

FINANCIAL STATEMENTS



CITY OF GALAX, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2019

CITY OF GALAX, VIRGINIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

Prepared By:
Galax City Finance Department

CITY OF GALAX, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2019

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INTRODUCTORY SECTION

CITY OF GALAX, VIRGINIA

CITY COUNCIL

Sharon Plichta, Vice Mayor
J. Travis Haynes
Sharon Ritchie

C. M. Mitchell, Mayor

Willie Greene
Michael Larrowe
Elizabeth White

CITY SCHOOL BOARD

Dr. James Adams, Vice-Chair
Melissa Peddy

Raymond Kohl, Chair

Leah Henk
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 Dewitt Cooper

FINANCIAL SECTION



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, 2019, 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, 2019, 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 25 to the financial statements, in 2019, the City adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. Our opinion is not modified with respect to this matter

Restatement of Beginning Balances

As described in Note 26 to the financial statements, in 2019, the City restated beginning balances to reflect unrecorded assets in the IDA and reflect land previously transferred from the primary government to the IDA. 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 89 and 90-103 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 4, 2019, 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 4, 2019

Basic Financial Statements

City of Galax, Virginia
Statement of Net Position
June 30, 2019

	Primary Government			Component Units	
	Governmental	Business-type	Total	School Board	IDA
	Activities	Activities			
ASSETS					
Cash and cash equivalents	\$ 4,194,384	\$ 820,510	\$ 5,014,894	\$ 2,891,700	\$ 91,788
Investments	14,534	-	14,534	65,859	-
Receivables (net of allowance for uncollectibles):					
Taxes receivable	489,218	-	489,218	-	-
Accounts receivable	773,070	703,656	1,476,726	12,998	-
Internal balances	42,116	-	42,116	-	-
Due from other governmental units	1,068,375	76,001	1,144,376	697,655	-
Inventory	-	-	-	20,129	239,117
Loans receivable	90,571	-	90,571	-	-
Prepaid items	20,750	-	20,750	146,742	-
Restricted assets:					
Cash and cash equivalents	161,812	131,631	293,443	309,728	-
Capital assets (net of accumulated depreciation):					
Land	2,890,341	149,374	3,039,715	465,929	-
Buildings and improvements	14,824,612	1,035,868	15,860,480	4,025,080	-
Machinery and equipment	2,063,634	199,377	2,263,011	616,647	-
Infrastructure	441,673	2,422,073	2,863,746	-	-
Construction in progress	7,005,539	6,905,963	13,911,502	-	-
Total assets	<u>\$ 34,080,629</u>	<u>\$ 12,444,453</u>	<u>\$ 46,525,082</u>	<u>\$ 9,252,467</u>	<u>\$ 330,905</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	\$ 33,388	\$ -	\$ 33,388	\$ -	\$ -
Pension related items	286,260	81,334	367,594	1,355,324	-
OPEB related items	56,311	15,362	71,673	210,121	-
Total deferred outflows of resources	<u>\$ 375,959</u>	<u>\$ 96,696</u>	<u>\$ 472,655</u>	<u>\$ 1,565,445</u>	<u>\$ -</u>
LIABILITIES					
Accounts payable and retainage payable	\$ 1,406,137	\$ 1,520,599	\$ 2,926,736	\$ 57,582	\$ -
Wages and withholdings payable	276,069	62,256	338,325	-	-
Due to other governments	560,012	-	560,012	1,131,306	-
Customers' deposits	6,003	72,402	78,405	-	-
Accrued interest payable	102,017	-	102,017	-	-
Unearned revenue	-	10,935	10,935	-	-
Long-term liabilities:					
Due within one year	756,876	406,568	1,163,444	120,501	-
Due in more than one year	14,391,014	6,138,499	20,529,513	12,862,317	-
Total liabilities	<u>\$ 17,498,128</u>	<u>\$ 8,211,259</u>	<u>\$ 25,709,387</u>	<u>\$ 14,171,706</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	\$ 16,648	\$ -	\$ 16,648	\$ -	\$ -
Pension related items	697,051	188,209	885,260	1,464,191	-
OPEB related items	52,462	14,232	66,694	147,658	-
Total deferred inflows of resources	<u>\$ 766,161</u>	<u>\$ 202,441</u>	<u>\$ 968,602</u>	<u>\$ 1,611,849</u>	<u>\$ -</u>
NET POSITION					
Net investment in capital assets	\$ 13,903,252	\$ 3,158,178	\$ 17,061,430	\$ 5,107,656	\$ -
Restricted					
Blue Ridge Post book fund	14,534	-	14,534	-	-
Revolving housing loans program	117,024	-	117,024	-	-
Small business loans program	30,254	-	30,254	-	-
Cafeteria operations	-	-	-	309,728	-
Unrestricted	2,127,235	969,271	3,096,506	(10,383,027)	330,905
Total net position	<u>\$ 16,192,299</u>	<u>\$ 4,127,449</u>	<u>\$ 20,319,748</u>	<u>\$ (4,965,643)</u>	<u>\$ 330,905</u>

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

City of Galax, Virginia
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Units	
				Governmental Activities	Business-type Activities	School Board	IDA
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 1,443,129	\$ 12,440	\$ 113,349	\$ (1,317,340)	\$ -	\$ (1,317,340)	\$ -
Judicial administration	601,352	118,187	-	(483,165)	-	(483,165)	-
Public safety	3,020,982	40,860	562,416	(2,417,706)	-	(2,417,706)	-
Public works	2,530,908	403,855	2,021,611	(58,335)	-	(58,335)	-
Health and welfare	3,149,532	-	2,432,028	(717,504)	-	(717,504)	-
Education	4,036,734	-	-	(4,036,734)	-	(4,036,734)	-
Parks, recreation, and cultural	1,990,183	343,111	4,500	(1,642,572)	-	(1,642,572)	-
Community development	480,407	-	57,086	(300,263)	-	(300,263)	-
Interest on long-term debt	309,463	-	-	(309,463)	-	(309,463)	-
Total governmental activities	\$ 17,562,690	\$ 918,453	\$ 5,190,990	\$ (11,283,082)	\$ -	\$ (11,283,082)	\$ -
Business-type activities:							
Water and sewer	\$ 2,560,863	\$ 2,883,631	\$ -	\$ -	\$ 672,407	\$ 672,407	\$ -
Stormwater	79,497	123,607	-	-	44,110	44,110	-
Total business-type activities	\$ 2,640,360	\$ 3,007,238	\$ -	\$ -	\$ 716,517	\$ 716,517	\$ -
Total primary government	\$ 20,203,050	\$ 3,925,691	\$ 5,190,990	\$ (11,283,082)	\$ 716,517	\$ (10,566,565)	\$ -
COMPONENT UNITS:							
School Board	\$ 14,778,159	\$ 356,645	\$ 11,376,846	\$ -	\$ -	\$ (3,044,668)	\$ (198,918)
Industrial Development Authority	198,918	-	-	-	-	-	(198,918)
Total component units	\$ 14,977,077	\$ 356,645	\$ 11,376,846	\$ -	\$ -	\$ (3,044,668)	\$ (198,918)
General revenues:							
General property taxes				\$ 5,689,662	\$ -	\$ 5,689,662	\$ -
Other local taxes:							
Local sales and use taxes				2,309,786	-	2,309,786	-
Consumers' utility taxes				182,582	-	182,582	-
Business license taxes				1,017,075	-	1,017,075	-
Motor vehicle taxes				119,992	-	119,992	-
Restaurant food taxes				2,177,725	-	2,177,725	-
Lodging taxes				173,369	-	173,369	-
Bank stock taxes				207,544	-	207,544	-
Other local taxes				62,536	-	62,536	-
Unrestricted revenues from the use of money and property				60,816	1,962	62,778	408
Miscellaneous				399,998	-	399,998	103,929
Grants and contributions not restricted to specific programs				476,982	-	476,982	3,731,680
Gain on sale of land				-	-	-	-
Total general revenues				\$ 12,878,067	\$ 1,962	\$ 12,880,029	\$ 3,836,017
Change in net position				\$ 1,594,985	\$ 718,479	\$ 2,313,464	\$ 791,349
Net position - beginning, as restated				\$ 14,597,314	\$ 3,408,970	\$ 18,006,284	\$ (5,756,992)
Net position - ending				\$ 16,192,299	\$ 4,127,449	\$ 20,319,748	\$ (4,965,643)

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

City of Galax, Virginia
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 4,356,196
Investments	14,534
Receivables (net of allowance for uncollectibles):	
Taxes receivable	489,218
Accounts receivable	773,070
Due from other funds	42,116
Due from other governmental units	1,068,375
Loan receivable	90,571
Prepaid items	20,750
Total assets	\$ 6,854,830
LIABILITIES	
Accounts payable	\$ 826,842
Retainage payable	579,295
Wages and withholdings payable	276,069
Due to other governments	560,012
Amounts held for others	6,003
Total liabilities	\$ 2,248,221
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 439,642
Unavailable revenue - meals tax	42,908
Property taxes paid in advance	16,648
Total deferred inflows of resources	\$ 499,198
FUND BALANCES	
Nonspendable	
Prepaid items	\$ 20,750
Loans receivable	90,571
Restricted	71,241
Committed	55,661
Unassigned	3,869,188
Total fund balances	\$ 4,107,411
Total liabilities, deferred inflows of resources, and fund balance	\$ 6,854,830

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, 2019

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	4,107,411
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	2,890,341
Buildings and improvements		14,824,612
Infrastructure		441,673
Machinery and equipment		2,063,634
Construction in progress		7,005,539
		27,225,799
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		482,550
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	\$	286,260
OPEB related items		56,311
		342,571
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	\$	(12,776,640)
Less: Unamortized charge on advance refunding		33,388
Accrued interest payable		(102,017)
Accrued landfill closure/postclosure monitoring liability		(609,009)
Compensated absences		(371,143)
Net OPEB liabilities		(611,015)
Net pension liability		(780,083)
		(15,216,519)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$	(697,051)
OPEB related items		(52,462)
		(749,513)
Net position of governmental activities		\$ 16,192,299

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

City of Galax, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	<u>General</u>
REVENUES	
General property taxes	\$ 5,610,024
Other local taxes	6,246,495
Permits, privilege fees, and regulatory licenses	14,588
Fines and forfeitures	118,187
Revenue from the use of money and property	60,816
Charges for services	785,678
Miscellaneous	399,998
Recovered costs	186,558
Intergovernmental	5,836,744
Total revenues	<u>\$ 19,259,088</u>
EXPENDITURES	
Current:	
General government administration	\$ 1,441,367
Judicial administration	601,352
Public safety	3,147,204
Public works	2,441,263
Health and welfare	3,222,801
Education	3,893,052
Parks, recreation, and cultural	1,842,219
Community development	510,011
Nondepartmental	81,253
Capital projects	6,003,051
Debt service:	
Principal retirement	469,172
Interest and other fiscal charges	273,412
Total expenditures	<u>\$ 23,926,157</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (4,667,069)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of general obligation bond	\$ 4,871,721
Total other financing sources (uses)	<u>\$ 4,871,721</u>
Net change in fund balances	\$ 204,652
Fund balances - beginning	<u>3,902,759</u>
Fund balances - ending	<u><u>\$ 4,107,411</u></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, 2019

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

Net change in fund balances - total governmental funds	\$	204,652
<p>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.</p>		
Capital outlays	\$ 6,357,483	
Depreciation expense	<u>(1,079,089)</u>	5,278,394
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>		
Disposal of assets	\$ (1,478)	
Transfer of assets (net) from Component Unit-IDA	<u>1,393</u>	(85)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property taxes	\$ 79,638	
Meals tax	<u>4,114</u>	83,752
<p>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.</p>		
Debt issued or incurred:		
Issuance of general obligation bond	\$ (4,871,721)	
Change in accrued landfill closure/postclosure liability	25,673	
Principal repayments:		
General obligation bonds and literary fund loans	438,825	
Capital leases	<u>30,347</u>	(4,376,876)
<p>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.</p>		
Change in compensated absences	\$ (31,100)	
Change in accrued interest payable	(33,748)	
Amortization of deferred charge on refunding	(2,303)	
Change in pension related items	435,894	
Change in OPEB related items	<u>36,405</u>	405,148
Change in net position of governmental activities		<u>\$ 1,594,985</u>

