimate rate of 5.10%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (5.80% decreasing to 3.10%)	Trend (6.80% decreasing to 4.10%)	1% Increase (7.80% decreasing to 5.10%)
\$ 333,903	\$ 378,065	\$ 430,704

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the City recognized OPEB expense in the amount of \$28,328. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 18,496
Employer contributions subsequent to the measurement date	4,107	-
Total	<u><u>\$ 4,107</u></u>	<u><u>\$ 18,496</u></u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11-Other Postemployment Benefits - City Health Insurance: (Continued)

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
(Continued)***

\$4,107 reported as deferred outflows of resources related to OPEB resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2019	\$	(3,162)
2020		(3,162)
2021		(3,162)
2022		(3,162)
2023		(3,162)
Thereafter		(2,686)

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

Note 12-Other Postemployment Benefits - School Board Health Insurance:

Plan Description

In addition to the pension benefits described in Note 10, the School Board administers a single-employer defined benefit healthcare plan, The Galax City Public Schools Other Postemployment Benefits Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the School Board's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. 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 and the employee must be eligible to retire from the School Board under the Virginia Retirement System. The benefits, employee contributions and the employer contributions are governed by the School Board and can be amended through School Board action. The plan is closed to new entrants.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Other Postemployment Benefits - School Board Health Insurance: (Continued)

Plan Membership

At June 30, 2017 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	167
Total active employees without coverage	24
Total retirees with coverage	<u>14</u>
Total	<u>205</u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School Board for OPEB as the benefits came due during the year ended June 30, 2018 was \$19,443.

Total OPEB Liability

The School Board's total OPEB liability was measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	Based on assumptions for State Employee and Teacher members published in the June 30, 2017 Virginia Retirement actuarial valuation.
Discount Rate	3.56%

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements on scale MP-2015, and other adjustments.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Other Postemployment Benefits - School Board Health Insurance: (Continued)

Discount Rate

Per GASB guidance, the single rate that produces the same present value of expected benefit payments as (1) expected long-term rate of return on plan assets during the period when projected assets are sufficient to pay future retiree benefits, and (2) the 20-year municipal bond rate after assets are projected to be exhausted. Fidelity 20-Year Municipal GO AA Index was used because it meets the GASB requirements and is based on a large amount of municipal security data.

Changes in Total OPEB Liability

	Component Unit School Board	<u>Total OPEB Liability</u>
Balances at June 30, 2016	\$	442,717
Changes for the year:		
Service cost	24,478	
Interest	13,358	
Changes in assumptions	(18,980)	
Benefit payments	(19,443)	
Net changes	<u>(587)</u>	
Balances at June 30, 2017	\$	<u>442,130</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current discount rate:

<u>Rate</u>		
<u>1% Decrease</u> (2.56%)	<u>Current Discount</u> Rate (3.56%)	<u>1% Increase</u> (4.56%)
\$ 472,077	\$ 442,130	\$ 413,924

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Other Postemployment Benefits - School Board Health Insurance: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.80% decreasing to an ultimate rate of 3.10%) or one percentage point higher (7.80% decreasing to an ultimate rate of 5.10%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (5.80% decreasing to 3.10%)	Trend (6.80% decreasing to 4.10%)	1% Increase (7.80% decreasing to 5.10%)
\$ 398,194	\$ 442,130	\$ 494,655

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the School Board recognized OPEB expense in the amount of \$35,396. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 16,540
Employer contributions subsequent to the measurement date	\$ 19,443	\$ -
Total	\$ 19,443	\$ 16,540

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Other Postemployment Benefits - School Board Health Insurance: (Continued)

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
(Continued)***

\$19,443 reported as deferred outflows of resources related to OPEB resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30

2019	\$	(2,440)
2020		(2,440)
2021		(2,440)
2022		(2,440)
2023		(2,440)
Thereafter		(4,340)

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS	
Eligible Employees	The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: <ul style="list-style-type: none">• City of Richmond• City of Portsmouth• City of Roanoke• City of Norfolk• Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)	
Benefit Amounts	
The benefits payable under the Group Life Insurance Program have several components.	
<ul style="list-style-type: none">• Natural Death Benefit - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.• Accidental Death Benefit - The accidental death benefit is double the natural death benefit.• Other Benefit Provisions - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option	
Reduction in Benefit Amounts	
The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.	
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)	
For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.	

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Contributions (Continued)

Contributions to the Group Life Insurance Program from the City were \$25,670 and \$25,871 for the years ended June 30, 2018 and June 30, 2017, respectively.

Contributions to the Group Life Insurance Program from the Component Unit School Board (nonprofessional) were \$2,556 and \$2,557 for the years ended June 30, 2018 and June 30, 2017, respectively.

Contributions to the Group Life Insurance Program from the Component Unit School Board (professional) were \$37,106 and \$36,931 for the years ended June 30, 2018 and June 30, 2017, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

Primary Government Group Life Insurance Program

At June 30, 2018, the entity reported a liability of \$405,544 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.0270% as compared to 0.0271% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$2,404. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

Component Unit School Board (nonprofessional) Group Life Insurance Program

At June 30, 2018, the entity reported a liability of \$40,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.0027% as compared to 0.0028% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$(3,000). Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

Component Unit School Board (professional) Group Life Insurance Program

At June 30, 2018, the entity reported a liability of \$580,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.0385% as compared to 0.0390% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$5,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)		Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 8,816	\$ -	\$ -	\$ -	\$ 12,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	15,228	-	2,000	-	22,000
Change in assumptions	-	20,838	-	2,000	-	30,000
Changes in proportion	-	-	-	-	-	8,000
Employer contributions subsequent to the measurement date	25,670	-	2,556	-	37,106	-
Total	\$ 25,670	\$ 44,882	\$ 2,556	\$ 4,000	\$ 37,106	\$ 72,000

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

\$25,670, \$2,556, and \$37,106 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	Primary Government	Component Unit School Board (nonprofessional)	Component Unit School Board (professional)
2019	\$ (9,618)	\$ (1,000)	\$ (14,000)
2020	(9,618)	(1,000)	(14,000)
2021	(9,618)	(1,000)	(14,000)
2022	(9,618)	(1,000)	(14,000)
2023	(5,610)	-	(9,000)
Thereafter	(800)	-	(7,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

*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 OPEB liabilities

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	<u><u>\$ 1,504,840</u></u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 524,963	\$ 405,544	\$ 309,367
Component Unit School Board's (nonprofessional) proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 52,000	\$ 40,000	\$ 31,000
Component Unit School Board's (professional) proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 750,000	\$ 580,000	\$ 442,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS	
Eligible Employees	
The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.	
Eligible employees are enrolled automatically upon employment. They include: <ul style="list-style-type: none">• Full-time permanent (professional) salaried employees of public school divisions covered under VRS.	
Benefit Amounts	
The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: <ul style="list-style-type: none">• At Retirement - For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.• Disability Retirement - For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:<ul style="list-style-type: none">○ \$4.00 per month, multiplied by twice the amount of service credit, or○ \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.	
Health Insurance Credit Program Notes:	
<ul style="list-style-type: none">• The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.• Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.	

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate 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 from the school division to the VRS Teacher Employee Health Insurance Credit Program were \$87,717 and \$78,738 for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2018, the school division reported a liability of \$1,141,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was 0.0899% as compared to 0.09189% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of \$90,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB: (Continued)

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	2,000
Change in assumptions	-	12,000
Change in proportion	-	22,000
Employer contributions subsequent to the measurement date	<u>87,717</u>	-
Total	<u>\$ 87,717</u>	<u>\$ 36,000</u>

\$87,717 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30

2019	\$ (5,000)	
2020	(5,000)	
2021	(5,000)	
2022	(5,000)	
2023	(5,000)	
Thereafter	(11,000)	

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation: Teacher employees	3.5%-5.95%
Investment rate of return	7.0%, net of investment expenses, 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 OPEB liabilities.

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

	Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$ 1,364,702
Plan Fiduciary Net Position	<u>96,091</u>
Teacher Employee net HIC OPEB Liability (Asset)	<u>\$ 1,268,611</u>

Plan Fiduciary Net Position as a Percentage
of the Total Teacher Employee HIC OPEB Liability 7.04%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS 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 VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
*Expected arithmetic nominal return			7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB 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 Teacher Employee HIC OPEB liability.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB 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		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan			
Net HIC OPEB Liability	\$ 1,273,000	\$ 1,141,000	\$ 1,028,000

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 15-Uncashed 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. Under the accrual basis, assessments for future periods are deferred.

