

FINANCIAL STATEMENTS



CITY OF GALAX, VIRGINIA

FISCAL YEAR ENDED
JUNE 30, 2017

CITY OF GALAX, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

Prepared By:
Galax City Finance Department

CITY OF GALAX, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

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INTRODUCTORY SECTION

CITY OF GALAX, VIRGINIA

CITY COUNCIL

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

C. M. Mitchell, Mayor

Margo Crouse
John Garner
Sharon Plichta

CITY SCHOOL BOARD

Dr. James Adams, Vice-Chair
Stewart Merdian

Raymond Kohl, Chair

Helen Kyle
Larry Spangler

CITY SOCIAL SERVICES BOARD

Keith Barker
Dr. Eugenia Larrowe
Dr. Art Pemberton

Theda Early
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	Susan Clark
City Attorney.....	Steve Durbin
Chief of Police	Rick Clark

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2017, 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, 2017, 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.

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 76 and 77-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galax, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* 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 14, 2017, on our consideration of the City of Galax, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Galax, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Cox Associates

Blacksburg, Virginia
November 14, 2017

Basic Financial Statements

City of Galax, Virginia
Statement of Net Position
June 30, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	IDA
ASSETS					
Cash and cash equivalents	\$ 3,446,760	\$ 187,860	\$ 3,634,620	\$ 2,656,951	\$ 79,051
Taxes receivable	447,830	-	447,830	-	-
Accounts receivable	784,662	661,765	1,446,427	9,765	-
Internal balances	123,464	(123,464)	-	-	-
Due from other governmental units	688,756	10,000	698,756	665,855	-
Inventories	-	-	-	31,776	-
Loans receivable	108,250	-	108,250	-	-
Prepaid items	124,109	20,260	144,369	107,326	-
Restricted assets:					
Cash and cash equivalents	89,548	69,374	158,922	325,998	-
Capital assets (net of accumulated depreciation):					
Land	2,051,349	149,374	2,200,723	439,368	-
Buildings and improvements	12,470,625	1,234,758	13,705,383	4,037,182	-
Machinery and equipment	1,421,295	249,516	1,670,811	555,547	-
Infrastructure	3,338,768	2,561,931	5,900,699	-	-
Construction in progress	62,566	581,526	644,092	353,104	-
Total assets	\$ 25,157,982	\$ 5,602,900	\$ 30,760,882	\$ 9,182,872	\$ 79,051
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	\$ 37,994	\$ -	\$ 37,994	\$ -	\$ -
Pension contributions subsequent to measurement date	331,038	88,924	419,962	1,075,346	-
Items related to measurement of net pension liability	413,824	100,982	514,806	854,105	-
Total deferred outflows of resources	\$ 782,856	\$ 189,906	\$ 972,762	\$ 1,929,451	\$ -
LIABILITIES					
Accounts payable	\$ 190,281	\$ 50,833	\$ 241,114	\$ 396,519	\$ -
Wages and withholdings payable	282,693	59,004	341,697	-	-
Due to other governments	560,000	-	560,000	860,839	-
Customers' deposits	-	69,374	69,374	-	-
Accrued interest payable	22,312	540	22,852	-	-
Long-term liabilities:					
Due within one year	756,018	689,963	1,445,981	132,412	-
Due in more than one year	10,802,430	1,877,591	12,680,021	13,561,701	-
Total liabilities	\$ 12,613,734	\$ 2,747,305	\$ 15,361,039	\$ 14,951,471	\$ -
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	\$ 9,719	\$ -	\$ 9,719	\$ -	\$ -
Items related to measurement of net pension liability	362,398	100,592	462,990	524,239	-
Total deferred inflows of resources	\$ 372,117	\$ 100,592	\$ 472,709	\$ 524,239	\$ -
NET POSITION					
Net investment in capital assets	\$ 11,473,326	\$ 2,937,115	\$ 14,410,441	\$ 5,385,201	\$ -
Restricted					
Anthem stock proceeds	26,881	-	26,881	-	-
Blue Ridge Post book fund	14,525	-	14,525	-	-
Revolving housing loans program	28,436	-	28,436	-	-
Small business loans program	19,706	-	19,706	-	-
Cafeteria operations	-	-	-	325,998	-
Unrestricted	1,392,113	7,794	1,399,907	(10,074,586)	79,051
Total net position	\$ 12,954,987	\$ 2,944,909	\$ 15,899,896	\$ (4,363,387)	\$ 79,051