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, 2019

	Enterprise Fund		
	Water and Sewer	Stormwater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 597,381	\$ 223,129	\$ 820,510
Accounts receivable (net of allowance for uncollectibles)	691,059	12,597	703,656
Due from other governmental units	76,001	-	76,001
Total current assets	<u>\$ 1,364,441</u>	<u>\$ 235,726</u>	<u>\$ 1,600,167</u>
Noncurrent assets:			
Restricted cash and cash equivalents	\$ 131,631	\$ -	\$ 131,631
Capital assets:			
Land	149,374	-	149,374
Utility plant in service	18,263,345	-	18,263,345
Machinery and equipment	730,554	-	730,554
Buildings and improvements	1,823,395	-	1,823,395
Construction in progress	6,905,963	-	6,905,963
Accumulated depreciation	(17,159,976)	-	(17,159,976)
Total net capital assets	<u>\$ 10,712,655</u>	<u>\$ -</u>	<u>\$ 10,712,655</u>
Total noncurrent assets	<u>\$ 10,844,286</u>	<u>\$ -</u>	<u>\$ 10,844,286</u>
Total assets	<u>\$ 12,208,727</u>	<u>\$ 235,726</u>	<u>\$ 12,444,453</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 75,092	\$ 6,242	\$ 81,334
OPEB related items	15,086	276	15,362
Total deferred outflows of resources	<u>\$ 90,178</u>	<u>\$ 6,518</u>	<u>\$ 96,696</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 42,857	\$ -	\$ 42,857
Construction and retainage payable	1,477,742	-	1,477,742
Accrued payroll and related liabilities	61,278	978	62,256
Customers' deposits	72,402	-	72,402
Unearned revenue	-	10,935	10,935
Compensated absences - current portion	72,781	-	72,781
Bond payable - current portion	333,787	-	333,787
Total current liabilities	<u>\$ 2,060,847</u>	<u>\$ 11,913</u>	<u>\$ 2,072,760</u>
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 18,195	\$ -	\$ 18,195
Bond payable - net of current portion	5,742,948	-	5,742,948
Net OPEB liabilities	163,764	1,983	165,747
Net pension liability	209,078	2,531	211,609
Total noncurrent liabilities	<u>\$ 6,133,985</u>	<u>\$ 4,514</u>	<u>\$ 6,138,499</u>
Total liabilities	<u>\$ 8,194,832</u>	<u>\$ 16,427</u>	<u>\$ 8,211,259</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related items	\$ 184,508	\$ 3,701	\$ 188,209
OPEB related items	14,061	171	14,232
Total deferred inflows of resources	<u>\$ 198,569</u>	<u>\$ 3,872</u>	<u>\$ 202,441</u>
NET POSITION			
Net investment in capital assets	\$ 3,158,178	\$ -	\$ 3,158,178
Unrestricted	747,326	221,945	969,271
Total net position	<u>\$ 3,905,504</u>	<u>\$ 221,945</u>	<u>\$ 4,127,449</u>

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

City of Galax, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	Enterprise Fund		
	Water and Sewer	Stormwater	Total
OPERATING REVENUES			
Charges for services:			
Water revenues pledged as security for revenue bonds	\$ 1,406,675	\$ -	\$ 1,406,675
Sewer revenues pledged as security for revenue bonds	1,392,985	-	1,392,985
Stormwater fees	-	118,607	118,607
Tap fees	6,308	-	6,308
Penalties and interest	19,386	-	19,386
Other revenue	58,277	5,000	63,277
Total operating revenues	<u>\$ 2,883,631</u>	<u>\$ 123,607</u>	<u>\$ 3,007,238</u>
OPERATING EXPENSES			
Personnel services	\$ 1,402,371	\$ 40,392	\$ 1,442,763
Utilities and telecommunication	326,500	-	326,500
Materials and supplies	331,949	80	332,029
Repairs and maintenance	209,776	694	210,470
Contractual services	-	38,331	38,331
Depreciation	290,267	-	290,267
Total operating expenses	<u>\$ 2,560,863</u>	<u>\$ 79,497</u>	<u>\$ 2,640,360</u>
Operating income (loss)	<u>\$ 322,768</u>	<u>\$ 44,110</u>	<u>\$ 366,878</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 1,401	\$ 561	\$ 1,962
Total nonoperating revenues (expenses)	<u>\$ 1,401</u>	<u>\$ 561</u>	<u>\$ 1,962</u>
Income before contributions and transfers	\$ 324,169	\$ 44,671	\$ 368,840
Capital contributions and construction grants	349,639	-	349,639
Change in net position	\$ 673,808	\$ 44,671	\$ 718,479
Total net position - beginning	3,231,696	177,274	3,408,970
Total net position - ending	<u>\$ 3,905,504</u>	<u>\$ 221,945</u>	<u>\$ 4,127,449</u>

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, 2019

	Enterprise Fund		
	Water and Sewer	Stormwater	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,876,060	\$ 122,700	\$ 2,998,760
Payments to suppliers	(836,821)	(39,031)	(875,852)
Payments to employees	(1,520,810)	(41,947)	(1,562,757)
Net cash provided by (used for) operating activities	<u>\$ 518,429</u>	<u>\$ 41,722</u>	<u>\$ 560,151</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (4,803,693)	\$ -	\$ (4,803,693)
Principal payments on bond payable	(92,500)	-	(92,500)
Contributions in aid of construction	349,042	-	349,042
Proceeds from indebtedness	4,351,075	-	4,351,075
Net cash provided by (used for) capital and related financing activities	<u>\$ (196,076)</u>	<u>\$ -</u>	<u>\$ (196,076)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 1,401	\$ 561	\$ 1,962
Net cash provided by (used for) investing activities	<u>\$ 1,401</u>	<u>\$ 561</u>	<u>\$ 1,962</u>
Net increase (decrease) in cash and cash equivalents	\$ 323,754	\$ 42,283	\$ 366,037
Cash and cash equivalents - beginning (including restricted of \$70,914)	405,258	180,846	586,104
Cash and cash equivalents - ending (including restricted of \$131,631)	<u>\$ 729,012</u>	<u>\$ 223,129</u>	<u>\$ 952,141</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 322,768	\$ 44,110	\$ 366,878
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 290,267	\$ -	\$ 290,267
(Increase) decrease in accounts receivable	(9,059)	(11,842)	(20,901)
(Increase) decrease in prepaid items	21,735	74	21,809
(Increase) decrease in deferred outflows of resources	2,988	2,076	5,064
Increase (decrease) in deferred inflows of resources	(39,819)	(454)	(40,273)
Increase (decrease) in customer deposits	1,488	-	1,488
Increase (decrease) in accrued payroll and related liabilities	4,216	(542)	3,674
Increase (decrease) in accounts payable	9,669	-	9,669
Increase (decrease) in unearned revenue	-	10,935	10,935
Increase (decrease) in compensated absences	5,403	-	5,403
Increase (decrease) in net OPEB liabilities	(454)	(342)	(796)
Increase (decrease) in net pension liability	(90,773)	(2,293)	(93,066)
Total adjustments	<u>\$ 195,661</u>	<u>\$ (2,388)</u>	<u>\$ 193,273</u>
Net cash provided by (used for) operating activities	<u>\$ 518,429</u>	<u>\$ 41,722</u>	<u>\$ 560,151</u>

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

City of Galax, Virginia
 Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2019

	<u>Agency Funds</u>
	<u>Special Welfare</u>
ASSETS	
Cash and cash equivalents	\$ 28,324
Total assets	<u>\$ 28,324</u>
LIABILITIES	
Amounts held for social services clients	\$ 28,324
Total liabilities	<u>\$ 28,324</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, 2019

Note 1-Summary of Significant Accounting Policies:

The financial statements of the City of Galax, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below

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. 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 \$235,012 to the Library for the current year. The City provides accounting services (payroll services) for this organization.

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

A. Financial Reporting Entity (Continued)

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

The City and the County of Grayson participate in supporting the Galax-Grayson Ambulance Service. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The organization's activities are primarily supported by user charges; however, the City provided a contribution of \$126,714 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 \$108,525 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 \$33,600 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.

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 \$135,200. It is the hope of BRCEDA that this park project will be a catalyst for economic development in the region.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

The government reports the following major governmental fund:

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

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

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

The government reports the following major proprietary funds:

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

The *Stormwater* Fund accounts for the activities of the City's stormwater system, which includes improvements to the rain and runoff collection systems.

Additionally, the government reports the following fund types:

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

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

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

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

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

1. Cash and cash equivalents

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

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

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

2. Prepaid items

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

3. Receivables and payables

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

4. Inventories

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

5. Capital assets

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

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

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

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

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

5. Capital assets (Continued)

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

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

6. Restricted Assets

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

7. Investments

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability 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.

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 \$204,175 at June 30, 2019. The allowance consists of delinquent taxes in the amount of \$140,682; delinquent meals tax of \$15,993; and delinquent water, sewer, and garbage bills of \$47,500.

11. Use of Estimates

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

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

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

12. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. 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.

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 following classifications of fund balance 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;

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.

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, 2019, there were no funds with negative equity.

Note 3-Deposits and Investments:

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

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

Interest Rate Risk

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

<u>Investment Maturities (in years)</u>			
<u>Investment Type</u>	<u>Fair Value</u>	<u>1 Year</u>	<u>1-5 Years</u>
Local Government Investment Pool	\$ 897,997	\$ 897,997	\$ -
Certificates of Deposit	80,393	80,393	
Totals	\$ 978,390	\$ 978,390	\$ -

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. There are no withdrawal limitations or restrictions imposed on participants.

Note 3-Deposits and Investments: (Continued)

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2019 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	\$ 897,997

Note 4-Due from Other Governmental Units:

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

	Primary Government		Component Unit- School Board
	Governmental Activities	Business-type Activities	
Due from other local government agencies	\$ -	\$ 76,001	\$ -
Commonwealth of Virginia:			
Local sales tax	391,452	-	-
Categorical aid-State sales tax	-	-	146,763
Categorical aid-Shared expenses	5,014	-	-
Categorical aid-Other	49,751	-	128,000
Non-categorical aid	40,580	-	-
Categorical aid-Virginia Public Assistance	44,635	-	-
Categorical aid-Comprehensive Services Act	329,236	-	-
Federal Government:			
Categorical aid-Virginia Public Assistance	67,738	-	-
Categorical aid-Other	139,969	-	422,892
Totals	\$ 1,068,375	\$ 76,001	\$ 697,655

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 5-Component Unit Contribution and Obligations:

Primary government contributions to component units for the year ended June 30, 2019, consisted of payments to School Board of \$3,879,752.

Component unit contributions to primary government for the year ended June 30, 2019, consisted of payments from the IDA of \$197,500 and land transferred at net book value of \$1,393.

At June 30, 2019, 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 2019, there were no interfund transfers.

At June 30, 2019, 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, 2019.

	<u>Balance</u> July 1, 2018	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance</u> June 30, 2019
Direct borrowings and placements:				
General obligation bonds	\$ 8,002,076	\$ 4,871,721	\$ (307,724)	\$ 12,566,073
Literary fund loans	262,217	-	(131,101)	131,116
Capital leases	109,798	-	(30,347)	79,451
Landfill closure/postclosure liability	634,682	-	(25,673)	609,009
Compensated absences	340,043	303,134	(272,034)	371,143
Net OPEB liabilities	617,066	75,670	(81,721)	611,015
Net pension liability	1,134,223	1,636,513	(1,990,653)	780,083
	<u>11,100,105</u>	<u>6,887,038</u>	<u>(2,839,253)</u>	<u>15,147,890</u>
Total	<u>\$ 11,100,105</u>	<u>\$ 6,887,038</u>	<u>\$ (2,839,253)</u>	<u>\$ 15,147,890</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019Note 7-Long-Term Obligations: (Continued)

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

Year Ending June 30,	Direct borrowings and placements:			
	General Obligation Bonds		Literary Fund Loans	
	Principal	Interest	Principal	Interest
2020	\$ 297,500	\$ 401,308	\$ 131,116	\$ 3,933
2021	440,500	393,094	-	-
2022	6,213,573	272,506	-	-
2023	348,250	154,510	-	-
2024	358,000	144,677	-	-
2025-2029	1,885,250	568,698	-	-
2030-2034	1,984,000	295,388	-	-
2035-2037	1,039,000	44,477	-	-
Totals	<u>\$ 12,566,073</u>	<u>\$ 2,274,658</u>	<u>\$ 131,116</u>	<u>\$ 3,933</u>

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
Direct borrowings and placements:						
General Obligation Bonds:						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 1,353,000	\$ 140,500
2017 A GO Bond	1.83%	June-17	2022	509,000	309,000	101,000
2017 B GO Bond	2.55%	June-17	2032	711,000	628,000	41,000
2018 C Refunding Bond	2.98%	June-17	2037	4,553,000	4,507,000	15,000
School Bond Anticipation Note*	3.76%	March-18	2022	5,769,072	5,769,073	-
Total General Obligation Bonds					<u>\$ 12,566,073</u>	<u>\$ 297,500</u>
Literary Fund Loan:						
State Literacy Loan	3.00%	April-98	2019	2,622,035	\$ 131,116	\$ 131,116
Total Literary Fund Loan					<u>\$ 131,116</u>	<u>\$ 131,116</u>
Other Obligations:						
Capital leases	n/a	n/a	n/a	n/a	\$ 79,451	\$ 31,346
Landfill closure/post-closure liability	n/a	n/a	n/a	n/a	609,009	-
Compensated Absences	n/a	n/a	n/a	n/a	371,143	296,914
Net OPEB Liabilities	n/a	n/a	n/a	n/a	611,015	-
Net Pension Liability	n/a	n/a	n/a	n/a	780,083	-
Total Other Obligations					<u>\$ 2,450,701</u>	<u>\$ 328,260</u>
Total Long-term obligations					<u>\$ 15,147,890</u>	<u>\$ 756,876</u>

*Bond is still in draw down phase as of June 30, 2019

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

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, 2019.