	Government-wide Statements		Balance Sheet
	Governmental Activities		Governmental Funds
Deferred/Unavailable revenue:			
Unavailable property tax revenue representing uncollected property tax billings are not available for the funding of current expenditures	\$	-	\$ 360,004
Prepaid property taxes due after June 30 but paid in advance by taxpayers		11,486	11,486
Unavailable meals tax revenue representing uncollected meals tax not available for the funding of current expenditures		-	38,794
	\$	11,486	\$ 410,284

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 16-Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,051,349	\$ 984,627	\$ -	\$ 3,035,976
Construction in progress	151,383	1,695,138	(38,777)	1,807,744
Total capital assets not being depreciated	<u>\$ 2,202,732</u>	<u>\$ 2,679,765</u>	<u>\$ (38,777)</u>	<u>\$ 4,843,720</u>
Capital assets, being depreciated:				
Infrastructure	\$ 4,119,198	\$ 13,080	\$ -	\$ 4,132,278
Buildings and improvements	19,275,572	2,566,698	-	21,842,270
Machinery and equipment	5,257,803	260,279	(255,402)	5,262,680
Total capital assets being depreciated	<u>\$ 28,652,573</u>	<u>\$ 2,840,057</u>	<u>\$ (255,402)</u>	<u>\$ 31,237,228</u>
Accumulated depreciation:				
Infrastructure	\$ (780,430)	\$ (2,407,461)	\$ -	\$ (3,187,891)
Buildings and improvements	(6,804,947)	(134,398)	-	(6,939,345)
Machinery and equipment	(3,836,508)	(272,564)	249,878	(3,859,194)
Total accumulated depreciation	<u>\$ (11,421,885)</u>	<u>\$ (2,814,423)</u>	<u>\$ 249,878</u>	<u>\$ (13,986,430)</u>
Total capital assets being depreciated, net	<u>\$ 17,230,688</u>	<u>\$ 25,634</u>	<u>\$ (5,524)</u>	<u>\$ 17,250,798</u>
Governmental activities capital assets, net	<u>\$ 19,433,420</u>	<u>\$ 2,705,399</u>	<u>\$ (44,301)</u>	<u>\$ 22,094,518</u>

Current year increases for assets and accumulated depreciation include the transfer of Galaxy Elementary at an original cost of \$2,028,449 net of accumulated depreciation of \$1,766,887 from Component Unit School Board.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 16-Capital Assets: (Continued)

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 149,374	\$ -	\$ -	\$ 149,374
Construction in progress	581,526	720,134	-	1,301,660
Total capital assets not being depreciated	<u>\$ 730,900</u>	<u>\$ 720,134</u>	<u>\$ -</u>	<u>\$ 1,451,034</u>
Capital assets, being depreciated:				
Infrastructure	\$ 18,070,124	\$ 42,440	\$ -	\$ 18,112,564
Building and improvements	1,823,395	-	-	1,823,395
Machinery and equipment	805,496	-	(54,942)	750,554
Total capital assets being depreciated	<u>\$ 20,699,015</u>	<u>\$ 42,440</u>	<u>\$ (54,942)</u>	<u>\$ 20,686,513</u>
Accumulated depreciation:				
Infrastructure	\$ (15,508,193)	\$ (165,046)	\$ -	\$ (15,673,239)
Building and improvements	(588,637)	(108,081)	-	(696,718)
Machinery and equipment	(555,980)	(18,714)	54,942	(519,752)
Total accumulated depreciation	<u>\$ (16,652,810)</u>	<u>\$ (291,841)</u>	<u>\$ 54,942</u>	<u>\$ (16,889,709)</u>
Total capital assets being depreciated, net	<u>\$ 4,046,205</u>	<u>\$ (249,401)</u>	<u>\$ -</u>	<u>\$ 3,796,804</u>
Business-type activities capital assets, net	<u><u>\$ 4,777,105</u></u>	<u><u>\$ 470,733</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,247,838</u></u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 16-Capital Assets: (Continued)

Primary Government: (Continued)

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

Governmental activities:

General government administration	\$ 15,358
Public safety	235,800
Public works	244,622
Health and welfare	815
Education	305,740
Parks, recreation, and culture	<u>245,201</u>
Total depreciation expense-governmental activities	<u>\$ 1,047,536</u>

Business-type activities:

Water and sewer	<u>\$ 291,841</u>
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CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 16-Capital Assets: (Continued)

Capital asset activity for the School Board for the year ended June 30, 2018 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 439,368	\$ 36,088	\$ (9,527)	\$ 465,929
Construction in progress	431,784	129,737	(561,521)	-
Total capital assets not being depreciated	<u>\$ 871,152</u>	<u>\$ 165,825</u>	<u>\$ (571,048)</u>	<u>\$ 465,929</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,266,764	\$ 525,433	\$ (1,957,629)	\$ 7,834,568
Machinery and equipment	1,946,037	99,428	(61,293)	1,984,172
Total capital assets being depreciated	<u>\$ 11,212,801</u>	<u>\$ 624,861</u>	<u>\$ (2,018,922)</u>	<u>\$ 9,818,740</u>
Accumulated depreciation:				
Buildings and improvements	\$ (5,229,582)	\$ (198,005)	\$ 1,750,259	\$ (3,677,328)
Machinery and equipment	(1,390,490)	(81,906)	16,628	(1,455,768)
Total accumulated depreciation	<u>\$ (6,620,072)</u>	<u>\$ (279,911)</u>	<u>\$ 1,766,887</u>	<u>\$ (5,133,096)</u>
Total capital assets being depreciated, net	<u>\$ 4,592,729</u>	<u>\$ 344,950</u>	<u>\$ (252,035)</u>	<u>\$ 4,685,644</u>
School Board capital assets, net	<u>\$ 5,463,881</u>	<u>\$ 510,775</u>	<u>\$ (823,083)</u>	<u>\$ 5,151,573</u>

Current year decreases for assets and accumulated depreciation include the transfer of Galaxy Elementary at an original cost of \$2,028,449 net of accumulated depreciation of \$1,766,887 to governmental-type activities.

Note 17-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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Risk Management: (Continued)

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.

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 18-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* 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 19-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 \$634,682. 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.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Landfill Closure and Post-closure Care Cost: (Continued)

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.

Note 20-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, 2018
Blue Ridge Crossroads Commerce Park	\$ 4,000	\$ 2,800
VDOT Construction Cranberry Road:3FINAL	54,000	40,500
VDOT Construction Cranberry Road:4BID	13,000	13,000
VDOT Construction Cranberry Road:5CONA	36,500	36,500
VDOT Construction Cranberry Road:6CLOSE	8,500	8,500
VDOT Construction Cranberry Road:7ADDT	28,000	25,150
VDOT Construction Cranberry Road:8INSP	106,500	106,500
WWTP Renovation	1,172,870	464,879
WWTP Renovation	6,905,500	6,396,104
WWTP Renovation	1,057,300	1,057,300
WWTP Renovation	673,983	673,983
Bottom Area Phase III - Eastview	59,900	43,600
Bottom Area Phase III - Eastview	40,100	40,100
Bottom Area Phase III - Eastview	104,600	104,600
Bottom Area Phase III - Eastview	76,800	76,800
Bottom Area Phase III - Eastview	10,600	10,600
Pool Design	25,000	12,500
VDOT McArthur/Circle Drive Traffic Signals	62,846	45,891
Galax Elementary School Renovations	15,588,955	15,588,955

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 \$30,514. At year end, the City reports an amount of \$31,658 for the reimbursement of amounts paid by the City on the Authority's behalf.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20-Commitments and Contingencies: (Continued)

Shared Service Fees

The City shares services with Carroll County and Grayson County for costs incurred for the localities courts and sheriff offices. It is the City's policy to reimburse the Counties after year end based on funding agreements with each locality. At year end, \$560,000 was due for the current fiscal year.

Galax EMS

Galax EMS entered into an equipment lease, in the amount of \$64,000, to purchase two ambulances. The debt is in the City's name but Galax EMS is responsible for the principal and interest payments. The debt will be paid off in fiscal year 2021.

Note 21-Restricted and Committed Funds and Restricted Net Position:

	General Government	Component Unit School Fund	
Governmental Activities:			
Restricted:			
Blue Ridge Post book fund	\$ 14,506	\$ -	-
Revolving housing loans program	119,044	-	-
Small business loans program	30,284	-	-
Cafeteria funds	-	391,580	
Total restricted balances	\$ 163,834	\$ 391,580	
Governmental Funds:			
Blue Ridge Post book fund	\$ 14,506	\$ -	-
Restricted cash in loan programs	47,662	-	-
Total restricted balances	\$ 62,168	\$ -	-
Committed funds:			
Police narcotics	15,785	-	-
Police DARE	279	-	-
Fire Department grants	51,573	-	-
Total committed funds	\$ 67,637	\$ -	-

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 22-Adoption of Accounting Principles:

The City implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the City implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the restatement of net position as noted in Note 23.