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, 2017

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	Total	School Board	IDA
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,654,893	\$ 21,317	\$ 93,082	\$ -	\$ (1,540,494)	\$ -	\$ -	\$ -
Judicial administration	637,709	124,835	-	-	(512,874)	(512,874)	-	-
Public safety	2,806,546	46,368	517,101	(2,216,077)	-	(2,216,077)	-	-
Public works	3,438,660	395,527	1,897,931	(228,660)	-	(228,660)	-	-
Health and welfare	1,770,223	-	1,338,351	(431,872)	-	(431,872)	-	-
Education	4,243,256	-	-	(4,243,256)	-	(4,243,256)	-	-
Parks, recreation, and cultural	2,122,046	327,459	5,000	(1,789,587)	-	(1,789,587)	-	-
Community development	544,237	-	10,335	(344,521)	-	(344,521)	-	-
Interest on long-term debt	267,120	-	-	(267,120)	-	(267,120)	-	-
Total governmental activities	\$ 17,484,690	\$ 915,506	\$ 3,861,800	\$ (11,574,461)	\$ -	\$ (11,574,461)	\$ -	\$ -
Business-type activities:								
Water and sewer	\$ 2,590,357	\$ 2,555,961	\$ -	\$ -	\$ 7,504	\$ 7,504	\$ -	\$ -
Stormwater	24,152	118,991	-	-	94,839	94,839	-	-
Total business-type activities	\$ 2,614,509	\$ 2,674,952	\$ -	\$ -	\$ 102,343	\$ 102,343	\$ -	\$ -
Total primary government	\$ 20,099,199	\$ 3,590,458	\$ 3,861,800	\$ (11,574,461)	\$ 102,343	\$ (11,472,118)	\$ -	\$ -
COMPONENT UNITS:								
School Board	\$ 14,649,694	\$ 322,555	\$ 10,664,635	\$ -	\$ -	\$ -	\$ (3,662,504)	\$ -
Industrial Development Authority	401	18	-	-	-	-	-	(383)
Total component units	\$ 14,650,095	\$ 322,573	\$ 10,664,635	\$ -	\$ -	\$ -	\$ (3,662,504)	\$ (383)
General revenues:								
General property taxes				\$ 5,320,011	\$ -	\$ 5,320,011	\$ -	\$ -
Other local taxes:								
Local sales and use taxes				2,210,086	-	2,210,086	-	-
Consumers' utility taxes				179,709	-	179,709	-	-
Business license taxes				1,036,478	-	1,036,478	-	-
Motor vehicle taxes				90,779	-	90,779	-	-
Restaurant food taxes				2,112,273	-	2,112,273	-	-
Lodging taxes				161,289	-	161,289	-	-
Bank stock taxes				155,171	-	155,171	-	-
Other local taxes				70,240	-	70,240	-	-
Unrestricted revenues from the use of money and property				39,050	110	39,160	210	-
Miscellaneous				114,616	-	114,616	52,833	-
Grants and contributions not restricted to specific programs				500,048	-	500,048	3,971,823	-
Transfers				(15,416)	15,416	-	-	-
Total general revenues and transfers:				\$ 11,974,334	\$ 15,526	\$ 11,989,860	\$ 4,024,866	\$ -
Change in net position				\$ 399,873	\$ 117,869	\$ 517,742	\$ 362,362	\$ (383)
Net position - beginning				12,555,114	2,827,040	15,382,154	(4,725,749)	79,434
Net position - ending				\$ 12,954,987	\$ 2,944,909	\$ 15,899,896	\$ (4,363,387)	\$ 79,051

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

City of Galax, Virginia
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 3,536,308
Receivables (net of allowance for uncollectibles):	
Taxes receivable	447,830
Accounts receivable	784,662
Due from other funds	123,464
Due from other governmental units	688,756
Loan receivable	108,250
Prepaid items	124,109
Total assets	<u>\$ 5,813,379</u>
LIABILITIES	
Accounts payable	\$ 190,281
Wages and withholdings payable	282,693
Due to other governments	560,000
Total liabilities	<u>\$ 1,032,974</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 422,443
Unavailable revenue - meals tax	41,574
Property taxes paid in advance	9,719
Total deferred inflows of resources	<u>\$ 473,736</u>
Fund balance:	
Nonspendable	
Prepaid items	\$ 124,109
Loans receivable	108,250
Restricted	1,289,548
Committed	54,781
Unassigned	2,729,981
Total fund balances	<u>\$ 4,306,669</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 5,813,379</u></u>

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

City of Galax, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2017

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	4,306,669
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	2,051,349	
Buildings and improvements		12,470,625	
Infrastructure		3,338,768	
Machinery and equipment		1,421,295	
Construction in progress		<u>62,566</u>	19,344,603

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			464,017
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Pension contributions subsequent to the measurement date will be a reduction to

the net pension liability in the next fiscal year and, therefore, are not reported in the funds.