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases/</u> <u>Issuances</u>	<u>Decreases/</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>
Direct borrowings and placements:				
Revenue bonds	\$ 1,818,160	\$ 4,351,075	\$ (92,500)	\$ 6,076,735
Compensated absences	85,573	73,861	(68,458)	90,976
Net OPEB liabilities	166,543	21,394	(22,190)	165,747
Net pension liability	<u>304,675</u>	<u>447,003</u>	<u>(540,069)</u>	<u>211,609</u>
 Total	 <u>\$ 2,374,951</u>	 <u>\$ 4,893,333</u>	 <u>\$ (723,217)</u>	 <u>\$ 6,545,067</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:

<u>Year Ending</u> <u>June 30,</u>	<u>Direct borrowings and</u> <u>placements: Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 333,787	\$ -
2021	575,075	-
2022	575,075	-
2023	575,075	-
2024	575,075	-
2025-2029	2,875,373	-
2030-2033	<u>567,275</u>	<u>-</u>
 Totals	 <u>\$ 6,076,735</u>	 <u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 7-Long-Term Obligations: (Continued)

Details of long-term obligations:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Direct borrowings and placements: Revenue Bonds:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 1,110,000	\$ 92,500
VRA Bond*	0.00%	January-18	2040	4,966,734	4,966,735	241,287
Total Revenue Bonds					<u>\$ 6,076,735</u>	<u>\$ 333,787</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 90,976	\$ 72,781
Net OPEB Liabilities	n/a	n/a	n/a	n/a	165,747	-
Net Pension Liability	n/a	n/a	n/a	n/a	211,609	-
Total Other Obligations					<u>\$ 468,332</u>	<u>\$ 72,781</u>
Total Long-term obligations					<u>\$ 6,545,067</u>	<u>\$ 406,568</u>

*Bond is still in draw down phase as of June 30, 2019

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, 2019.

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>
Net OPEB liabilities	\$ 2,203,130	\$ 265,626	\$ (310,242)	\$ 2,158,514
Compensated absences	149,738	120,678	(119,790)	150,626
Net pension liability	11,292,002	2,367,933	(2,986,257)	10,673,678
Total	<u>\$ 13,644,870</u>	<u>\$ 2,754,237</u>	<u>\$ (3,416,289)</u>	<u>\$ 12,982,818</u>

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

Details of long-term obligations:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Governmental Activities</u>	<u>Amount Due Within One Year</u>
Other Obligations:						
Net OPEB Liabilities	n/a	n/a	n/a	n/a	\$ 2,158,514	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	150,626	120,501
Net Pension Liability	n/a	n/a	n/a	n/a	<u>10,673,678</u>	<u>-</u>
Total long-term obligations					<u>\$ 12,982,818</u>	<u>\$ 120,501</u>

Discretely Presented Component Unit - IDA Obligations:

At June 30, 2019, the IDA had not long-term obligations.

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	<u>(35,182)</u>
Net Book Value of Capital Asset	<u>\$ 105,543</u>

The Dell computer equipment did not meet the City's capitalization threshold; therefore, it was not capitalized for financial reporting purposes.

Note 9-Capital Leases: (Continued)

Present value of future minimum lease payments:

Year Ending June 30,	Capital Leases
2020	\$ 33,242
2021	24,685
2022	24,686
Total minimum lease payments	\$ 82,613
Less: amount representing interest	(3,162)
Present value of future minimum lease payments	<u>\$ 79,451</u>

Note 10-Pension Plans:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by a 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.

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.

Benefit Structures

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, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.

Note 10-Pension Plans: (Continued)

Benefit Structures (Continued)

- b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.
- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.7% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.7% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Note 10-Pension Plans: (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required employer contribution rate for the year ended June 30, 2019 was 7.16% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$349,729 and \$412,124 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

At June 30, 2019, the City reported a liability of \$991,692 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 and rolled forward to the measurement date of June 30, 2018. 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, 2018 and 2017 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2018 and 2017, the City's proportion was 80.03% and 80.15%, respectively.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City of Galax Retirement Plan and the Component Unit Schools Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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.

Note 10-Pension Plans: (Continued)

Actuarial Assumptions - General Employees (Continued)

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.

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.

Note 10-Pension Plans: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2017 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, 2017, 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, 2018.

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*

Note 10-Pension Plans: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (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 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.

Note 10-Pension Plans: (Continued)

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

The actuarial assumptions used in the June 30, 2017 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%

Note 10-Pension Plans: (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
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%.

Note 10-Pension Plans: (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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. Through the fiscal year ending June 30, 2018, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, participating employers and school divisions are assumed to continue 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	\$ 3,840,380	\$ 991,692	\$ (1,387,747)

Note 10-Pension Plans: (Continued)

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

For the year ended June 30, 2019, the City recognized pension expense of \$(203,932). 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, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 577,440
Change in assumptions	-	115,466
Change in proportionate share	17,865	-
Net difference between projected and actual earnings on pension plan investments	-	192,354
Employer contributions subsequent to the measurement date	<u>349,729</u>	<u>-</u>
Total	<u>\$ 367,594</u>	<u>\$ 885,260</u>

\$349,729 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 ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2020	\$ (304,181)
2021	(271,893)
2022	(272,788)
2023	(18,533)
Thereafter	-

Note 10-Pension Plans: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Component Unit School Board (nonprofessional)

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, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	21
Inactive members:	
Vested inactive members	2
Non-vested inactive members	7
Inactive members active elsewhere in VRS	7
Total inactive members	16
Active members	24
Total covered employees	<u>61</u>

Note 10-Pension Plans: (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, 2019 was 8.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$41,072 and \$43,597 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 and rolled forward to the measurement date of June 30, 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019Note 10-Pension Plans: (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, 2017	\$ 2,223,987	\$ 2,061,985	\$ 162,002
Changes for the year:			
Service cost	\$ 39,712	\$ -	\$ 39,712
Interest	151,220	-	151,220
Differences between expected and actual experience	55,259	-	55,259
Contributions - employer	-	43,597	(43,597)
Contributions - employee	-	24,186	(24,186)
Net investment income	-	151,195	(151,195)
Benefit payments, including refunds of employee contributions	(127,402)	(127,402)	-
Administrative expenses	-	(1,329)	1,329
Other changes	-	(134)	134
Net changes	\$ 118,789	\$ 90,113	\$ 28,676
Balances at June 30, 2018	\$ 2,342,776	\$ 2,152,098	\$ 190,678

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	\$ 447,205	\$ 190,678	\$ (27,910)

Note 10-Pension Plans: (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, 2019, the Component Unit School Board (nonprofessional) recognized pension expense of \$(42,428). At June 30, 2019, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Component Unit School Board (nonprofessional)</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 34,485	\$ 31,760
Change in assumptions	-	5,754
Net difference between projected and actual earnings on pension plan investments	-	18,677
Employer contributions subsequent to the measurement date	<u>41,072</u>	<u>-</u>
Total	<u>\$ 75,557</u>	<u>\$ 56,191</u>

\$41,072 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2020	\$ (10,344)
2021	11,699
2022	(21,263)
2023	(1,798)
Thereafter	-

Note 10-Pension Plans: (Continued)

Component Unit School Board (professional)

Plan Description

Additional information regarding the plan description 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, 2019 was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$1,138,767 and \$1,152,247 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the school division reported a liability of \$10,483,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the school division's proportion was 0.08914% as compared to 0.09051% at June 30, 2017.

For the year ended June 30, 2019, the school division recognized pension expense of \$605,000. 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.

Note 10-Pension Plans: (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, 2019, 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 \$	-	\$ 896,000
Change in assumptions	125,000	-
Net difference between projected and actual earnings on pension plan investments	-	222,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,000	290,000
Employer contributions subsequent to the measurement date	1,138,767	-
Total	\$ 1,279,767	\$ 1,408,000

\$1,138,767 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, 2020. 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 (professional)
2020	\$ (183,000)
2021	(308,000)
2022	(534,000)
2023	(185,000)
Thereafter	(57,000)

Note 10-Pension Plans: (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, 2017, 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, 2018.

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 75 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.

Note 10-Pension Plans: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2017 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

Note 10-Pension Plans: (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, 2018, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	<u>Teacher Employee Retirement Plan</u>
Total Pension Liability	\$ 46,679,555
Plan Fiduciary Net Position	34,919,563
Employers' Net Pension Liability (Asset)	<u>\$ 11,759,992</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 74.81%

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.

The long-term expected rate of return and discount rate information previously described also apply to this plan.

Note 10-Pension Plans: (Continued)

Component Unit School Board (professional) (Continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 16,013,000	\$ 10,483,000	\$ 5,906,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Aggregate Pension Information

The following is a summary of deferred outflows, deferred inflows, net pension liabilities (assets), and pension expense for the year ended June 30, 2019.

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
VRS Pension Plans:								
Primary Government	\$ 367,594	\$ 885,260	\$ 991,692	\$ (203,932)	\$ -	\$ -	\$ -	\$ -
School Board Nonprofessional	-	-	-	-	75,557	56,191	190,678	(42,428)
School Board Professional	-	-	-	-	1,279,767	1,408,000	10,483,000	605,000
Totals	<u>\$ 367,594</u>	<u>\$ 885,260</u>	<u>\$ 991,692</u>	<u>\$ (203,932)</u>	<u>\$ 1,355,324</u>	<u>\$ 1,464,191</u>	<u>\$ 10,673,678</u>	<u>\$ 562,572</u>

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, 2019 was \$25,992.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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	3.62%

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

Actuarial Assumptions (Continued)

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 (2.62%) or one percentage point higher (4.62%) than the current discount rate:

Rate		
1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
\$ 417,595	\$ 382,207	\$ 349,844

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		
1% Decrease (5.80% decreasing to 3.10%)	Healthcare Cost Trend (6.80% decreasing to 4.10%)	1% Increase (7.80% decreasing to 5.10%)
\$ 333,869	\$ 382,207	\$ 440,041

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

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

For the year ended June 30, 2019, the City recognized OPEB expense in the amount of \$28,712. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 17,075
Employer contributions subsequent to the measurement date	25,992	-
Total	<u>\$ 25,992</u>	<u>\$ 17,075</u>

\$25,992 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, 2020. 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>	
2020	\$ (3,460)
2021	(3,460)
2022	(3,460)
2023	(3,460)
2024	(2,984)
Thereafter	(251)

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.

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

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.

Plan Membership

At June 30, 2018 (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><u>205</u></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, 2019 was \$50,454.

Total OPEB Liability

The School Board’s total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017.

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	3.62%

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

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

Actuarial Assumptions (Continued)

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.