Note 23-Restatement of Net Position:

Net position was restated as follows:

	Primary Government			Component Unit	
	Governmental	Business-type			School Board
		Activities	Water and Sewer	Stormwater	
Net position, as previously stated	\$ 12,954,987	\$ 2,849,960	\$ 94,949	\$ (4,363,387)	
Correction of construction in progress	88,817	-	-	-	78,680
Remove prior year OPEB liability-health insurance	243,713	40,673	-	-	297,699
GASB 75 implementation-health insurance	(289,602)	(77,619)	(940)	(423,274)	
GASB 75 implementation-GLI	(352,980)	(93,317)	(1,501)	(692,512)	
GASB 75 implementation-HIC	-	-	-	-	(1,086,262)
Net position, as restated	\$ 12,644,935	\$ 2,719,697	\$ 92,508	\$ (6,189,056)	

Note 24-Upcoming Pronouncements:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 24-Upcoming Pronouncements: (Continued)

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 24-Upcoming Pronouncements: (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

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, 2018

	Budgeted Amounts			Variance with Final Budget -		
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	Positive (Negative)		
				Final Budget -	Positive (Negative)	
REVENUES						
General property taxes	\$ 5,262,500	\$ 5,262,500	\$ 5,615,048	\$ 352,548		
Other local taxes	5,939,000	5,939,000	6,074,177	135,177		
Permits, privilege fees, and regulatory licenses	19,900	19,900	24,815	4,915		
Fines and forfeitures	125,500	125,500	135,173	9,673		
Revenue from the use of money and property	43,575	43,575	43,272	(303)		
Charges for services	795,300	795,300	767,076	(28,224)		
Miscellaneous	82,000	122,550	104,353	(18,197)		
Recovered costs	174,348	176,748	143,131	(33,617)		
Intergovernmental	5,182,181	5,805,350	5,265,695	(539,655)		
Total revenues	\$ 17,624,304	\$ 18,290,423	\$ 18,172,740	\$ (117,683)		
EXPENDITURES						
Current:						
General government administration	\$ 1,531,428	\$ 1,531,395	\$ 1,468,439	\$ 62,956		
Judicial administration	608,350	608,350	602,234	6,116		
Public safety	2,837,193	3,011,659	2,981,497	30,162		
Public works	2,760,426	3,162,036	2,848,899	313,137		
Health and welfare	1,753,645	1,823,645	2,238,392	(414,747)		
Education	4,022,978	4,416,648	5,215,905	(799,257)		
Parks, recreation, and cultural	1,989,723	2,015,523	1,871,870	143,653		
Community development	321,492	367,126	357,239	9,887		
Nondepartmental	361,784	277,084	77,179	199,905		
Capital projects	861,200	1,798,351	1,020,007	778,344		
Debt service:						
Principal retirement	755,000	505,776	477,317	28,459		
Bond issuance costs	-	185,500	185,500	-		
Interest and other fiscal charges	-	174,224	174,309	(85)		
Total expenditures	\$ 17,803,219	\$ 19,877,317	\$ 19,518,787	\$ 358,530		
Excess (deficiency) of revenues over (under) expenditures	\$ (178,915)	\$ (1,586,894)	\$ (1,346,047)	\$ 240,847		
OTHER FINANCING SOURCES (USES)						
Issuance of general obligation bond and capital leases	\$ -	\$ 918,351	\$ 942,137	\$ 23,786		
Total other financing sources (uses)	\$ -	\$ 918,351	\$ 942,137	\$ 23,786		
Net change in fund balances	\$ (178,915)	\$ (668,543)	\$ (403,910)	\$ 264,633		
Fund balances - beginning	178,915	668,543	4,306,669	3,638,126		
Fund balances - ending	\$ -	\$ -	\$ 3,902,759	\$ 3,902,759		

Note 1: GAAP serves as the budgetary basis of accounting

Exhibit 12

City of Galax, Virginia
Schedule of Employer's Proportionate Share of Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2018

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 (6)
(1)	(2)	(3)	(4)	(5)	(6)
Primary Government - City Retirement Plan					
2017	80.15%	\$ 1,438,898	\$ 4,979,689	28.90%	93.53%
2016	79.48%	2,944,744	4,820,666	61.09%	86.35%
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%
Component Unit School Board (professional)					
2017	0.09051%	\$ 11,130,000	\$ 7,089,186	157.00%	72.92%
2016	0.09189%	12,877,000	7,006,311	183.79%	68.28%
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 Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 46,631	\$ 54,408	\$ 52,788	\$ 59,100
Interest	152,273	147,275	146,030	138,221
Differences between expected and actual experience	(78,673)	(38,600)	(92,264)	-
Changes in assumptions	(20,700)	-	-	-
Benefit payments, including refunds of employee contributions	(101,759)	(81,606)	(95,913)	(75,607)
Net change in total pension liability	\$ (2,228)	\$ 81,477	\$ 10,641	\$ 121,714
Total pension liability - beginning	2,226,215	2,144,738	2,134,097	2,012,383
Total pension liability - ending (a)	\$ 2,223,987	\$ 2,226,215	\$ 2,144,738	\$ 2,134,097
 Plan fiduciary net position				
Contributions - employer	\$ 42,353	\$ 51,508	\$ 56,560	\$ 58,635
Contributions - employee	23,533	24,595	27,173	27,537
Net investment income	227,065	32,761	81,921	242,426
Benefit payments, including refunds of employee contributions	(101,759)	(81,606)	(95,913)	(75,607)
Administrative expense	(1,321)	(1,140)	(1,116)	(1,285)
Other	(202)	(14)	(16)	13
Net change in plan fiduciary net position	\$ 189,669	\$ 26,104	\$ 68,609	\$ 251,719
Plan fiduciary net position - beginning	1,872,316	1,846,212	1,777,603	1,525,884
Plan fiduciary net position - ending (b)	\$ 2,061,985	\$ 1,872,316	\$ 1,846,212	\$ 1,777,603
 School Division's net pension liability - ending (a) - (b)	 \$ 162,002	 \$ 353,899	 \$ 298,526	 \$ 356,494
 Plan fiduciary net position as a percentage of the total pension liability	 92.72%	 84.10%	 86.08%	 83.30%
 Covered payroll	 \$ 491,690	 \$ 507,791	 \$ 554,534	 \$ 552,382
 School Division's net pension liability as a percentage of covered payroll	 32.95%	 69.69%	 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 Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in				Contributions	
	Contractually Required Contribution (1)	Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	as a % of Covered Payroll (5)	
Primary Government						
2018	\$ 412,124	\$ 412,124	\$ -	\$ 4,920,951		8.37%
2017	419,962	419,962	-	4,979,689		8.43%
2016	550,450	550,450	-	4,820,666		11.42%
2015	538,784	538,784	-	4,692,751		11.48%
Component Unit School Board (nonprofessional)						
2018	\$ 37,389	\$ 43,597	\$ (6,208)	\$ 505,946		8.62%
2017	36,336	42,353	(6,017)	491,690		8.61%
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%
Component Unit School Board (professional)						
2018	\$ 1,152,247	\$ 1,152,247	\$ -	\$ 7,131,435		16.16%
2017	1,032,736	1,032,736	-	7,089,186		14.57%
2016	977,000	977,000	-	7,006,311		13.94%
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 report 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, 2018

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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Exhibit 16

City of Galax, Virginia
Schedule of City's Proportionate Share of the Total Health Insurance OPEB Liability
For the Year Ended June 30, 2018

Date (1)	Proportion of the Total OPEB Liability (Asset) (TOLA) (2)	Proportionate Share of the TOLA (3)	Covered Payroll (4)	Proportionate Share of the TOLA as a Percentage of Covered Payroll (3)/(4) (5)
2017	79.8272%	\$ 378,065	\$ 6,242,457	6.06%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Galax, Virginia
Schedule of Changes in Total Health Insurance OPEB Liability (Asset) and Related Ratios
Component Unit - School Board
For the Year Ended June 30, 2018

	2017
Total OPEB liability	
Service cost	\$ 24,478
Interest	13,358
Changes in assumptions	(18,980)
Benefit payments	(19,443)
Net change in total OPEB liability	\$ (587)
Total OPEB liability - beginning	442,717
Total OPEB liability - ending	\$ 442,130
 Covered-employee payroll	 \$ 8,226,508
 School's total OPEB liability (asset) as a percentage of covered-employee payroll	 5.37%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

City of Galax, Virginia

Notes to Required Supplementary Information - City and Component Unit School Board Health Insurance OPEB
For the Year Ended June 30, 2018**Primary Government**

Valuation Date: 6/30/2017
 Measurement Date: 6/30/2017

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.56%
Inflation	2.50%
Healthcare Trend Rate	6.80% for FY2018, gradually decreasing over several decades to an ultimate rate of 4.10% in FY2075 and later years. In addition, the medical trend rates above were increased to reflect the projected effect of the Affordable Care Act's Excise Tax on high-cost health insurance plans. The additional trend rate adjustments vary by year, but average 0.39% beginning calendar year 2031 for plans other than Medicare plans.
Salary Increase Rates	Based on assumptions for State Employee and Law Officers members published in the June 30, 2017 Virginia Retirement actuarial valuation.
Retirement Age	The average age at retirement is 62
Mortality Rates	Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements on scale MP-2015, and other adjustments.