331,038

Items related to measurement of the net pension liability are considered deferred outflows or deferred inflows and will be amortized and recognized in pension expense over future years.

Deferred outflows of resources	\$	413,824	
Deferred inflows of resources		<u>(362,398)</u>	51,426

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

Bonds, loan, and capital lease	\$	(7,909,271)	
Less: Unamortized charge on advance refunding		37,994	
Accrued interest payable		(22,312)	
Accrued landfill closure/postclosure monitoring liability		(717,668)	
Compensated absences		(360,354)	
Net OPEB obligation		(243,713)	
Net pension liability		<u>(2,327,442)</u>	(11,542,766)

Net position of governmental activities

\$ 12,954,987

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, 2017

	<u>General</u>
REVENUES	
General property taxes	\$ 5,099,456
Other local taxes	6,010,288
Permits, privilege fees, and regulatory licenses	18,839
Fines and forfeitures	124,835
Revenue from the use of money and property	39,050
Charges for services	771,832
Miscellaneous	114,616
Recovered costs	163,680
Intergovernmental	5,494,771
Total revenues	<u>\$ 17,837,367</u>
EXPENDITURES	
Current:	
General government administration	\$ 1,434,109
Judicial administration	637,709
Public safety	3,024,857
Public works	2,485,242
Health and welfare	1,782,364
Education	3,985,803
Parks, recreation, and cultural	1,868,942
Community development	556,537
Nondepartmental	98,195
Capital projects	960,284
Debt service:	
Principal retirement	560,123
Bond issuance cost	102,964
Interest and other fiscal charges	228,627
Total expenditures	<u>\$ 17,725,756</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 111,611</u>
OTHER FINANCING SOURCES (USES)	
Debt service - current refunding - principal	\$ (4,414,000)
Issuance of general obligation bond and capital lease	1,383,725
Issuance of refunding bond	4,553,000
Total other financing sources (uses)	<u>\$ 1,522,725</u>
Net change in fund balances	\$ 1,634,336
Fund balances - beginning	<u>2,672,333</u>
Fund balances - ending	<u><u>\$ 4,306,669</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, 2017

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

Net change in fund balances - total governmental funds \$ 1,634,336

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 depreciation expense exceeded the capital outlays in the current period.

Capital outlays	\$ 412,087	
Depreciation expense	(980,768)	(568,681)

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

Disposal of assets	\$ (26,426)	
Transfer of assets (net) to business-type activities	(15,416)	(41,842)

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

Property taxes	\$ 220,555	
Meals tax	5,737	
Change in deferred inflows related to the measurement of the net pension liability	38,417	264,709

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

Debt issued or incurred:		
Issuance of general obligation bond	\$ (1,220,000)	
Issuance of refunding bond	(4,553,000)	
Issuance of capital lease	(163,725)	
Change in accrued landfill closure/postclosure liability	(9,210)	
Principal repayments:		
Current refunding of debt	4,414,000	
General obligation bonds	513,601	
Capital lease	46,522	\$ (971,812)

Pension contribution subsequent to the measurement date will be a decrease in the net pension liability in the next fiscal year and therefore, are not reported in the funds.

104,929

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	\$ 27,926	
Change in accrued interest payable	66,773	
Amortization of deferred charge on refunding	(2,302)	
Change in net OPEB obligation	(26,473)	
Change in net pension liability	(292,563)	
Change in deferred outflows related to the measurement of the net pension liability	204,873	(21,766)

Change in net position of governmental activities	\$ 399,873	
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The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2017