Changes in Total OPEB Liability

		Component Unit School Board Total OPEB Liability
Balances at June 30, 2017	\$	442,130
Changes for the year:		
Service cost		22,967
Interest		15,659
Changes in assumptions		(1,788)
Benefit payments		(50,454)
Net changes		(13,616)
Balances at June 30, 2018	\$	428,514

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 (2.62%) or one percentage point higher (4.62%) than the current discount rate:

			Rate		
1% Decrease (2.62%)		Current Discount Rate (3.62%)		1% Increase (4.62%)	
\$	459,117	\$	428,514	\$	399,701

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		
1% Decrease (5.80% decreasing to 3.10%)	Healthcare Cost Trend (6.80% decreasing to 4.10%)	1% Increase (7.80% decreasing to 5.10%)
\$ 379,754	\$ 428,514	\$ 486,985

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

For the year ended June 30, 2019, the School Board recognized OPEB expense in the amount of \$35,956. At June 30, 2019, 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	\$ -	\$ 15,658
Employer contributions subsequent to the measurement date	50,454	-
Total	\$ 50,454	\$ 15,658

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

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

\$50,454 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, 2020. 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>	
2020	\$ (2,670)
2021	(2,670)
2022	(2,670)
2023	(2,670)
2024	(2,670)
Thereafter	(2,308)

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

Plan Description

The Group Life Insurance (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. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI 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 GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI 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 GLI Program OPEB.

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

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts 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. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

Contributions

The contribution requirements for the GLI 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 GLI 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, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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.

Contributions to the Group Life Insurance Program from the City were \$26,473 and \$25,670 for the years ended June 30, 2019 and June 30, 2018, respectively.

Contributions to the Group Life Insurance Program from the Component Unit School Board (nonprofessional) were \$2,730 and \$2,556 for the years ended June 30, 2019 and June 30, 2018, respectively.

Contributions to the Group Life Insurance Program from the Component Unit School Board (professional) were \$38,442 and \$37,106 for the years ended June 30, 2019 and June 30, 2018, respectively.

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 GLI Program OPEB

Primary Government Group Life Insurance Program

At June 30, 2019, the entity reported a liability of \$394,555 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 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 GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was 0.0260% as compared to 0.0270% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$0. 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, 2019, the entity reported a liability of \$41,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 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 GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018 and 2017, the participating employer's proportion was 0.0027%.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$0. 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 (professional) Group Life Insurance Program

At June 30, 2019, the entity reported a liability of \$569,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 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 GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was 0.0375% as compared to 0.0385% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$0. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

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 GLI Program OPEB (Continued)

At June 30, 2019, 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	\$ 19,208	\$ 6,402	\$ 2,000	\$ 1,000	\$ 28,000	\$ 10,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	12,806	-	1,000	-	19,000
Change in assumptions	-	16,806	-	2,000	-	24,000
Changes in proportion	-	13,605	-	-	-	21,000
Employer contributions subsequent to the measurement date	26,473	-	2,730	-	38,442	-
Total	\$ 45,681	\$ 49,619	\$ 4,730	\$ 4,000	\$ 66,442	\$ 74,000

\$26,473, \$2,730, and \$38,442 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, 2020. 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:

Year Ended June 30	Primary Government	Component Unit School Board (nonprofessional)	Component Unit School Board (professional)
2019	\$ (8,002)	\$ (1,000)	\$ (12,000)
2020	(8,002)	(1,000)	(12,000)
2021	(8,002)	-	(12,000)
2022	(4,801)	-	(7,000)
2023	(1,604)	-	(3,000)
Thereafter	-	-	-

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

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

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*

*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.

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

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers (Continued)

The actuarial assumptions used in the June 30, 2017 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

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.

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

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees (Continued)

The actuarial assumptions used in the June 30, 2017 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%

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.

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

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees (Continued)

The actuarial assumptions used in the June 30, 2017 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.

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, 2017 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.

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, 2017 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 Retirement Rates)	Updated to a more current mortality table - RP-2014 projected to 2020
Withdrawal Rates	Increased age 50 rates and lowered rates at older ages
Disability Rates	Adjusted termination rates to better fit experience at each age and service year
Salary Scale	Adjusted rates to better match experience
Line of Duty Disability	No change
	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the GLI Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$	3,113,508
Plan Fiduciary Net Position		1,594,773
Employers' Net GLI OPEB Liability (Asset)	\$	<u>1,518,735</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		51.22%

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.

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 ended June 30, 2018, 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 which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue 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.

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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City's proportionate share of the GLI Program Net OPEB Liability	\$ 515,403	\$ 394,555	\$ 296,117
Component Unit School Board's (nonprofessional) proportionate share of the GLI Program Net OPEB Liability	\$ 53,000	\$ 41,000	\$ 31,000
Component Unit School Board's (professional) proportionate share of the GLI Program Net OPEB Liability	\$ 744,000	\$ 569,000	\$ 427,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

Plan Description

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. All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC 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 HIC 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 HIC Program OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Teacher Employee Retiree HIC 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 include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

Benefit Amounts

The Teacher Employee HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. 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: \$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.

HIC Program Notes

The monthly HIC 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 HIC as a retiree.

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, 2019 was 1.20% of covered employee compensation for employees in the VRS Teacher Employee HIC Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 HIC Program were \$88,495 and \$87,717 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the school division reported a liability of \$1,120,000 for its proportionate share of the VRS Teacher Employee HIC Program Net OPEB Liability. The Net VRS Teacher Employee HIC Program OPEB Liability was measured as of June 30, 2018 and the total VRS Teacher HIC Program OPEB liability used to calculate the Net VRS Teacher Employee HIC Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee HIC Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the school division's proportion of the VRS Teacher Employee HIC Program was 0.0882% as compared to 0.0899% at June 30, 2017.

For the year ended June 30, 2019, the school division recognized VRS Teacher Employee HIC Program OPEB expense of \$85,000. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Program Net OPEB expense was related to deferred amounts from changes in proportion.

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

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

At June 30, 2019, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 5,000
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	1,000
Change in assumptions	-	10,000
Change in proportion	-	38,000
Employer contributions subsequent to the measurement date	88,495	-
Total	\$ 88,495	\$ 54,000

\$88,495 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, 2020. 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:

<u>Year Ended June 30</u>	
2020	\$ (9,000)
2021	(9,000)
2022	(9,000)
2023	(8,000)
2024	(9,000)
Thereafter	(10,000)

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 HIC Program was based on an actuarial valuation as of June 30, 2017, 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, 2018.

Inflation	2.5%
Salary increases, including inflation	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.

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, 2017 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 HIC 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, 2018, NOL amounts for the VRS Teacher Employee HIC Program is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
		<u> </u>
Total Teacher Employee HIC OPEB Liability	\$	1,381,313
Plan Fiduciary Net Position		111,639
Teacher Employee net HIC OPEB Liability (Asset)	\$	<u><u>1,269,674</u></u>

Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability	8.08%
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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.

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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
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%.

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

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 ended June 30, 2018, the rate contributed by each school division for the VRS Teacher Employee HIC Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue 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.

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 HIC 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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 1,251,000	\$ 1,120,000	\$ 1,090,000

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee HIC Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 15-Aggregate OPEB Information:

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
City Stand-Alone Plan	\$ 25,992	\$ 17,075	\$ 382,207	\$ 28,712	\$ -	\$ -	\$ -	\$ -
School Stand-Alone Plan	-	-	-	-	50,454	15,658	428,514	35,956
VRS OPEB Plans:								
Group Life Insurance Program:								
City	45,681	49,619	394,555	-	-	-	-	-
School Board Nonprofessional	-	-	-	-	4,730	4,000	41,000	-
School Board Professional	-	-	-	-	66,442	74,000	569,000	-
Teacher Health Insurance Credit Program	-	-	-	-	88,495	54,000	1,120,000	85,000
Totals	\$ 71,673	\$ 66,694	\$ 776,762	\$ 28,712	\$ 210,121	\$ 147,658	\$ 2,158,514	\$ 120,956

Note 16-Line of Duty Act (LODA) (OPEB Benefits):

The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

The City has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the City to VML Insurance Programs. VML Insurance Programs assumes all liability for the City’s LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The City’s LODA coverage is fully covered or “insured” through VML Insurance Programs. This is built into the LODA coverage cost presented in the annual renewals. The City’s LODA premium for the year ended June 30, 2019 was \$22,870.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 17-Unearned and Deferred/Unavailable Revenue:

Unearned and unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. 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	\$ -	\$ 439,642
Prepaid property taxes due after June 30 but paid in advance by taxpayers	16,648	16,648
Unavailable meals tax revenue representing uncollected meals tax not available for the funding of current expenditures	-	42,908
	<u>\$ 16,648</u>	<u>\$ 499,198</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 18-Capital Assets:

Capital asset activity for the year ended June 30, 2019 was as follows:

Primary Government:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,888,948	\$ 1,393	\$ -	\$ 2,890,341
Construction in progress	1,807,744	6,091,822	(894,027)	7,005,539
Total capital assets not being depreciated	<u>\$ 4,696,692</u>	<u>\$ 6,093,215</u>	<u>\$ (894,027)</u>	<u>\$ 9,895,880</u>
Capital assets, being depreciated:				
Infrastructure	\$ 4,132,278	\$ 150,161	\$ -	\$ 4,282,439
Buildings and improvements	21,842,270	45,193	-	21,887,463
Machinery and equipment	5,262,680	964,334	(279,539)	5,947,475
Total capital assets being depreciated	<u>\$ 31,237,228</u>	<u>\$ 1,159,688</u>	<u>\$ (279,539)</u>	<u>\$ 32,117,377</u>
Accumulated depreciation:				
Infrastructure	\$ (3,187,891)	\$ (652,875)	\$ -	\$ (3,840,766)
Buildings and improvements	(6,939,345)	(123,506)	-	(7,062,851)
Machinery and equipment	(3,859,194)	(302,708)	278,061	(3,883,841)
Total accumulated depreciation	<u>\$ (13,986,430)</u>	<u>\$ (1,079,089)</u>	<u>\$ 278,061</u>	<u>\$ (14,787,458)</u>
Total capital assets being depreciated, net	<u>\$ 17,250,798</u>	<u>\$ 80,599</u>	<u>\$ (1,478)</u>	<u>\$ 17,329,919</u>
Governmental activities capital assets, net	<u>\$ 21,947,490</u>	<u>\$ 6,173,814</u>	<u>\$ (895,505)</u>	<u>\$ 27,225,799</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**Note 18-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	1,301,660	5,642,420	(38,117)	6,905,963
Total capital assets not being depreciated	<u>\$ 1,451,034</u>	<u>\$ 5,642,420</u>	<u>\$ (38,117)</u>	<u>\$ 7,055,337</u>
Capital assets, being depreciated:				
Infrastructure	\$ 18,112,564	\$ 150,781	\$ -	\$ 18,263,345
Building and improvements	1,823,395	-	-	1,823,395
Machinery and equipment	750,554	-	(20,000)	730,554
Total capital assets being depreciated	<u>\$ 20,686,513</u>	<u>\$ 150,781</u>	<u>\$ (20,000)</u>	<u>\$ 20,817,294</u>
Accumulated depreciation:				
Infrastructure	\$ (15,673,239)	\$ (168,033)	\$ -	\$ (15,841,272)
Building and improvements	(696,718)	(90,809)	-	(787,527)
Machinery and equipment	(519,752)	(31,425)	20,000	(531,177)
Total accumulated depreciation	<u>\$ (16,889,709)</u>	<u>\$ (290,267)</u>	<u>\$ 20,000</u>	<u>\$ (17,159,976)</u>
Total capital assets being depreciated, net	<u>\$ 3,796,804</u>	<u>\$ (139,486)</u>	<u>\$ -</u>	<u>\$ 3,657,318</u>
Business-type activities capital assets, net	<u>\$ 5,247,838</u>	<u>\$ 5,502,934</u>	<u>\$ (38,117)</u>	<u>\$ 10,712,655</u>

Current year asset additions include land transferred from the Component Unit-IDA at net book value of \$1,393. Construction payables at year end were \$1,477,742 in the current year and \$526,351 in the prior fiscal year.