Component Unit School Board

Valuation Date: 6/30/2017
 Measurement Date: 6/30/2017

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.56%
Inflation	2.50%
Healthcare Trend Rate	6.80% for FY2018, gradually decreasing over several decades to an ultimate rate of 4.10% in FY2075 and later years. In addition, the medical trend rates above were increased to reflect the projected effect of the Affordable Care Act's Excise Tax on high-cost health insurance plans. The additional trend rate adjustments vary by year, but average 0.40% beginning calendar year 2034 for plans other than Medicare plans.
Salary Increase Rates	Based on assumptions for State Employee and Teacher members published in the June 30, 2017 Virginia Retirement actuarial valuation.
Retirement Age	The average age at retirement is 62
Mortality Rates	Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements on scale MP-2015, and other adjustments.

City of Galax, Virginia
Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2017	0.0270%	\$ 405,544	\$ 4,979,689	8.14%	48.86%
Component Unit School Board (nonprofessional)					
2017	0.0027%	\$ 40,000	\$ 491,690	8.14%	48.86%
Component Unit School Board (professional)					
2017	0.0385%	\$ 580,000	\$ 7,089,186	8.18%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Galax, Virginia
Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in				Contributions	
	Contractually Required Contribution (1)	Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	as a % of Covered Payroll (5)	
Primary Government						
2018	\$ 25,670	\$ 25,670	\$ -	\$ 4,920,951		0.52%
2017	25,871	25,871	-	4,979,689		0.52%
2016	29,152	29,152	-	4,820,666		0.60%
2015	28,651	28,651	-	4,692,751		0.61%
Component Unit School Board (nonprofessional)						
2018	\$ 2,556	\$ 2,556	\$ -	\$ 505,946		0.51%
2017	2,557	2,557	-	491,690		0.52%
2016	2,438	2,438	-	507,791		0.48%
2015	2,662	2,662	-	554,534		0.48%
2014	2,662	2,662	-	552,382		0.48%
2013	2,674	2,674	-	557,134		0.48%
2012	1,458	1,458	-	518,711		0.28%
2011	1,434	1,434	-	504,659		0.28%
2010	994	994	-	502,916		0.20%
2009	1,320	1,320	-	488,930		0.27%
Component Unit School Board (professional)						
2018	\$ 37,106	\$ 37,106	\$ -	\$ 7,131,435		0.52%
2017	36,931	36,931	-	7,089,186		0.52%
2016	33,666	33,666	-	7,006,311		0.48%
2015	32,904	32,904	-	6,853,703		0.48%
2014	32,423	32,423	-	6,740,206		0.48%
2013	31,391	31,391	-	6,539,768		0.48%
2012	17,442	17,442	-	6,229,433		0.28%
2011	17,858	17,858	-	6,377,811		0.28%
2010	12,530	12,530	-	4,640,805		0.27%
2009	17,573	17,573	-	6,508,410		0.27%

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. Additional years will be included as they become available.

City of Galax, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

City of Galax, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

City of Galax, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Galax, Virginia
Schedule of Component Unit School Board's Share of Net OPEB Liability
Teacher Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2017	0.0899%	\$ 1,141,000	\$ 7,089,186	16.09%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Galax, Virginia
Schedule of Employer Contributions
Teacher Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in Relation to Contractually Required Contribution					Contributions as a % of Covered Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll		
(1)	(2)	(3)	(4)	(5)		
2018	\$ 87,717	\$ 87,717	\$ -	\$ 7,131,435		1.23%
2017	78,738	78,738	-	7,089,186		1.11%
2016	74,267	74,267	-	7,006,311		1.06%
2015	72,649	72,649	-	6,853,703		1.06%
2014	74,805	74,805	-	6,740,206		1.11%
2013	72,592	72,592	-	6,539,768		1.11%
2012	37,242	37,242	-	6,229,433		0.60%
2011	38,190	38,190	-	6,377,811		0.60%
2010	48,131	48,131	-	4,640,805		1.04%
2009	70,291	70,291	-	6,508,410		1.08%

City of Galax, Virginia
Notes to Required Supplementary Information
Teacher Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Other Supplementary Information

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

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, 2018

	<u>School Operating Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,821,327
Receivables (net of allowance for uncollectibles):	
Accounts receivable	17,464
Due from other governmental units	969,989
Inventories	25,226
Prepaid items	139,848
Total assets	<u>\$ 3,973,854</u>
LIABILITIES	
Accounts payable	\$ 44,335
Salaries payable	1,103,933
Total liabilities	<u>\$ 1,148,268</u>
FUND BALANCES	
Nonspendable	
Prepaid and inventory	\$ 165,074
Restricted	
School cafeterias	391,580
Unassigned	
Total fund balances	\$ 2,825,586
Total liabilities and fund balances	<u>\$ 3,973,854</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 2,825,586
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 465,929
Buildings and improvements	4,157,240
Machinery and equipment	<u>528,404</u> 5,151,573
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	
Pension related items	\$ 1,400,844
OPEB related items	<u>146,822</u> 1,547,666
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	\$ (149,738)
Net OPEB liabilities	(2,203,130)
Net pension liability	<u>(11,292,002)</u> (13,644,870)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.	
Pension related items	\$ (1,508,407)
OPEB related items	<u>(128,540)</u> (1,636,947)
Net position of governmental activities	<u>\$ (5,756,992)</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, 2018

	School Operating <u>Fund</u>
REVENUES	
Revenue from the use of money and property	\$ 1,011
Charges for services	347,917
Miscellaneous	143,593
Recovered costs	132
Intergovernmental	16,006,452
Total revenues	<u>\$ 16,499,105</u>
EXPENDITURES	
Current:	
Education	\$ 16,215,458
Total expenditures	<u>\$ 16,215,458</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 283,647</u>
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	<u>\$ 1,626</u>
Net change in fund balances	\$ 285,273
Fund balances - beginning	2,540,313
Fund balances - ending	<u>\$ 2,825,586</u>
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	\$ 285,273
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 expense exceeded capital outlays in the current period.	
Capital outlays	\$ 229,165
Depreciation expense	<u>(279,911)</u> (50,746)
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase net position.	
Transfer of assets (net) to primary government	(261,562)
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	\$ 15,777
OPEB expense	17,200
Pension expense	<u>426,122</u> 459,099
Change in net position of governmental activities	<u>\$ 432,064</u>

Exhibit 27

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, 2018

	School Operating Fund				Variance with Final Budget	
	Budgeted Amounts		<u>Actual</u>	Positive (Negative)		
	<u>Original</u>	<u>Final</u>				
REVENUES						
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,011	\$ 511		
Charges for services	248,507	248,507	347,917	99,410		
Miscellaneous	608,195	608,195	143,593	(464,602)		
Recovered costs	1,500	1,500	132	(1,368)		
Intergovernmental	15,701,089	15,701,089	16,006,452	305,363		
Total revenues	\$ 16,559,791	\$ 16,559,791	\$ 16,499,105	\$ (60,686)		
EXPENDITURES						
Current:						
Education	\$ 16,561,417	\$ 16,561,417	\$ 16,215,458	\$ 345,959		
Total expenditures	\$ 16,561,417	\$ 16,561,417	\$ 16,215,458	\$ 345,959		
Excess (deficiency) of revenues over (under) expenditures	\$ (1,626)	\$ (1,626)	\$ 283,647	\$ 285,273		
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	\$ 1,626	\$ 1,626	\$ 1,626	\$ -		
Total other financing sources (uses)	\$ 1,626	\$ 1,626	\$ 1,626	\$ -		
Net change in fund balances	\$ -	\$ -	\$ 285,273	\$ 285,273		
Fund balances - beginning	-	-	2,540,313	2,540,313		
Fund balances - ending	\$ -	\$ -	\$ 2,825,586	\$ 2,825,586		

DISCRETELY PRESENTED COMPONENT UNIT - INDUSTRIAL DEVELOPMENT AUTHORITY

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.