	Enterprise Fund		
	Water and Sewer	Stormwater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 98,823	\$ 89,037	\$ 187,860
Accounts receivable (net of allowance for uncollectibles)	661,396	369	661,765
Due from other governmental units	5,000	5,000	10,000
Prepaid items	20,011	249	20,260
Total current assets	<u>\$ 785,230</u>	<u>\$ 94,655</u>	<u>\$ 879,885</u>
Noncurrent assets:			
Restricted cash and cash equivalents	\$ 69,374	\$ -	\$ 69,374
Capital assets:			
Land	149,374	-	149,374
Utility plant in service	18,070,124	-	18,070,124
Machinery and equipment	805,496	-	805,496
Buildings and improvements	1,823,395	-	1,823,395
Construction in progress	581,526	-	581,526
Accumulated depreciation	(16,652,810)	-	(16,652,810)
Total net capital assets	<u>\$ 4,777,105</u>	<u>\$ -</u>	<u>\$ 4,777,105</u>
Total noncurrent assets	<u>\$ 4,846,479</u>	<u>\$ -</u>	<u>\$ 4,846,479</u>
Total assets	<u>\$ 5,631,709</u>	<u>\$ 94,655</u>	<u>\$ 5,726,364</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 87,516	\$ 1,408	\$ 88,924
Items related to measurement of net pension liability	100,982	-	100,982
Total deferred outflows of resources	<u>\$ 188,498</u>	<u>\$ 1,408</u>	<u>\$ 189,906</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 34,843	\$ -	\$ 34,843
Construction payable	15,990	-	15,990
Accrued payroll and related liabilities	57,890	1,114	59,004
Due to other funds	123,464	-	123,464
Customers' deposits	69,374	-	69,374
Accrued interest payable	540	-	540
Compensated absences - current portion	68,463	-	68,463
Bond payable - current portion	92,500	-	92,500
Note payable - current portion	529,000	-	529,000
Total current liabilities	<u>\$ 992,064</u>	<u>\$ 1,114</u>	<u>\$ 993,178</u>
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 17,116	\$ -	\$ 17,116
Bond payable - net of current portion	1,202,500	-	1,202,500
Net OPEB obligation	40,673	-	40,673
Net pension liability	617,302	-	617,302
Total noncurrent liabilities	<u>\$ 1,877,591</u>	<u>\$ -</u>	<u>\$ 1,877,591</u>
Total liabilities	<u>\$ 2,869,655</u>	<u>\$ 1,114</u>	<u>\$ 2,870,769</u>
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 100,592	\$ -	\$ 100,592
NET POSITION			
Net investment in capital assets	\$ 2,937,115	\$ -	\$ 2,937,115
Unrestricted	(87,155)	94,949	7,794
Total net position	<u>\$ 2,849,960</u>	<u>\$ 94,949</u>	<u>\$ 2,944,909</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, 2017

	Enterprise Fund		
	<u>Water and Sewer</u>	<u>Stormwater</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Water revenues pledged as security for revenue bonds	\$ 1,211,931	\$ -	\$ 1,211,931
Sewer revenues pledged as security for revenue bonds	1,244,564	-	1,244,564
Stormwater fees	-	113,991	113,991
Tap fees	8,000	-	8,000
Penalties and interest	15,376	-	15,376
Other revenue	76,090	5,000	81,090
Total operating revenues	<u>\$ 2,555,961</u>	<u>\$ 118,991</u>	<u>\$ 2,674,952</u>
OPERATING EXPENSES			
Personnel services	\$ 1,479,864	\$ 24,116	\$ 1,503,980
Utilities and telecommunication	310,048	-	310,048
Materials and supplies	279,308	36	279,344
Repairs and maintenance	223,131	-	223,131
Contractual services	6,923	-	6,923
Depreciation	290,228	-	290,228
Total operating expenses	<u>\$ 2,589,502</u>	<u>\$ 24,152</u>	<u>\$ 2,613,654</u>
Operating income (loss)	<u>\$ (33,541)</u>	<u>\$ 94,839</u>	<u>\$ 61,298</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ -	\$ 110	\$ 110
Interest expense	(855)	-	(855)
Total nonoperating revenues (expenses)	<u>\$ (855)</u>	<u>\$ 110</u>	<u>\$ (745)</u>
Income before contributions and transfers	<u>\$ (34,396)</u>	<u>\$ 94,949</u>	<u>\$ 60,553</u>
Capital contributions and construction grants	41,900	-	41,900
Transfers in (transfer of assets)	15,416	-	15,416
Change in net position	<u>\$ 22,920</u>	<u>\$ 94,949</u>	<u>\$ 117,869</u>
Total net position - beginning	2,827,040	-	2,827,040
Total net position - ending	<u>\$ 2,849,960</u>	<u>\$ 94,949</u>	<u>\$ 2,944,909</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, 2017