Note 18-Capital Assets: (Continued)

Primary Government: (Continued)

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

Governmental activities:	
General government administration	\$ 15,357
Public safety	275,992
Public works	222,956
Health and welfare	5,366
Education	317,204
Parks, recreation, and culture	<u>242,214</u>
Total depreciation expense-governmental activities	<u>\$ 1,079,089</u>
Business-type activities:	
Water and sewer	<u>\$ 290,267</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 18-Capital Assets: (Continued)

Capital asset activity for the School Board for the year ended June 30, 2019 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 465,929	\$ -	\$ -	\$ 465,929
Total capital assets not being depreciated	<u>\$ 465,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 465,929</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,834,568	\$ 78,557	\$ -	\$ 7,913,125
Machinery and equipment	1,984,172	176,340	(62,005)	2,098,507
Total capital assets being depreciated	<u>\$ 9,818,740</u>	<u>\$ 254,897</u>	<u>\$ (62,005)</u>	<u>\$ 10,011,632</u>
Accumulated depreciation:				
Buildings and improvements	\$ (3,677,328)	\$ (210,717)	\$ -	\$ (3,888,045)
Machinery and equipment	(1,455,768)	(88,097)	62,005	(1,481,860)
Total accumulated depreciation	<u>\$ (5,133,096)</u>	<u>\$ (298,814)</u>	<u>\$ 62,005</u>	<u>\$ (5,369,905)</u>
Total capital assets being depreciated, net	<u>\$ 4,685,644</u>	<u>\$ (43,917)</u>	<u>\$ -</u>	<u>\$ 4,641,727</u>
School Board capital assets, net	<u><u>\$ 5,151,573</u></u>	<u><u>\$ (43,917)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,107,656</u></u>

Note 19-Inventory Held for Resale:

The IDA had land that was shown as inventory held for resale at June 30, 2019 in the amount of \$239,117. This inventory is valued at cost.

Note 20-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.

Note 20-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 21-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 22-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 \$609,009. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

Note 22-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 23-Commitments and Contingencies:

Construction Commitments

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

Project	Contract Amount	Contract Amount Outstanding at June 30, 2019
VDOT Construction Cranberry Road	\$ 246,500	\$ 220,720
WWTP Renovations	9,842,272	3,092,958
Bottom Area Phase III	565,245	404,702
VDOT McArthur Road	71,846	27,455
Galax Elementary School	16,542,045	9,935,512
PER of Downtown and GES Areas	12,900	12,900
Totals	<u>\$ 27,280,808</u>	<u>\$ 13,694,247</u>

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 24-Restricted and Committed Funds and Restricted Net Position:

	General Government	Component Unit <u>School Fund</u>
Governmental Activities:		
Restricted:		
Blue Ridge Post book fund	\$ 14,534	\$ -
Revolving housing loans program	117,024	-
Small business loans program	30,254	-
Cafeteria funds	-	309,728
Total restricted balances	<u>\$ 161,812</u>	<u>\$ 309,728</u>
Governmental Funds:		
Restricted:		
Blue Ridge Post book fund	\$ 14,534	\$ -
Restricted cash in loan programs	56,707	-
Cafeteria funds	-	309,728
Total restricted balances	<u>\$ 71,241</u>	<u>\$ 309,728</u>
Committed funds:		
Police narcotics	22,546	-
Police DARE	118	-
Fire Department grants	32,997	-
Total committed funds	<u>\$ 55,661</u>	<u>\$ -</u>

Note 25-Adoption of Accounting Principles:

The City implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

Note 26-Restatement of Net Position:

Net position was restated as follows:

	<u>Primary Government Component Unit</u>	
	<u>Governmental</u>	
	Activities	IDA
Net position, as previously stated	\$ 14,744,342	\$ 78,974
Transfer of land	(147,028)	147,028
Record additional land held by IDA	-	54,301
Net position, as restated	<u>\$ 14,597,314</u>	<u>\$ 280,303</u>

Note 27-Upcoming Pronouncements:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 5,342,500	\$ 5,342,500	\$ 5,610,024	\$ 267,524
Other local taxes	6,016,000	6,016,000	6,246,495	230,495
Permits, privilege fees, and regulatory licenses	20,900	20,900	14,588	(6,312)
Fines and forfeitures	126,000	126,000	118,187	(7,813)
Revenue from the use of money and property	36,075	36,075	60,816	24,741
Charges for services	791,300	791,300	785,678	(5,622)
Miscellaneous	98,000	367,011	399,998	32,987
Recovered costs	288,355	288,355	186,558	(101,797)
Intergovernmental	5,376,926	5,645,168	5,836,744	191,576
Total revenues	\$ 18,096,056	\$ 18,633,309	\$ 19,259,088	\$ 625,779
EXPENDITURES				
Current:				
General government administration	\$ 1,534,477	\$ 1,533,777	\$ 1,441,367	\$ 92,410
Judicial administration	608,350	608,350	601,352	6,998
Public safety	2,965,837	3,230,382	3,147,204	83,178
Public works	3,075,670	3,139,429	2,441,263	698,166
Health and welfare	2,503,974	2,721,507	3,222,801	(501,294)
Education	4,025,123	4,025,123	3,893,052	132,071
Parks, recreation, and cultural	1,947,493	1,972,404	1,842,219	130,185
Community development	685,530	746,527	510,011	236,516
Nondepartmental	496,482	321,579	81,253	240,326
Capital projects	6,712,200	6,866,395	6,003,051	863,344
Debt service:				
Principal retirement	441,881	441,881	469,172	(27,291)
Interest and other fiscal charges	324,897	324,897	273,412	51,485
Total expenditures	\$ 25,321,914	\$ 25,932,251	\$ 23,926,157	\$ 2,006,094
Excess (deficiency) of revenues over (under) expenditures	\$ (7,225,858)	\$ (7,298,942)	\$ (4,667,069)	\$ 2,631,873
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bond	\$ 6,000,000	\$ 6,000,000	\$ 4,871,721	\$ (1,128,279)
Total other financing sources (uses)	\$ 6,500,858	\$ 6,500,858	\$ 4,871,721	\$ (1,629,137)
Net change in fund balances	\$ (725,000)	\$ (798,084)	\$ 204,652	\$ 1,002,736
Fund balances - beginning	725,000	798,084	3,902,759	3,104,675
Fund balances - ending	\$ -	\$ -	\$ 4,107,411	\$ 4,107,411

Note 1: GAAP serves as the budgetary basis of accounting

City of Galax, Virginia
 Schedule of Employer's Proportionate Share of Net Pension Liability
 For the Measurement Dates of June 30, 2014 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
(1)	(2)	(3)	(4)	(5)	(6)
Primary Government - City Retirement Plan					
2018	80.03%	\$ 991,692	\$ 4,920,951	20.15%	95.67%
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)					
2018	0.08914%	\$ 10,483,000	\$ 7,131,435	147.00%	74.81%
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 Measurement Dates of June 30, 2014 through June 30, 2018

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 39,712	\$ 46,631	\$ 54,408	\$ 52,788	\$ 59,100
Interest	151,220	152,273	147,275	146,030	138,221
Differences between expected and actual experience	55,259	(78,673)	(38,600)	(92,264)	-
Changes in assumptions	-	(20,700)	-	-	-
Benefit payments, including refunds of employee contributions	(127,402)	(101,759)	(81,606)	(95,913)	(75,607)
Net change in total pension liability	\$ 118,789	\$ (2,228)	\$ 81,477	\$ 10,641	\$ 121,714
Total pension liability - beginning	2,223,987	2,226,215	2,144,738	2,134,097	2,012,383
Total pension liability - ending (a)	\$ 2,342,776	\$ 2,223,987	\$ 2,226,215	\$ 2,144,738	\$ 2,134,097
Plan fiduciary net position					
Contributions - employer	\$ 43,597	\$ 42,353	\$ 51,508	\$ 56,560	\$ 58,635
Contributions - employee	24,186	23,533	24,595	27,173	27,537
Net investment income	151,195	227,065	32,761	81,921	242,426
Benefit payments, including refunds of employee contributions	(127,402)	(101,759)	(81,606)	(95,913)	(75,607)
Administrative expense	(1,329)	(1,321)	(1,140)	(1,116)	(1,285)
Other	(134)	(202)	(14)	(16)	13
Net change in plan fiduciary net position	\$ 90,113	\$ 189,669	\$ 26,104	\$ 68,609	\$ 251,719
Plan fiduciary net position - beginning	2,061,985	1,872,316	1,846,212	1,777,603	1,525,884
Plan fiduciary net position - ending (b)	\$ 2,152,098	\$ 2,061,985	\$ 1,872,316	\$ 1,846,212	\$ 1,777,603
School Division's net pension liability - ending (a) - (b)	\$ 190,678	\$ 162,002	\$ 353,899	\$ 298,526	\$ 356,494
Plan fiduciary net position as a percentage of the total pension liability	91.86%	92.72%	84.10%	86.08%	83.30%
Covered payroll	\$ 505,946	\$ 491,690	\$ 507,791	\$ 554,534	\$ 552,382
School Division's net pension liability as a percentage of covered payroll	37.69%	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-Pension
 For the Years Ended June 30, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2019	\$ 349,729	\$ 349,729	\$ -	\$ 5,091,184	6.87%
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)					
2019	\$ 41,072	\$ 41,072	\$ -	\$ 525,085	7.82%
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%
Component Unit School Board (professional)					
2019	\$ 1,138,767	\$ 1,138,767	\$ -	\$ 7,374,541	15.44%
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-Pension
For the Year Ended June 30, 2019

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:

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%

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%

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) - 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

City of Galax, Virginia
 Schedule of City's Proportionate Share of the Total Health Insurance OPEB Liability
 For the Measurement Dates of June 30, 2018 and 2017

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)
2018	80.0315%	\$ 382,207	\$ 6,312,885	6.05%
2017	80.0315%	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 Measurement Dates of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 22,967	\$ 24,478
Interest	15,659	13,358
Changes in assumptions	(1,788)	(18,980)
Benefit payments	(50,454)	(19,443)
Net change in total OPEB liability	\$ (13,616)	\$ (587)
Total OPEB liability - beginning	442,130	442,717
Total OPEB liability - ending	\$ 428,514	\$ 442,130
Covered payroll	\$ 8,458,000	\$ 8,226,508
School's total OPEB liability (asset) as a percentage of covered payroll	5.07%	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, 2019

Primary Government

Valuation Date: 6/30/2017
Measurement Date: 6/30/2018

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	3.62%
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: 6/30/2018

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	3.62%
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 Measurement Dates of June 30, 2018 and 2017

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					
2018	0.0260%	\$ 394,555	\$ 4,920,951	8.02%	51.22%
2017	0.0270%	405,544	4,979,689	8.14%	48.86%
Component Unit School Board (nonprofessional)					
2018	0.0027%	\$ 41,000	\$ 505,946	8.10%	51.22%
2017	0.0027%	40,000	491,690	8.14%	48.86%
Component Unit School Board (professional)					
2018	0.0375%	\$ 569,000	\$ 7,131,435	7.98%	51.22%
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, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2019	\$ 26,473	\$ 26,473	-	\$ 5,091,178	0.52%
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)					
2019	\$ 2,730	\$ 2,730	-	\$ 525,085	0.52%
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%
Component Unit School Board (professional)					
2019	\$ 38,442	\$ 38,442	-	\$ 7,392,714	0.52%
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%

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, 2019

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:

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

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, 2019

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 Employee Health Insurance Credit (HIC) Program
 For the Measurement Dates of June 30, 2018 and 2017

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)
2018	0.0882% \$	1,120,000 \$	7,131,435	15.71%	8.08%
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 Employee Health Insurance Credit (HIC) Program
 For the Years Ended June 30, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ 88,495	\$ 88,495	\$ -	\$ 7,374,541	1.20%
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%

City of Galax, Virginia
Notes to Required Supplementary Information
Teacher Employee Health Insurance Credit (HIC) Program
For the Year Ended June 30, 2019

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, 2019

		School Operating <u>Fund</u>
ASSETS		
Cash and cash equivalents	\$	3,201,428
Investments		65,859
Receivables (net of allowance for uncollectibles):		
Accounts receivable		12,998
Due from other governmental units		697,655
Inventories		20,129
Prepaid items		146,742
Total assets	\$	<u>4,144,811</u>
LIABILITIES		
Accounts payable	\$	57,582
Salaries payable		1,131,306
Total liabilities	\$	<u>1,188,888</u>
FUND BALANCES		
Nonspendable		
Prepaid and inventory	\$	166,871
Restricted		
School cafeterias		309,728
Unassigned		2,479,324
Total fund balances	\$	<u>2,955,923</u>
Total liabilities and fund balances	\$	<u>4,144,811</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above	\$	2,955,923
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	465,929
Buildings and improvements		4,025,080
Machinery and equipment		616,647
		<u>5,107,656</u>
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	\$	1,355,324
OPEB related items		210,121
		<u>1,565,445</u>
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	\$	(150,626)
Net OPEB liabilities		(2,158,514)
Net pension liability		(10,673,678)
		<u>(12,982,818)</u>
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$	(1,464,191)
OPEB related items		(147,658)
		<u>(1,611,849)</u>
Net position of governmental activities	\$	<u>(4,965,643)</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, 2019