Exhibit 28

**City of Galax, Virginia
Discretely Presented Component Unit
City of Galax, Virginia - Industrial Development Authority
Statement of Net Position - Proprietary Fund
June 30, 2018**

	Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 78,974
Total assets	<u>\$ 78,974</u>
NET POSITION	
Unrestricted	\$ 78,974
Total net position	<u>\$ 78,974</u>

Exhibit 29

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, 2018

	Enterprise Fund
OPERATING EXPENSES	
Miscellaneous	\$ 77
Total operating expenses	<u>\$ 77</u>
Operating income (loss)	<u>\$ (77)</u>
Change in net position	\$ (77)
Total net position - beginning	79,051
Total net position - ending	<u>\$ 78,974</u>

Exhibit 30

**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, 2018**

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (77)
Net cash provided by (used for) operating activities	<u>\$ (77)</u>
Net increase (decrease) in cash and cash equivalents	\$ (77)
Cash and cash equivalents - beginning	79,051
Cash and cash equivalents - ending	<u>\$ 78,974</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (77)
Net cash provided by (used for) operating activities	<u>\$ (77)</u>

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<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>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 3,414,000	\$ 3,414,000	\$ 3,483,937	\$ 69,937
Real and personal public service corporation taxes	114,000	114,000	120,937	6,937
Personal property taxes	530,000	530,000	609,247	79,247
Furniture and fixtures	340,000	340,000	392,782	52,782
Machinery and tools taxes	805,000	805,000	889,689	84,689
Delinquent administrative fee	1,000	1,000	3,337	2,337
Penalties	23,500	23,500	74,403	50,903
Interest	35,000	35,000	40,716	5,716
Total general property taxes	<u>\$ 5,262,500</u>	<u>\$ 5,262,500</u>	<u>\$ 5,615,048</u>	<u>\$ 352,548</u>
Other local taxes:				
Local sales and use taxes	\$ 2,250,000	\$ 2,250,000	\$ 2,259,147	\$ 9,147
Consumers' utility taxes	180,000	180,000	180,186	186
Local consumption tax	50,000	50,000	47,628	(2,372)
Local admissions tax	20,000	20,000	15,333	(4,667)
Business license taxes	1,100,000	1,100,000	970,078	(129,922)
Motor vehicle licenses	115,000	115,000	116,106	1,106
Bank stock taxes	134,000	134,000	204,125	70,125
Hotel and motel room taxes	140,000	140,000	164,314	24,314
Restaurant food taxes	1,950,000	1,950,000	2,117,260	167,260
Total other local taxes	<u>\$ 5,939,000</u>	<u>\$ 5,939,000</u>	<u>\$ 6,074,177</u>	<u>\$ 135,177</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,900	\$ 3,900	\$ 3,050	\$ (850)
Building permits and other licenses	16,000	16,000	21,765	5,765
Total permits, privilege fees, and regulatory licenses	<u>\$ 19,900</u>	<u>\$ 19,900</u>	<u>\$ 24,815</u>	<u>\$ 4,915</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 125,000	\$ 125,000	\$ 133,897	\$ 8,897
Parking fines	500	500	1,276	776
Total fines and forfeitures	<u>\$ 125,500</u>	<u>\$ 125,500</u>	<u>\$ 135,173</u>	<u>\$ 9,673</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 75	\$ 75	\$ 1,137	\$ 1,062
Revenue from use of property	43,500	43,500	42,135	(1,365)
Total revenue from use of money and property	<u>\$ 43,575</u>	<u>\$ 43,575</u>	<u>\$ 43,272</u>	<u>\$ (303)</u>
Charges for services:				
Charges for animal adoptions	\$ 5,500	\$ 5,500	\$ 11,602	\$ 6,102
Charges for courthouse maintenance	5,300	5,300	4,348	(952)
Charges for parking spaces	2,000	2,000	36	(1,964)
Charges for courtroom security	18,000	18,000	18,912	912
Other charges for services	22,000	22,000	14,220	(7,780)
Charges for sanitation and waste removal	395,500	395,500	395,703	203
Charges for parks and recreation	347,000	347,000	322,255	(24,745)
Total charges for services	<u>\$ 795,300</u>	<u>\$ 795,300</u>	<u>\$ 767,076</u>	<u>\$ (28,224)</u>

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget -
				Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous:				
Miscellaneous	\$ 46,000	\$ 52,750	\$ 39,223	\$ (13,527)
Sale of surplus	1,000	1,000	16,797	15,797
Sale of cemetery lots	6,000	6,000	4,125	(1,875)
Donations and contributions	29,000	62,800	44,208	(18,592)
Total miscellaneous	\$ 82,000	\$ 122,550	\$ 104,353	\$ (18,197)
Recovered costs:				
Juvenile probation	\$ 29,366	\$ 29,366	\$ 22,719	\$ (6,647)
Animal Shelter	71,132	73,532	57,496	(16,036)
Sanitation recovered costs	2,500	2,500	2,463	(37)
Police recovered costs	55,000	55,000	54,879	(121)
Bottom Area project	6,000	6,000	-	(6,000)
Social services	4,250	4,250	-	(4,250)
Other recovered costs	6,100	6,100	5,574	(526)
Total recovered costs	\$ 174,348	\$ 176,748	\$ 143,131	\$ (33,617)
Total revenue from local sources	\$ 12,442,123	\$ 12,485,073	\$ 12,907,045	\$ 421,972
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications sales and use taxes	\$ 235,000	\$ 235,000	\$ 213,600	\$ (21,400)
Recordation tax	10,000	10,000	8,296	(1,704)
Motor vehicle carriers' tax	28,000	28,000	36,803	8,803
Mobile home titling tax	2,000	2,000	1,437	(563)
Rolling stock tax	-	-	11	11
Personal property tax relief funds	230,000	230,000	218,511	(11,489)
Total noncategorical aid	\$ 505,000	\$ 505,000	\$ 478,658	\$ (26,342)
Categorical aid:				
Shared expenses:				
Commissioner of the revenue	\$ 57,000	\$ 57,000	\$ 59,781	\$ 2,781
Registrar/electoral board	35,000	35,000	34,465	(535)
Total shared expenses	\$ 92,000	\$ 92,000	\$ 94,246	\$ 2,246
Other categorical aid:				
599 Funds (Police funding)	\$ 323,000	\$ 323,000	\$ 323,596	\$ 596
Comprehensive services act	191,410	191,410	359,518	168,108
Street and highway funds	1,910,000	1,910,000	1,921,428	11,428
Litter control	6,000	6,000	6,038	38
Virginia Commission for the Arts	5,000	5,000	4,500	(500)
Public assistance and welfare administration	1,052,154	1,052,154	520,374	(531,780)
Department of Fire Programs	-	23,542	23,542	-
VTC Marketing Leveraging Grant	-	14,317	11,830	(2,487)
EMS 4 for Life Funding	-	-	6,098	6,098

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<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>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Other categorical aid: (Continued)				
Asset forfeiture funds	\$ -	\$ -	\$ 5,180	\$ 5,180
Fire training mini grant	- -	23,000	23,000	-
Highway construction funds	- -	437,210	434,831	(2,379)
Other categorical aid	- -	4,011	3,632	(379)
Total other categorical aid	<u>\$ 3,487,564</u>	<u>\$ 3,989,644</u>	<u>\$ 3,643,567</u>	<u>\$ (346,077)</u>
Total categorical aid	<u>\$ 3,579,564</u>	<u>\$ 4,081,644</u>	<u>\$ 3,737,813</u>	<u>\$ (343,831)</u>
Total revenue from the Commonwealth	<u>\$ 4,084,564</u>	<u>\$ 4,586,644</u>	<u>\$ 4,216,471</u>	<u>\$ (370,173)</u>
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ -	\$ -	\$ 842,331	\$ 842,331
Community development block grants	- -	18,200	16,300	(1,900)
Public safety grants	25,500	32,144	32,652	508
FEMA safer grant	5,000	5,000	4,602	(398)
FEMA grant	- -	45,455	45,455	-
DMV grants	- -	17,000	16,564	(436)
Highway planning and construction grants	367,117	367,117	61,109	(306,008)
Rural Development grants	700,000	700,000	-	(700,000)
High intensity drug trafficking grant	- -	8,790	11,511	2,721
USDA grant	- -	25,000	18,700	(6,300)
Total categorical aid	<u>\$ 1,097,617</u>	<u>\$ 1,218,706</u>	<u>\$ 1,049,224</u>	<u>\$ (169,482)</u>
Total revenue from the federal government	<u>\$ 1,097,617</u>	<u>\$ 1,218,706</u>	<u>\$ 1,049,224</u>	<u>\$ (169,482)</u>
Total General Fund	<u>\$ 17,624,304</u>	<u>\$ 18,290,423</u>	<u>\$ 18,172,740</u>	<u>\$ (117,683)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 351	\$ 351
Revenue from the use of property	500	500	660	160
Total revenue from use of money and property	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 1,011</u>	<u>\$ 511</u>
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 106,044	\$ 106,044
Transportation of pupils	8,000	8,000	7,485	(515)
Payments from other divisions	239,807	239,807	233,688	(6,119)
Tuition and payments from other divisions	700	700	700	-
Total charges for services	<u>\$ 248,507</u>	<u>\$ 248,507</u>	<u>\$ 347,917</u>	<u>\$ 99,410</u>

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget -
				Positive (Negative)
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous:				
Donations	\$ 25,000	\$ 25,000	\$ 40,604	\$ 15,604
Medicaid payments	60,000	60,000	71,955	11,955
Other miscellaneous	523,195	523,195	31,034	(492,161)
Total miscellaneous	\$ 608,195	\$ 608,195	\$ 143,593	\$ (464,602)
Recovered costs:				
Other recovered costs	\$ 1,500	\$ 1,500	\$ 132	\$ (1,368)
Total revenue from local sources	\$ 858,702	\$ 858,702	\$ 492,653	\$ (366,049)
Intergovernmental:				
Revenues from local governments:				
Contribution from the City of Galax, Virginia	\$ 4,777,738	\$ 4,777,738	\$ 5,204,750	\$ 427,012
Total revenues from local governments	\$ 4,777,738	\$ 4,777,738	\$ 5,204,750	\$ 427,012
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 1,193,000	\$ 1,193,000	\$ 1,142,322	\$ (50,678)
Basic school aid	4,040,008	4,040,008	4,019,979	(20,029)
Remedial summer education	239,577	239,577	239,577	-
Adult secondary education	8,294	8,294	8,294	-
Gifted and talented	43,707	43,707	43,624	(83)
Remedial education	239,480	239,480	239,025	(455)
Migrant education	1,972	1,972	-	(1,972)
Virginia preschool initiative	140,337	140,337	140,337	-
Textbook payment	99,963	99,963	99,773	(190)
Vocational SOQ payments	112,000	112,000	111,788	(212)
Lottery payments	249,606	249,606	249,359	(247)
Social security fringe benefits	254,960	254,960	254,476	(484)
Retirement fringe benefits	584,587	584,587	583,476	(1,111)
Group life insurance benefits	17,301	17,301	17,268	(33)
Early reading intervention	23,788	23,788	36,200	12,412
Homebound education	10,740	10,740	10,741	1
Special education	365,139	365,139	364,446	(693)
Regional program tuition	65,753	65,753	64,967	(786)
Vocation equipment	4,214	4,214	4,214	-
Vocational occupational preparedness	23,841	23,841	6,939	(16,902)
At risk payments	295,494	295,494	304,275	8,781
Mentor teacher program	-	-	414	414
Primary class size	384,613	384,613	384,613	-
Technology	128,000	128,000	128,000	-
Standards of Learning algebra readiness	29,287	29,287	26,874	(2,413)
School Food	11,570	11,570	11,593	23
Other State revenue	238,003	238,003	71,174	(166,829)

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget -
				Positive (Negative)
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
English as a second language	\$ 135,137	\$ 135,137	\$ 135,137	\$ -
Compensation supplement	40,893	40,893	40,816	(77)
Early reading specialist	26,546	26,546	23,788	(2,758)
Total categorical aid	<u>\$ 9,007,810</u>	<u>\$ 9,007,810</u>	<u>\$ 8,763,489</u>	<u>\$ (244,321)</u>
Total revenue from the Commonwealth	<u>\$ 9,007,810</u>	<u>\$ 9,007,810</u>	<u>\$ 8,763,489</u>	<u>\$ (244,321)</u>
Revenue from the federal government:				
Categorical aid:				
School breakfast program	\$ -	\$ -	\$ 133,774	\$ 133,774
School lunch program	585,450	585,450	470,014	(115,436)
Summer feeding	21,000	21,000	21,652	652
School meals equipment	138,412	138,412	67,011	(71,401)
Title I	567,787	567,787	569,383	1,596
Title VI-B, Special education flow-through	266,300	266,300	270,784	4,484
Vocational education	32,174	32,174	32,460	286
Title VI-B, Special education pre-school	13,107	13,107	13,107	-
Rural and low income schools	47,041	47,041	56,662	9,621
English language acquisition grant	20,484	20,484	17,252	(3,232)
Advanced placement program	999	999	-	(999)
Improving teacher quality	67,520	67,520	65,424	(2,096)
Twenty-first century community learning centers	140,801	140,801	130,295	(10,506)
Child and adult care food program	-	-	176,561	176,561
Title IV	13,834	13,834	13,834	-
Other federal funds	632	632	-	(632)
Total categorical aid	<u>\$ 1,915,541</u>	<u>\$ 1,915,541</u>	<u>\$ 2,038,213</u>	<u>\$ 122,672</u>
Total revenue from the federal government	<u>\$ 1,915,541</u>	<u>\$ 1,915,541</u>	<u>\$ 2,038,213</u>	<u>\$ 122,672</u>
Total School Operating Fund	<u>\$ 16,559,791</u>	<u>\$ 16,559,791</u>	<u>\$ 16,499,105</u>	<u>\$ (60,686)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 16,559,791</u>	<u>\$ 16,559,791</u>	<u>\$ 16,499,105</u>	<u>\$ (60,686)</u>

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget -
				Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Mayor and Council	\$ 39,686	\$ 39,686	\$ 43,185	\$ (3,499)
General and financial administration:				
City Manager	\$ 484,884	\$ 497,384	\$ 491,150	\$ 6,234
City Attorney	60,500	60,500	57,827	2,673
Marketing	164,292	170,425	163,037	7,388
Commissioner of revenue	164,405	164,405	160,715	3,690
Finance department	514,400	504,115	458,456	45,659
Total general and financial administration	\$ 1,388,481	\$ 1,396,829	\$ 1,331,185	\$ 65,644
Board of elections:				
Electoral Board	\$ 27,996	\$ 27,996	\$ 27,127	\$ 869
Registrar	75,265	66,884	66,942	(58)
Total board of elections	\$ 103,261	\$ 94,880	\$ 94,069	\$ 811
Total general government administration	\$ 1,531,428	\$ 1,531,395	\$ 1,468,439	\$ 62,956
Judicial administration:				
Courts:				
General district court	\$ 47,150	\$ 47,150	\$ 41,631	\$ 5,519
Magistrate	1,200	1,200	603	597
Shared services	560,000	560,000	560,000	-
Total courts	\$ 608,350	\$ 608,350	\$ 602,234	\$ 6,116
Total judicial administration	\$ 608,350	\$ 608,350	\$ 602,234	\$ 6,116
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,042,077	\$ 2,053,761	\$ 2,030,282	\$ 23,479
Narcotics	1,000	4,415	8,014	(3,599)
Community policing	2,000	3,000	3,229	(229)
Total law enforcement and traffic control	\$ 2,045,077	\$ 2,061,176	\$ 2,041,525	\$ 19,651
Fire and rescue services:				
Fire programs	\$ 268,050	\$ 403,217	\$ 388,839	\$ 14,378
E911 programs	94,585	94,585	94,585	-
Ambulance and rescue services	138,362	205,362	203,985	1,377
Total fire and rescue services	\$ 500,997	\$ 703,164	\$ 687,409	\$ 15,755