		School Operating Fund
REVENUES		
Revenue from the use of money and property	\$	408
Charges for services		356,645
Miscellaneous		103,929
Recovered costs		10
Intergovernmental		15,256,598
Total revenues	\$	<u>15,717,590</u>
EXPENDITURES		
Current:		
Education	\$	15,592,133
Total expenditures	\$	<u>15,592,133</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>125,457</u>
OTHER FINANCING SOURCES (USES)		
Sale of capital assets	\$	<u>4,880</u>
Net change in fund balances	\$	130,337
Fund balances - beginning		2,825,586
Fund balances - ending	\$	<u><u>2,955,923</u></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	\$	130,337
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	\$	254,897
Depreciation expense	<u>(298,814)</u>	(43,917)
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	\$	(888)
Change in OPEB related items		88,797
Change in pension related items		<u>617,020</u>
Change in net position of governmental activities	\$	<u><u>791,349</u></u>

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, 2019

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 2,300	\$ 2,300	\$ 408	\$ (1,892)
Charges for services	242,952	242,952	356,645	113,693
Miscellaneous	77,346	77,346	103,929	26,583
Recovered costs	1,500	1,500	10	(1,490)
Intergovernmental	15,436,043	15,436,043	15,256,598	(179,445)
Total revenues	<u>\$ 15,760,141</u>	<u>\$ 15,760,141</u>	<u>\$ 15,717,590</u>	<u>\$ (42,551)</u>
EXPENDITURES				
Current:				
Education	\$ 15,760,641	\$ 15,760,641	\$ 15,592,133	\$ 168,508
Total expenditures	<u>\$ 15,760,641</u>	<u>\$ 15,760,641</u>	<u>\$ 15,592,133</u>	<u>\$ 168,508</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (500)	\$ (500)	\$ 125,457	\$ 125,957
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	\$ 500	\$ 500	\$ 4,880	\$ 4,380
Total other financing sources (uses)	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 4,880</u>	<u>\$ 4,380</u>
Net change in fund balances	\$ -	\$ -	\$ 130,337	\$ 130,337
Fund balances - beginning	-	-	2,825,586	2,825,586
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,955,923</u>	<u>\$ 2,955,923</u>

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.

City of Galax, Virginia
 Discretely Presented Component Unit
 City of Galax, Virginia - Industrial Development Authority
 Statement of Net Position - Proprietary Fund
 June 30, 2019

	Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 91,788
Total current assets	\$ 91,788
Noncurrent assets:	
Inventory held for resale	\$ 239,117
Total noncurrent assets	\$ 239,117
Total assets	\$ 330,905
 NET POSITION	
Unrestricted	\$ 330,905
Total net position	\$ 330,905

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, 2019

	Enterprise Fund
OPERATING REVENUES	
Charges for services:	
Gain on sale of inventory (sales price-\$311,100 less value of land-\$61,736)	\$ 249,364
Total operating revenues	\$ 249,364
OPERATING EXPENSES	
Miscellaneous	\$ 25
Contribution to primary government	198,893
Total operating expenses	\$ 198,918
Operating income (loss)	\$ 50,446
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ 156
Total nonoperating revenues (expenses)	\$ 156
Change in net position	\$ 50,602
Total net position - beginning, as restated	280,303
Total net position - ending	\$ 330,905

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, 2019

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (25)
Payment to primary government	(197,500)
Purchase of land	(100,917)
Proceeds from the sale of land	311,100
Net cash provided by (used for) operating activities	\$ 12,658
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	\$ 156
Net cash provided by (used for) investing activities	\$ 156
Net increase (decrease) in cash and cash equivalents	\$ 12,814
Cash and cash equivalents - beginning	78,974
Cash and cash equivalents - ending	\$ 91,788
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ 50,446
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in land	(37,788)
Total adjustments	\$ (37,788)
Net cash provided by (used for) operating activities	\$ 12,658
Schedule of non-cash capital activities:	
Contribution of capital assets (at net book value) to primary government	\$ 1,393

City of Galax, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

Schedule 1
 Page 1 of 5

<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	\$ 3,521,740	\$ 107,740
Real and personal public service corporation taxes	120,000	120,000	123,873	3,873
Personal property taxes	545,000	545,000	650,626	105,626
Furniture and fixtures	375,000	375,000	413,073	38,073
Machinery and tools taxes	820,000	820,000	803,583	(16,417)
Delinquent administrative fee	1,000	1,000	3,429	2,429
Penalties	32,500	32,500	53,557	21,057
Interest	35,000	35,000	40,143	5,143
Total general property taxes	<u>\$ 5,342,500</u>	<u>\$ 5,342,500</u>	<u>\$ 5,610,024</u>	<u>\$ 267,524</u>
Other local taxes:				
Local sales and use taxes	\$ 2,285,000	\$ 2,285,000	\$ 2,309,786	\$ 24,786
Consumers' utility taxes	185,000	185,000	182,582	(2,418)
Local consumption tax	52,000	52,000	44,012	(7,988)
Local admissions tax	20,000	20,000	14,317	(5,683)
Business license taxes	1,100,000	1,100,000	1,017,075	(82,925)
Motor vehicle licenses	115,000	115,000	119,992	4,992
Bank stock taxes	134,000	134,000	207,544	73,544
Hotel and motel room taxes	145,000	145,000	173,369	28,369
Restaurant food taxes	1,980,000	1,980,000	2,177,725	197,725
Taxes on recordation and wills	-	-	93	93
Total other local taxes	<u>\$ 6,016,000</u>	<u>\$ 6,016,000</u>	<u>\$ 6,246,495</u>	<u>\$ 230,495</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,900	\$ 3,900	\$ 2,981	\$ (919)
Building permits and other licenses	17,000	17,000	11,607	(5,393)
Total permits, privilege fees, and regulatory licenses	<u>\$ 20,900</u>	<u>\$ 20,900</u>	<u>\$ 14,588</u>	<u>\$ (6,312)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 125,000	\$ 125,000	\$ 116,612	\$ (8,388)
Parking fines	1,000	1,000	1,575	575
Total fines and forfeitures	<u>\$ 126,000</u>	<u>\$ 126,000</u>	<u>\$ 118,187</u>	<u>\$ (7,813)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 75	\$ 75	\$ 21,021	\$ 20,946
Revenue from use of property	36,000	36,000	39,795	3,795
Total revenue from use of money and property	<u>\$ 36,075</u>	<u>\$ 36,075</u>	<u>\$ 60,816</u>	<u>\$ 24,741</u>
Charges for services:				
Charges for animal adoptions	\$ 5,500	\$ 5,500	\$ 8,488	\$ 2,988
Charges for courthouse maintenance	5,300	5,300	4,115	(1,185)
Charges for courtroom security	18,000	18,000	17,512	(488)
Other charges for services	22,000	22,000	12,440	(9,560)
Sheriff's fees	-	-	272	272
Charges for sanitation and waste removal	395,500	395,500	399,740	4,240
Charges for parks and recreation	345,000	345,000	343,111	(1,889)
Total charges for services	<u>\$ 791,300</u>	<u>\$ 791,300</u>	<u>\$ 785,678</u>	<u>\$ (5,622)</u>

City of Galax, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

Schedule 1
 Page 2 of 5

<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)				
Revenue from local sources: (Continued)				
Miscellaneous:				
Miscellaneous	\$ 46,000	\$ 47,000	\$ 63,237	\$ 16,237
Sale of surplus	5,000	43,500	53,602	10,102
Sale of cemetery lots	6,000	6,000	12,050	6,050
Donations and contributions	41,000	73,011	73,609	598
Contribution from IDA	-	197,500	197,500	-
Total miscellaneous	<u>\$ 98,000</u>	<u>\$ 367,011</u>	<u>\$ 399,998</u>	<u>\$ 32,987</u>
Recovered costs:				
Juvenile probation	\$ 29,365	\$ 29,365	\$ 21,726	\$ (7,639)
Animal Shelter	70,140	70,140	59,466	(10,674)
Sanitation recovered costs	2,500	2,500	2,396	(104)
Police recovered costs	55,000	55,000	58,859	3,859
Bottom Area project	6,000	6,000	35,475	29,475
Social services	4,250	4,250	-	(4,250)
Other recovered costs	121,100	121,100	8,636	(112,464)
Total recovered costs	<u>\$ 288,355</u>	<u>\$ 288,355</u>	<u>\$ 186,558</u>	<u>\$ (101,797)</u>
Total revenue from local sources	<u>\$ 12,719,130</u>	<u>\$ 12,988,141</u>	<u>\$ 13,422,344</u>	<u>\$ 434,203</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications sales and use taxes	\$ 235,000	\$ 235,000	\$ 198,158	\$ (36,842)
Recordation tax	10,000	10,000	9,220	(780)
Motor vehicle carriers' tax	28,000	28,000	38,254	10,254
Mobile home titling tax	2,000	2,000	1,323	(677)
Rolling stock tax	-	-	15	15
Personal property tax relief funds	230,000	230,000	230,012	12
Total noncategorical aid	<u>\$ 505,000</u>	<u>\$ 505,000</u>	<u>\$ 476,982</u>	<u>\$ (28,018)</u>
Categorical aid:				
Shared expenses:				
Commissioner of the revenue	\$ 57,000	\$ 57,000	\$ 59,888	\$ 2,888
Registrar/electoral board	35,000	35,000	35,755	755
Total shared expenses	<u>\$ 92,000</u>	<u>\$ 92,000</u>	<u>\$ 95,643</u>	<u>\$ 3,643</u>
Other categorical aid:				
599 Funds (Police funding)	\$ 332,000	\$ 332,000	\$ 335,568	\$ 3,568
Comprehensive services act	394,455	394,455	920,034	525,579
Street and highway funds	1,937,000	1,978,794	1,978,794	-
Litter control	6,000	6,000	6,207	207
Virginia Commission for the Arts	4,500	4,500	4,500	-
Public assistance and welfare administration	1,043,354	1,043,354	585,851	(457,503)
Department of Fire Programs	23,000	23,000	24,374	1,374
VTC Marketing Leveraging Grant	-	-	2,486	2,486
EMS 4 for Life Funding	10,000	10,000	6,379	(3,621)

City of Galax, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

<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	\$ -	\$ -	\$ 6,762	\$ 6,762
Community business launch grant	-	48,300	48,300	-
Bottom area project	-	-	36,610	36,610
Other categorical aid	-	29,000	17,706	(11,294)
Total other categorical aid	<u>\$ 3,750,309</u>	<u>\$ 3,869,403</u>	<u>\$ 3,973,571</u>	<u>\$ 104,168</u>
Total categorical aid	<u>\$ 3,842,309</u>	<u>\$ 3,961,403</u>	<u>\$ 4,069,214</u>	<u>\$ 107,811</u>
 Total revenue from the Commonwealth	 <u>\$ 4,347,309</u>	 <u>\$ 4,466,403</u>	 <u>\$ 4,546,196</u>	 <u>\$ 79,793</u>
 Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ -	\$ -	\$ 926,143	\$ 926,143
Community development block grants	400,000	400,000	121,665	(278,335)
Public safety grants	37,500	156,848	153,013	(3,835)
DMV grants	200,000	200,000	26,626	(173,374)
Highway planning and construction grants	367,117	390,617	47,107	(343,510)
Rural Development grants	25,000	25,000	-	(25,000)
High intensity drug trafficking grant	-	-	9,694	9,694
USDA grant	-	6,300	6,300	-
Total categorical aid	<u>\$ 1,029,617</u>	<u>\$ 1,178,765</u>	<u>\$ 1,290,548</u>	<u>\$ 111,783</u>
 Total revenue from the federal government	 <u>\$ 1,029,617</u>	 <u>\$ 1,178,765</u>	 <u>\$ 1,290,548</u>	 <u>\$ 111,783</u>
 Total General Fund	 <u>\$ 18,096,056</u>	 <u>\$ 18,633,309</u>	 <u>\$ 19,259,088</u>	 <u>\$ 625,779</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	\$ -	\$ -	\$ 398	\$ 398
Revenue from the use of property	2,300	2,300	10	(2,290)
Total revenue from use of money and property	<u>\$ 2,300</u>	<u>\$ 2,300</u>	<u>\$ 408</u>	<u>\$ (1,892)</u>
 Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 96,288	\$ 96,288
Transportation of pupils	4,000	4,000	11,217	7,217
Payments from other divisions	238,252	238,252	248,440	10,188
Tuition and payments from other divisions	700	700	700	-
Total charges for services	<u>\$ 242,952</u>	<u>\$ 242,952</u>	<u>\$ 356,645</u>	<u>\$ 113,693</u>