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<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>
General Fund: (Continued)				
Public safety: (Continued)				
Correction and detention:				
Juvenile probation	\$ 142,350	\$ 92,350	\$ 90,013	\$ 2,337
Correction and probation	4,275	4,275	3,966	309
Total correction and detention	<u>\$ 146,625</u>	<u>\$ 96,625</u>	<u>\$ 93,979</u>	<u>\$ 2,646</u>
Other protection:				
Animal control	\$ 26,624	\$ 27,224	\$ 41,707	\$ (14,483)
Medical examiner	200	2,200	1,935	265
Animal shelter	96,273	99,873	97,247	2,626
Safe routes to schools	21,397	21,397	17,695	3,702
Total other protection	<u>\$ 144,494</u>	<u>\$ 150,694</u>	<u>\$ 158,584</u>	<u>\$ (7,890)</u>
Total public safety	<u>\$ 2,837,193</u>	<u>\$ 3,011,659</u>	<u>\$ 2,981,497</u>	<u>\$ 30,162</u>
Public works:				
Engineering:				
Engineering	\$ 135,220	\$ 136,320	\$ 185,200	\$ (48,880)
Maintenance of highways, streets and bridges:				
Highways, streets, bridges and sidewalks	\$ 1,870,824	\$ 2,243,034	\$ 1,897,360	\$ 345,674
Street lighting	73,000	90,000	90,139	(139)
Traffic signals	32,000	32,000	33,563	(1,563)
Total maintenance of highways, streets and bridges	<u>\$ 1,975,824</u>	<u>\$ 2,365,034</u>	<u>\$ 2,021,062</u>	<u>\$ 343,972</u>
Sanitation and waste removal:				
Refuse collection and disposal	\$ 239,925	\$ 243,725	\$ 246,907	\$ (3,182)
Landfill	39,200	39,200	25,496	13,704
Total sanitation and waste removal	<u>\$ 279,125</u>	<u>\$ 282,925</u>	<u>\$ 272,403</u>	<u>\$ 10,522</u>
Maintenance of general buildings and grounds:				
Building maintenance	\$ 255,836	\$ 260,836	\$ 271,130	\$ (10,294)
Property maintenance	114,421	116,921	99,104	17,817
Total maintenance of general buildings and grounds	<u>\$ 370,257</u>	<u>\$ 377,757</u>	<u>\$ 370,234</u>	<u>\$ 7,523</u>
Total public works	<u>\$ 2,760,426</u>	<u>\$ 3,162,036</u>	<u>\$ 2,848,899</u>	<u>\$ 313,137</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 115,217	\$ 110,217	\$ 106,002	\$ 4,215
Mental health and mental retardation:				
Mental health contribution	\$ 34,983	\$ 34,983	\$ 34,983	\$ -

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Health and welfare: (Continued)				
Welfare:				
Welfare administration and programs	\$ 1,561,902	\$ 1,636,902	\$ 2,055,864	\$ (418,962)
Contributions to welfare agencies	41,543	41,543	41,543	-
Total welfare	<u>\$ 1,603,445</u>	<u>\$ 1,678,445</u>	<u>\$ 2,097,407</u>	<u>\$ (418,962)</u>
Total health and welfare	<u>\$ 1,753,645</u>	<u>\$ 1,823,645</u>	<u>\$ 2,238,392</u>	<u>\$ (414,747)</u>
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 11,155	\$ 11,155	\$ 11,155	\$ -
Contribution to the City School Board	4,011,823	4,405,493	5,204,750	(799,257)
Total education	<u>\$ 4,022,978</u>	<u>\$ 4,416,648</u>	<u>\$ 5,215,905</u>	<u>\$ (799,257)</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks	\$ 61,000	\$ 61,000	\$ 39,435	\$ 21,565
Recreation	1,207,193	1,236,193	1,170,719	65,474
Rosewald Felts	2,000	2,000	619	1,381
Rex Theater	28,600	24,900	20,196	4,704
Golf Course	218,265	218,265	194,514	23,751
Farmer's Market	3,150	3,150	2,130	1,020
Total parks and recreation	<u>\$ 1,520,208</u>	<u>\$ 1,545,508</u>	<u>\$ 1,427,613</u>	<u>\$ 117,895</u>
Cultural enrichment:				
Museum	\$ 32,384	\$ 32,384	\$ 32,101	\$ 283
Chestnut Creek School of the Arts	125,000	125,000	132,929	(7,929)
Art programs and contributions	13,000	13,000	13,000	-
CCSA woodworking ship	63,915	63,915	30,652	33,263
Total cultural enrichment	<u>\$ 234,299</u>	<u>\$ 234,299</u>	<u>\$ 208,682</u>	<u>\$ 25,617</u>
Library:				
Regional library	\$ 235,216	\$ 235,716	\$ 235,575	\$ 141
Total parks, recreation, and cultural	<u>\$ 1,989,723</u>	<u>\$ 2,015,523</u>	<u>\$ 1,871,870</u>	<u>\$ 143,653</u>
Community development:				
Planning and community development:				
Planning and development	\$ 159,850	\$ 178,484	\$ 174,135	\$ 4,349
Bottom area project	-	18,200	19,620	(1,420)
BRCEDA	161,642	161,642	161,147	495
Twin County Community Foundation	-	8,800	2,337	6,463
Total planning and community development	<u>\$ 321,492</u>	<u>\$ 367,126</u>	<u>\$ 357,239</u>	<u>\$ 9,887</u>
Total community development	<u>\$ 321,492</u>	<u>\$ 367,126</u>	<u>\$ 357,239</u>	<u>\$ 9,887</u>

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2018

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Nondepartmental:				
Nondepartmental	\$ 361,784	\$ 277,084	\$ 77,179	\$ 199,905
Capital projects:				
Capital projects	\$ 861,200	\$ 1,798,351	\$ 1,020,007	\$ 778,344
Debt service:				
Principal retirement	\$ 755,000	\$ 505,776	\$ 477,317	\$ 28,459
Bond issuance costs	-	185,500	185,500	-
Interest and other fiscal charges	-	174,224	174,309	(85)
Total debt service	\$ 755,000	\$ 865,500	\$ 837,126	\$ 28,374
Total General Fund	\$ 17,803,219	\$ 19,877,317	\$ 19,518,787	\$ 358,530
Discretely Presented Component Unit - School Board				
School Operating Fund:				
Education:				
Administration of schools:				
Administration and health services	\$ 776,798	\$ 776,798	\$ 698,699	\$ 78,099
Instruction costs:				
Instructional costs	\$ 10,673,117	\$ 10,673,117	\$ 10,525,861	\$ 147,256
Operating costs:				
Pupil transportation	\$ 538,682	\$ 538,682	\$ 573,154	\$ (34,472)
Operation and maintenance of school plant	1,384,442	1,384,442	1,306,889	77,553
School food service	914,418	914,418	942,712	(28,294)
Facilities	1,121,846	1,121,846	1,360,954	(239,108)
Technology	758,417	758,417	807,189	(48,772)
Total operating costs	\$ 4,717,805	\$ 4,717,805	\$ 4,990,898	\$ (273,093)
Debt service:				
Debt service	\$ 393,697	\$ 393,697	\$ -	\$ 393,697
Total School Operating Fund	\$ 16,561,417	\$ 16,561,417	\$ 16,215,458	\$ 345,959
Total Discretely Presented Component Unit - School Board	\$ 16,561,417	\$ 16,561,417	\$ 16,215,458	\$ 345,959

Note: Appropriations are enforced at the fund level only.

School Expenditures include disbursements of the decentralized cafeterias, which are not subject to appropriation.

STATISTICAL INFORMATION

Table 1

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 Development	Community Development	Interest on Long-Term Debt	Water and Sewer	Stormwater	Total
2017-18	\$ 1,480,900	\$ 602,234	\$ 2,926,174	\$ 2,839,475	\$ 2,175,163	\$ 4,042,549	\$ 2,053,054	\$ 357,353	\$ 408,069	\$ 2,480,848	33,743	\$ 19,399,562
2016-17	1,654,893	637,709	2,806,546	3,438,660	1,770,223	4,243,256	2,122,046	544,237	267,120	2,590,357	24,152	20,099,199
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	-	16,783,610

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES				Grants and Contributions		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Programs	Not Restricted to Specific Programs	Total	
2017-18	\$ 3,922,883	\$ 4,274,797	\$ 1,646,929	\$ 5,552,609	\$ 6,071,397	\$ 44,108	\$ 104,353	\$ 478,658	\$ 22,095,734		
2016-17	3,590,458	3,861,800	1,174,823	5,320,011	6,016,025	39,160	114,616	500,048	20,616,941		
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		

Table 3

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
2017-18	\$ 1,468,439	\$ 602,234	\$ 2,981,497	\$ 2,848,899	\$ 2,238,392	\$ 16,226,613	\$ 1,871,870	\$ 357,239	\$ 77,179	\$ 837,126	\$ 1,020,007	\$ 30,529,495
2016-17	1,434,109	637,709	3,024,857	2,485,242	1,782,364	15,011,725	1,868,942	556,537	98,195	891,714	960,284	28,751,678
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	1,896,206	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

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.

Table 4

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
2017-18	\$ 5,615,048	\$ 6,074,177	\$ 24,815	\$ 135,173	\$ 44,283	\$ 1,114,993	\$ 247,946	\$ 143,263	\$ 16,067,397	\$ 29,467,095
2016-17	5,099,456	6,010,288	18,839	124,835	39,260	1,094,387	167,449	164,651	16,159,406	28,878,571
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

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	Amount	Collected within the Year of Levy		Collections in Subsequent Years	Total Collections to Date	
			Percent of Levy	Amount		Percent of Levy	Amount
2017-18	\$ 5,583,203	\$ 5,422,365	97.12%	\$ -	147,285	\$ 5,422,365	97.12%
2016-17	5,244,627	5,012,946	95.58%		18,700	5,160,231	98.39%
2015-16	5,117,544	5,012,946	97.96%		90,995	5,031,646	98.32%
2014-15	4,909,132	4,758,955	96.94%		135,788	4,849,950	98.79%
2013-14	4,849,276	4,654,991	95.99%		4,790,779		98.79%
2012-13	4,643,429	4,428,347	95.37%		178,494	4,606,841	99.21%
2011-12	3,999,533	3,831,544	95.80%		129,483	3,961,027	99.04%
2010-11	3,728,831	3,588,318	96.23%		123,549	3,711,867	99.55%
2009-10	3,916,477	3,776,354	96.42%		110,268	3,886,622	99.24%
2008-09	3,923,267	3,699,935	94.31%		178,037	3,877,972	98.85%

(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
2017-18	\$ 445,191,650	\$ 124,340,945	\$ 14,453,538	\$ 583,986,133
2016-17	443,176,050	118,189,339	14,114,928	575,480,317
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

(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

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2017-18	\$ 0.80	\$ 0.80	\$ 2.25	\$ 1.50
2016-17	0.76	0.76	2.25	1.50
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

(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
2017-18	7,042	5,839,861	\$ 8,264,293	8,264,293	1.42%	1,174
2016-17	6,775	5,754,803	\$ 7,792,068	7,792,068	1.35%	1,150
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

(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 and other Fiscal Charges	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2017-18	\$ 477,317	\$ 359,809	\$ 837,126	\$ 30,529,495	2.74%
2016-17	560,123	331,591	891,714	28,751,678	3.10%
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%

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

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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*

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, 2018, 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 November 12, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. (2018-001)

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*.

City of Galax, Virginia Response to Findings

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

Purpose of this Report

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

Robinson, Faener, Cox Associates

Blacksburg, Virginia
November 12, 2018

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2018. 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, 2018.

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, Faener, Cox Associates

Blacksburg, Virginia
November 12, 2018

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Direct payments:			
Community Facilities Loans and Grants	10.766	NA	\$ 18,700
Pass through payments from:			
<i>Department of Social Services:</i>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010117/0010118/0040117 /0040118	136,896
<i>Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	40591	\$ 133,774
National School Lunch Program	10.555	40623	\$ 408,288
<i>State Department of Agriculture:</i>			
Food Distribution-Schools (Note C)	10.555	Unknown	61,726
Summer Food Service Prgram for Children (Note C)	10.559	Unknown	470,014 21,652
Total Child Nutrition Cluster			625,440
Child Nutrition Discretionary Grants Limited Availability	10.579	Unknown	67,011
Child and Adult Care Food Program	10.558	Unknown	176,561
Total Department of Agriculture			\$ 1,024,608
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass through payments from:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950116/0950117	\$ 12,902
Temporary Assistance for Needy Families	93.558	0400117/0400118	111,436
Refugee and Entrant Assistance - State Administered Programs	93.566	0500117/0500118	178
Low Income Home Energy Assistance	93.568	0600417/0600418	17,247
Social Services Block Grant	93.667	1000117/1000118	87,943
Chafee Foster Care Independence Program	93.674	9150117	1,917
Children's Health Insurance Program	93.767	0540117/0540118	5,247
Medical Assistance Program	93.778	1200117/1200118	136,431
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900116/0900117	431
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760117/0760118	18,636
Foster Care - Title IV E	93.658	1100117/1100118	254,216
Adoption Assistance	93.659	1120117/1120118	58,851
Total Department of Health and Human Services			\$ 705,435
DEPARTMENT OF JUSTICE:			
Pass through payments from:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Unknown	\$ 8,868
Total Department of Justice			\$ 8,868
DEPARTMENT OF HOMELAND SECURITY:			
Direct payments:			
Assistance to Firefighters Grant	97.044	NA	\$ 45,455
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	NA	4,602
Pass through payments from:			
<i>Department of Emergency Management:</i>			
Emergency Management Performance Grants	97.042	158	7,500
Total Department of Homeland Security			\$ 57,557

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF TRANSPORTATION:			
Pass through payments from:			
<i>Department of Motor Vehicles:</i>			
Highway Planning and Construction	20.205	Unknown	\$ 61,109
Alcohol Open Container Requirements	20.607	Unknown	16,564
<i>National Highway Traffic Safety Administration</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	Unknown	\$ 7,860
National Priority Safety Programs	20.616	Unknown	8,424
Total Department of Transportation			<u>\$ 93,957</u>
EXECUTIVE OFFICE OF THE PRESIDENT:			
Direct payments:			
High Intensity Drug Trafficking Areas Program	95.001	Unknown	\$ 11,511
Total Executive Office of the President			<u>\$ 11,511</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
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	\$ 16,300
Total Department of Housing and Urban Development			<u>\$ 16,300</u>
DEPARTMENT OF EDUCATION:			
Pass through payments from:			
<i>Department of Education:</i>			
Career and Technical Education -- Basic Grants to States	84.048	61095	\$ 32,460
Supporting Effective Instruction State Grant	84.367	61480	65,424
English Language Acquisition State Grants	84.365	Unknown	17,252
Rural Education	84.358	43481	56,662
Title I Grants to Local Educational Agencies	84.010	42901	569,383
Twenty-First Century Community Learning Centers	84.287	Unknown	130,295
Student Support and Academic Enrichment Program	84.424	Unknown	13,834
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	73071	\$ 270,784
Special Education - Preschool Grants	84.173	62521	13,107
Total Department of Education			<u>\$ 1,169,201</u>
Total Expenditures of Federal Awards			<u>\$ 3,087,437</u>

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

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 award activity of the City of Galax, Virginia under programs of the federal government for the year ended June 30, 2018. 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 Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

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

(3) The City did not elect the 10% de minimis indirect cost rate because they only request direct costs for reimbursement.

Note C--Food Distribution

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

Note D--Subrecipients

The City did not have any subrecipients for the year ended June 30, 2018.

Note E--Loan Balances

The City has no loans or loan guarantees which are subject to reporting requirements for the current year.

Note F--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	\$ 5,265,695
Less: Revenue from the Commonwealth	(4,216,471)

Component Unit School Board:

School Operating Fund-Intergovernmental	16,006,452
Less: Revenue from Local Governments	(5,204,750)
Less: Revenue from the Commonwealth	<u>(8,763,489)</u>

Total federal expenditures per the Schedule of Expenditures of Federal Awards

\$ 3,087,437

City of Galax, Virginia

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes

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	Child Nutrition Cluster
84.010	Title I
84.027/84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? No

City of Galax, Virginia

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018 (Continued)**

Section II - Financial Statement Findings

2018-001

Criteria:	Per Statement on Auditing Standards 115, identification of adjustments to the financial statements that were not detected by the entity's internal controls indicates that a significant deficiency may exist.
Condition:	The School Board's financial statements required year end adjusting entries by the Auditor to ensure such statements complied with Generally Accepted Accounting Principles.
Cause of Condition:	The School Board failed to identify all year end accounting adjustments necessary for the accounts to be prepared in accordance with current reporting standards.
Effect of Condition:	There is a reasonable possibility that a misstatement of the entity's financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Recommendation:	In the future, funds should be reviewed and adjusted as necessary to comply with current reporting standards.
Management's Response:	The School Board's current staff has a good understanding of the School Board's books and accounting processes. It is anticipated that the number of audit adjustments will decrease in future periods.

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

Prior year finding, 2017-001, is recurring as 2018-001.