City of Galax, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous:				
Donations	\$ 8,338	\$ 8,338	\$ 1	\$ (8,337)
Medicaid payments	65,000	65,000	77,093	12,093
Other miscellaneous	4,008	4,008	26,835	22,827
Total miscellaneous	<u>\$ 77,346</u>	<u>\$ 77,346</u>	<u>\$ 103,929</u>	<u>\$ 26,583</u>
Recovered costs:				
Other recovered costs	\$ 1,500	\$ 1,500	\$ 10	\$ (1,490)
Total revenue from local sources	<u>\$ 324,098</u>	<u>\$ 324,098</u>	<u>\$ 460,992</u>	<u>\$ 136,894</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from the City of Galax, Virginia	\$ 4,125,259	\$ 4,125,259	\$ 3,879,752	\$ (245,507)
Total revenues from local governments	<u>\$ 4,125,259</u>	<u>\$ 4,125,259</u>	<u>\$ 3,879,752</u>	<u>\$ (245,507)</u>
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 1,193,551	\$ 1,193,551	\$ 1,209,750	\$ 16,199
Basic school aid	4,445,090	4,445,090	4,435,332	(9,758)
Remedial summer education	237,679	237,679	237,679	-
Regular foster care	-	-	8,418	8,418
Adult secondary education	8,356	8,356	8,355	(1)
Gifted and talented	46,517	46,517	46,493	(24)
Remedial education	229,792	229,792	229,675	(117)
Migrant education	7,189	7,189	-	(7,189)
Virginia preschool initiative	145,373	145,373	145,373	-
Textbook payment	93,675	93,675	93,627	(48)
Vocational SOQ payments	180,484	180,484	180,392	(92)
Lottery payments	297,269	297,269	338,607	41,338
Social security fringe benefits	277,239	277,239	277,097	(142)
Retirement fringe benefits	612,158	612,158	611,846	(312)
Group life insurance benefits	18,607	18,607	18,597	(10)
Early reading intervention	39,646	39,646	24,779	(14,867)
Homebound education	7,007	7,007	7,007	-
Special education	455,862	455,862	455,630	(232)
Regional program tuition	84,455	84,455	60,638	(23,817)
Vocation equipment	4,060	4,060	4,060	-
Vocational occupational preparedness	16,999	16,999	20,830	3,831
At risk payments	265,425	265,425	294,790	29,365
Mentor teacher program	-	-	1,238	1,238
Primary class size	316,297	316,297	310,694	(5,603)
Technology	128,000	128,000	128,000	-
Standards of Learning algebra readiness	25,054	25,054	25,054	-
School Food	12,852	12,852	11,022	(1,830)
Other State revenue	15,676	15,676	20,890	5,214

City of Galax, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
English as a second language	\$ 139,142	\$ 139,142	\$ 143,132	\$ 3,990
Total categorical aid	<u>\$ 9,303,454</u>	<u>\$ 9,303,454</u>	<u>\$ 9,349,005</u>	<u>\$ 45,551</u>
 Total revenue from the Commonwealth	 <u>\$ 9,303,454</u>	 <u>\$ 9,303,454</u>	 <u>\$ 9,349,005</u>	 <u>\$ 45,551</u>
Revenue from the federal government:				
Categorical aid:				
School breakfast program	\$ -	\$ -	\$ 126,258	\$ 126,258
School lunch program	585,450	585,450	452,948	(132,502)
Summer feeding	21,000	21,000	31,767	10,767
School meals equipment	111,401	111,401	111,401	-
Title I	604,644	604,644	616,919	12,275
Title VI-B, Special education flow-through	292,370	292,370	278,020	(14,350)
Vocational education	31,857	31,857	31,856	(1)
Title VI-B, Special education pre-school	13,107	13,107	13,325	218
Rural and low income schools	28,373	28,373	28,444	71
English language acquisition grant	21,599	21,599	21,621	22
Advanced placement program	999	999	-	(999)
Improving teacher quality	67,520	67,520	60,968	(6,552)
Twenty-first century community learning centers	12,918	12,918	9,712	(3,206)
Child and adult care food program	175,000	175,000	214,041	39,041
Title IV	40,678	40,678	30,561	(10,117)
Other federal funds	414	414	-	(414)
Total categorical aid	<u>\$ 2,007,330</u>	<u>\$ 2,007,330</u>	<u>\$ 2,027,841</u>	<u>\$ 20,511</u>
 Total revenue from the federal government	 <u>\$ 2,007,330</u>	 <u>\$ 2,007,330</u>	 <u>\$ 2,027,841</u>	 <u>\$ 20,511</u>
 Total School Operating Fund	 <u>\$ 15,760,141</u>	 <u>\$ 15,760,141</u>	 <u>\$ 15,717,590</u>	 <u>\$ (42,551)</u>
 Total Discretely Presented Component Unit - School Board	 <u>\$ 15,760,141</u>	 <u>\$ 15,760,141</u>	 <u>\$ 15,717,590</u>	 <u>\$ (42,551)</u>

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

<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:				
General government administration:				
Legislative:				
Mayor and Council	\$ 35,686	\$ 35,686	\$ 27,935	\$ 7,751
General and financial administration:				
City Manager	\$ 501,236	\$ 501,236	\$ 492,456	\$ 8,780
City Attorney	60,500	60,500	58,751	1,749
Marketing	166,061	165,361	134,134	31,227
Commissioner of revenue	166,825	166,825	164,332	2,493
Finance department	505,806	505,806	474,849	30,957
Total general and financial administration	\$ 1,400,428	\$ 1,399,728	\$ 1,324,522	\$ 75,206
Board of elections:				
Electoral Board	\$ 26,796	\$ 26,796	\$ 22,761	\$ 4,035
Registrar	71,567	71,567	66,149	5,418
Total board of elections	\$ 98,363	\$ 98,363	\$ 88,910	\$ 9,453
Total general government administration	\$ 1,534,477	\$ 1,533,777	\$ 1,441,367	\$ 92,410
Judicial administration:				
Courts:				
General district court	\$ 47,150	\$ 47,150	\$ 40,746	\$ 6,404
Magistrate	1,200	1,200	606	594
Shared services	560,000	560,000	560,000	-
Total courts	\$ 608,350	\$ 608,350	\$ 601,352	\$ 6,998
Total judicial administration	\$ 608,350	\$ 608,350	\$ 601,352	\$ 6,998
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,124,273	\$ 2,274,546	\$ 2,191,271	\$ 83,275
Narcotics	1,000	9,000	-	9,000
Community policing	3,000	3,000	662	2,338
Total law enforcement and traffic control	\$ 2,128,273	\$ 2,286,546	\$ 2,191,933	\$ 94,613
Fire and rescue services:				
Fire programs	\$ 307,350	\$ 338,062	\$ 340,438	\$ (2,376)
E911 programs	94,585	94,585	94,585	-
Ambulance and rescue services	159,413	179,413	196,749	(17,336)
Total fire and rescue services	\$ 561,348	\$ 612,060	\$ 631,772	\$ (19,712)

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

<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	\$ 117,350	\$ 166,350	\$ 163,272	\$ 3,078
Correction and probation	4,275	4,275	4,176	99
Total correction and detention	<u>\$ 121,625</u>	<u>\$ 170,625</u>	<u>\$ 167,448</u>	<u>\$ 3,177</u>
Other protection:				
Animal control	\$ 27,785	\$ 36,785	\$ 34,577	\$ 2,208
Medical examiner	200	1,960	1,955	5
Animal shelter	105,209	101,009	97,087	3,922
Safe routes to schools	21,397	21,397	22,432	(1,035)
Total other protection	<u>\$ 154,591</u>	<u>\$ 161,151</u>	<u>\$ 156,051</u>	<u>\$ 5,100</u>
Total public safety	<u>\$ 2,965,837</u>	<u>\$ 3,230,382</u>	<u>\$ 3,147,204</u>	<u>\$ 83,178</u>
Public works:				
Engineering:				
Engineering	\$ 151,293	\$ 205,793	\$ 202,879	\$ 2,914
Maintenance of highways, streets and bridges:				
Highways, streets, bridges and sidewalks	\$ 1,929,502	\$ 1,921,880	\$ 1,458,278	\$ 463,602
Street lighting	275,000	275,000	93,591	181,409
Traffic signals	35,500	35,500	33,239	2,261
Total maintenance of highways, streets and bridges	<u>\$ 2,240,002</u>	<u>\$ 2,232,380</u>	<u>\$ 1,585,108</u>	<u>\$ 647,272</u>
Sanitation and waste removal:				
Refuse collection and disposal	\$ 256,770	\$ 256,770	\$ 236,648	\$ 20,122
Landfill	39,200	39,200	34,388	4,812
Total sanitation and waste removal	<u>\$ 295,970</u>	<u>\$ 295,970</u>	<u>\$ 271,036</u>	<u>\$ 24,934</u>
Maintenance of general buildings and grounds:				
Building maintenance	\$ 266,119	\$ 273,119	\$ 282,071	\$ (8,952)
Property maintenance	122,286	132,167	100,169	31,998
Total maintenance of general buildings and grounds	<u>\$ 388,405</u>	<u>\$ 405,286</u>	<u>\$ 382,240</u>	<u>\$ 23,046</u>
Total public works	<u>\$ 3,075,670</u>	<u>\$ 3,139,429</u>	<u>\$ 2,441,263</u>	<u>\$ 698,166</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 104,000	\$ 104,000	\$ 98,722	\$ 5,278
Mental health and mental retardation:				
Mental health contribution	\$ 32,483	\$ 32,483	\$ 32,483	\$ -

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

<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)				
Health and welfare: (Continued)				
Welfare:				
Welfare administration and programs	\$ 2,326,525	\$ 2,542,525	\$ 3,049,097	\$ (506,572)
Contributions to welfare agencies	40,966	42,499	42,499	-
Total welfare	<u>\$ 2,367,491</u>	<u>\$ 2,585,024</u>	<u>\$ 3,091,596</u>	<u>\$ (506,572)</u>
Total health and welfare	<u>\$ 2,503,974</u>	<u>\$ 2,721,507</u>	<u>\$ 3,222,801</u>	<u>\$ (501,294)</u>
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 13,300	\$ 13,300	\$ 13,300	\$ -
Contribution to the City School Board	4,011,823	4,011,823	3,879,752	132,071
Total education	<u>\$ 4,025,123</u>	<u>\$ 4,025,123</u>	<u>\$ 3,893,052</u>	<u>\$ 132,071</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks	\$ 60,000	\$ 72,200	\$ 61,861	\$ 10,339
Recreation	1,239,049	1,251,060	1,145,391	105,669
Rosewald Felts	2,000	2,000	2,478	(478)
Rex Theater	26,200	26,200	19,602	6,598
Golf Course	216,632	216,632	188,198	28,434
Farmer's Market	2,450	3,150	2,777	373
Total parks and recreation	<u>\$ 1,546,331</u>	<u>\$ 1,571,242</u>	<u>\$ 1,420,307</u>	<u>\$ 150,935</u>
Cultural enrichment:				
Museum	\$ 32,946	\$ 32,946	\$ 32,974	\$ (28)
Chestnut Creek School of the Arts	120,000	120,000	120,000	-
Art programs and contributions	13,000	13,000	13,000	-
CCSA woodkworking ship	-	-	20,926	(20,926)
Total cultural enrichment	<u>\$ 165,946</u>	<u>\$ 165,946</u>	<u>\$ 186,900</u>	<u>\$ (20,954)</u>
Library:				
Regional library	\$ 235,216	\$ 235,216	\$ 235,012	\$ 204
Total parks, recreation, and cultural	<u>\$ 1,947,493</u>	<u>\$ 1,972,404</u>	<u>\$ 1,842,219</u>	<u>\$ 130,185</u>
Community development:				
Planning and community development:				
Planning and development	\$ 150,462	\$ 158,959	\$ 156,974	\$ 1,985
Bottom area project	400,000	400,000	188,144	211,856
BRCEDA	135,068	135,068	135,200	(132)
Twin County Community Foundation	-	-	724	(724)
Community business launch grant	-	52,500	28,969	23,531
Total planning and community development	<u>\$ 685,530</u>	<u>\$ 746,527</u>	<u>\$ 510,011</u>	<u>\$ 236,516</u>
Total community development	<u>\$ 685,530</u>	<u>\$ 746,527</u>	<u>\$ 510,011</u>	<u>\$ 236,516</u>

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

<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)				
Nondepartmental:				
Nondepartmental	\$ 496,482	\$ 321,579	\$ 81,253	\$ 240,326
Capital projects:				
Capital projects	\$ 6,712,200	\$ 6,866,395	\$ 6,003,051	\$ 863,344
Debt service:				
Principal retirement	\$ 441,881	\$ 441,881	\$ 469,172	\$ (27,291)
Interest and other fiscal charges	324,897	324,897	273,412	51,485
Total debt service	\$ 766,778	\$ 766,778	\$ 742,584	\$ 24,194
Total General Fund	\$ 25,321,914	\$ 25,932,251	\$ 23,926,157	\$ 2,006,094
Discretely Presented Component Unit - School Board				
School Operating Fund:				
Education:				
Administration of schools:				
Administration and health services	\$ 794,995	\$ 794,995	\$ 760,065	\$ 34,930
Instruction costs:				
Instructional costs	\$ 10,873,983	\$ 10,873,983	\$ 10,620,231	\$ 253,752
Operating costs:				
Pupil transportation	\$ 540,488	\$ 540,488	\$ 535,139	\$ 5,349
Operation and maintenance of school plant	1,407,713	1,407,713	1,557,350	(149,637)
School food service	904,421	904,421	1,197,130	(292,709)
Facilities	120,000	120,000	127,775	(7,775)
Technology	738,238	738,238	794,443	(56,205)
Total operating costs	\$ 3,710,860	\$ 3,710,860	\$ 4,211,837	\$ (500,977)
Debt service:				
Debt service	\$ 380,803	\$ 380,803	\$ -	\$ 380,803
Total School Operating Fund	\$ 15,760,641	\$ 15,760,641	\$ 15,592,133	\$ 168,508
Total Discretely Presented Component Unit - School Board	\$ 15,760,641	\$ 15,760,641	\$ 15,592,133	\$ 168,508

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	Community Development	Interest on Long-Term Debt	Water and Sewer	Stormwater	Total
2018-19	\$ 1,443,129	\$ 601,352	\$ 3,020,982	\$ 2,530,908	\$ 3,149,532	\$ 4,036,734	\$ 1,990,183	\$ 480,407	\$ 309,463	\$ 2,560,863	79,497	\$ 20,203,050
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

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total	
2018-19	\$ 3,925,691	\$ 5,190,990	\$ 519,804	\$ 5,689,662	\$ 6,250,609	\$ 62,778	\$ 399,998	\$ 476,982	\$ 22,516,514		
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		

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
2018-19	\$ 1,441,367	\$ 601,352	\$ 3,147,204	\$ 2,441,263	\$ 3,222,801	\$ 15,605,433	\$ 1,842,219	\$ 510,011	\$ 81,253	\$ 742,584	\$ 6,003,051	\$ 35,638,538
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	1,856,206	437,928	373,928	786,543	2,327,615	29,139,736
2013-14	1,379,004	601,213	2,985,642	2,562,375	1,418,426	13,536,865	1,884,408	616,302	253,793	775,335	676,722	26,690,085
2012-13	1,303,062	537,064	2,762,814	2,788,217	1,512,532	13,631,180	1,851,395	369,643	276,414	785,988	322,753	26,141,062
2011-12	1,456,338	615,081	2,849,754	2,050,229	1,654,794	16,316,471	1,796,614	2,004,859	-	757,000	-	29,501,140
2010-11	1,362,204	521,213	2,839,033	2,170,537	1,575,688	15,838,839	1,483,293	648,415	-	768,050	-	27,207,272
2009-10	1,328,623	516,030	2,602,251	2,091,801	1,723,290	17,213,809	1,910,866	1,041,925	-	792,798	-	29,221,393

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

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

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue from use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2018-19	\$ 5,610,024	\$ 6,246,495	\$ 14,588	\$ 118,187	\$ 61,224	\$ 1,142,323	\$ 503,927	\$ 186,568	\$ 17,213,590	\$ 31,096,926
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

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

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

Table 5

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

Fiscal Year	Current Tax Levy	Collected within the Year of Levy		Collections in Subsequent Years		Total Collections to Date	
		Amount	Percent of Levy	Years	Amount	Amount	Percent of Levy
2018-19	\$ 5,631,123	\$ 5,357,951	95.15%	-	\$ 5,357,951	95.15%	
2017-18	5,583,203	5,422,365	97.12%	27,385	5,449,750	97.61%	
2016-17	5,244,627	5,012,946	95.58%	179,014	5,191,960	99.00%	
2015-16	5,117,544	5,012,946	97.96%	40,529	5,053,475	98.75%	
2014-15	4,909,132	4,758,955	96.94%	107,024	4,865,979	99.12%	
2013-14	4,849,276	4,654,991	95.99%	163,816	4,818,807	99.37%	
2012-13	4,643,429	4,428,347	95.37%	180,240	4,608,587	99.25%	
2011-12	3,999,533	3,831,544	95.80%	134,353	3,965,897	99.16%	
2010-11	3,728,831	3,588,318	96.23%	127,225	3,715,543	99.64%	
2009-10	3,916,477	3,776,354	96.42%	113,948	3,890,302	99.33%	
2008-09	3,923,267	3,699,935	94.31%	181,257	3,881,192	98.93%	

(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
2018-19	\$ 445,708,250	\$ 125,888,713	\$ 15,045,922	\$ 586,642,885
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

(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
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

(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
2018-19	6,423	4,457,083	\$ 12,697,189	12,697,189	2.85%	1,977
2017-18	7,042	4,451,917	8,264,293	8,264,293	1.86%	1,174
2016-17	6,775	4,431,761	7,792,068	7,792,068	1.76%	1,150
2015-16	7,034	4,583,844	6,946,669	6,946,669	1.52%	988
2014-15	7,034	4,572,050	7,509,306	7,509,306	1.64%	1,068
2013-14	7,035	4,521,087	6,690,956	6,690,956	1.48%	951
2012-13	6,928	4,494,589	7,275,989	7,275,989	1.62%	1,050
2011-12	6,877	4,439,631	7,402,698	7,402,698	1.67%	1,076
2010-11	7,077	4,440,674	7,873,915	7,873,915	1.77%	1,113
2009-10	6,880	4,425,171	8,348,105	8,348,105	1.89%	1,213

(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 (Excluding Capital)	Ratio of Debt Service to General Governmental Expenditures
2018-19	\$ 469,172	\$ 273,412	\$ 742,584	\$ 29,635,487	2.51%
2017-18	477,317	359,809	837,126	29,509,488	2.84%
2016-17	560,123	331,591	891,714	27,791,394	3.21%
2015-16	562,637	177,772	740,409	26,736,370	2.77%
2014-15	595,650	190,893	786,543	26,812,121	2.93%
2013-14	607,493	167,842	775,335	26,013,363	2.98%
2012-13	555,677	230,311	785,988	25,818,309	3.04%
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%

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

COMPLIANCE SECTION



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, 2019, 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 4, 2019.

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. We did identify certain deficiencies in internal control, described in the accompanying scheduled of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

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, Farmer, Cox Associates

Blacksburg, Virginia
November 4, 2019



**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, 2019. 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, 2019.

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, Farmer, Cox Associates

Blacksburg, Virginia
November 4, 2019

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

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 Cluster:					
Community Facilities Loans and Grants	10.766	NA			\$ 6,300
Pass through payments from:					
<i>Department of Social Services:</i>					
SNAP Program Cluster:					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010119/0040119/0050119			150,924
Child Nutrition Cluster:					
<i>Department of Education:</i>					
School Breakfast Program	10.553	40591		\$ 126,258	
National School Lunch Program	10.555	40623	\$ 398,366		
<i>State Department of Agriculture:</i>					
Food Distribution-Schools (Note C)	10.555	Unknown	54,582	452,948	
Summer Food Service Program for Children (Note C)	10.559	Unknown		31,767	
Total Child Nutrition Cluster					610,973
Child and Adult Care Food Program	10.558	Unknown			214,041
Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects	10.592	Unknown			111,401
Total Department of Agriculture					<u>\$ 1,093,639</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Pass through payments from:					
<i>Department of Social Services:</i>					
Promoting Safe and Stable Families	93.556	0950118			\$ 8,409
Refugee and Entrant Assistance - State Administered Programs	93.566	0500119			75
Low Income Home Energy Assistance	93.568	0600419			20,837
Social Services Block Grant	93.667	1000119			84,646
Chafee Foster Care Independence Program	93.674	9150118			1,541
Children's Health Insurance Program	93.767	1200119			3,539
Medicaid Cluster:					
Medical Assistance Program	93.778	1200118			170,704
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900118			163
TANF Cluster:					
Temporary Assistance for Needy Families	93.558	0400119			118,277
CCDF Cluster:					
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760119			21,870
Foster Care - Title IV E	93.658	1100119/1110119			255,038
Adoption Assistance	93.659	1120119			87,724
Adoption and Legal Guardianship Incentive Payments	93.603	Unknown			2,396
Total Department of Health and Human Services					<u>\$ 775,219</u>
DEPARTMENT OF JUSTICE:					
Pass through payments from:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Unknown			\$ 128,037
Total Department of Justice					<u>\$ 128,037</u>
DEPARTMENT OF HOMELAND SECURITY:					
<i>Department of Emergency Management:</i>					
Emergency Management Performance Grants	97.042	158			\$ 7,500
Total Department of Homeland Security					<u>\$ 7,500</u>

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

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 Cluster:			
Highway Planning and Construction	20.205	Unknown	\$ 47,107
Alcohol Open Container Requirements	20.607	Unknown	26,626
<i>National Highway Traffic Safety Administration</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	Unknown	\$ 9,149
National Priority Safety Programs	20.616	Unknown	8,327
Total Highway Safety Cluster:			<u>17,476</u>
Total Department of Transportation			<u>\$ 91,209</u>
EXECUTIVE OFFICE OF THE PRESIDENT:			
Direct payments:			
High Intensity Drug Trafficking Areas Program	95.001	Not applicable	\$ 9,694
Total Executive Office of the President			<u>\$ 9,694</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	\$ 121,665
Total Department of Housing and Urban Development			<u>\$ 121,665</u>
DEPARTMENT OF EDUCATION:			
Pass through payments from:			
<i>Department of Education:</i>			
Career and Technical Education -- Basic Grants to States	84.048	61095	\$ 31,856
Supporting Effective Instruction State Grants	84.367	61480	60,968
English Language Acquisition State Grants	84.365	Unknown	21,621
Rural Education	84.358	43481	28,444
Title I Grants to Local Educational Agencies	84.010	42901	616,919
Twenty-First Century Community Learning Centers	84.287	Unknown	9,712
Student Support and Academic Enrichment Program	84.424	Unknown	30,561
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	73071	\$ 278,020
Special Education - Preschool Grants	84.173	62521	13,325
Total Department of Education			<u>\$ 1,091,426</u>
Total Expenditures of Federal Awards			<u>\$ 3,318,389</u>

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

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, 2019. 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 indentifying number are presented where available.

(3) The City did not elect the 10% de minimus 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, 2019.

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	\$ 5,836,744
Less: Revenue from the Commonwealth	(4,546,196)
Component Unit School Board:	
School Operating Fund-Intergovernmental	15,256,598
Less: Revenue from Local Governments	(3,879,752)
Less: Revenue from the Commonwealth	(9,349,005)
	<u>3,318,389</u>

Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 3,318,389</u>
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City of Galax, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

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 Grants to Local Educational Agencies
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, 2019 (Continued)

Section II - Financial Statement Findings

2019-001

Criteria:	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 City and 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:	During the closing process, the City and 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 City and School Board's current staff has a good understanding of the City and 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, 2018-001, is recurring as 2019-001.