	Enterprise Fund		
	Water and Sewer	Stormwater	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,518,582	\$ 113,622	\$ 2,632,204
Payments to suppliers	(844,413)	(285)	(844,698)
Payments to employees	(1,503,546)	(24,410)	(1,527,956)
Net cash provided by (used for) operating activities	\$ 170,623	\$ 88,927	\$ 259,550
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (556,310)	\$ -	\$ (556,310)
Principal payments on bond payable	(92,500)	-	(92,500)
Contributions in aid of construction	46,900	-	46,900
Proceeds from indebtedness	529,000	-	529,000
Interest expense	(315)	-	(315)
Net cash provided by (used for) capital and related financing activities	\$ (73,225)	\$ -	\$ (73,225)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ -	\$ 110	\$ 110
Net cash provided by (used for) investing activities	\$ -	\$ 110	\$ 110
Net increase (decrease) in cash and cash equivalents	\$ 97,398	\$ 89,037	\$ 186,435
Cash and cash equivalents - beginning (including restricted of \$70,799)	70,799	-	70,799
Cash and cash equivalents - ending (including restricted of \$69,374)	\$ 168,197	\$ 89,037	\$ 257,234
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (33,541)	\$ 94,839	\$ 61,298
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 290,228	\$ -	\$ 290,228
(Increase) decrease in accounts receivable	(35,954)	(5,369)	(41,323)
(Increase) decrease in prepaid items	(20,011)	(249)	(20,260)
(Increase) decrease in deferred outflows of resources	(73,108)	(1,408)	(74,516)
Increase (decrease) in deferred inflows of resources	(8,549)	-	(8,549)
Increase (decrease) in customer deposits	(1,425)	-	(1,425)
Increase (decrease) in accrued payroll and related liabilities	1,548	1,114	2,662
Increase (decrease) in accounts payable	(4,992)	-	(4,992)
Increase (decrease) in compensated absences	(11,091)	-	(11,091)
Increase (decrease) in net OPEB obligation	4,309	-	4,309
Increase (decrease) in net pension liability	63,209	-	63,209
Total adjustments	\$ 204,164	\$ (5,912)	\$ 198,252
Net cash provided by (used for) operating activities	\$ 170,623	\$ 88,927	\$ 259,550
Schedule of non-cash capital activities			
Contribution of capital assets (at net book value) from the General Fund	\$ 15,416	\$ -	\$ 15,416

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, 2017

Agency Funds

Special
Welfare

ASSETS

Cash and cash equivalents	\$ 24,909
Total assets	<u>\$ 24,909</u>

LIABILITIES

Amounts held for social services clients	\$ 24,909
Total liabilities	<u>\$ 24,909</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, 2017

Note 1-Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

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

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

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

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

A. Financial Reporting Entity (Continued)

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

The City and the County of Grayson participate in supporting the Galax-Grayson Ambulance Service. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The organization's activities are primarily supported by user charges; however the City provided a contribution of \$126,328 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 \$110,771 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 \$43,560 to the Commission. The City has also entered into an agreement with The Twin County Airport Commission to be responsible for a one-third share of their debt service for hangar construction. The commitment could be reduced based on potential revenue from hangar rentals.

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

A. Financial Reporting Entity (Continued)

Blue Ridge Crossroads Economic Development Authority (BRCEDA) is the regional industrial facilities authority that represents the City and the Counties of Carroll and Grayson. Each jurisdiction appoints two members and an alternate member. A moral obligation for debt service is currently in place for a regional project known as Wildwood. Contributions to BRCEDA during the current year were \$161,147. It is the hope of BRCEDA that this park project will be a catalyst for economic development in the region.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

The government reports the following major governmental fund:

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

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

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

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

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

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

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

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

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

1. Cash and cash equivalents

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

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

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

2. Prepaid items

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

3. Receivables and payables

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

4. Inventories

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

5. Capital assets

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

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

5. Capital assets (Continued)

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

Assets	Years	Years
Infrastructure	20-50	20-50
Buildings and improvements	20-40	20-50
Machinery and equipment	4-15	20-40
		4-15

6. Restricted Assets

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

7. Investments

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

8. Deferred Outflows/Inflows of Resources

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

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

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

8. Deferred Outflows/Inflows of Resources (Continued)

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

9. Property Taxes

Property is assessed at its value on January 1. Real estate taxes are payable on December 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 \$507,406 at June 30, 2017. The allowance consists of delinquent taxes in the amount of \$419,891; delinquent meals tax of \$44,449; and delinquent water, sewer, and garbage bills of \$43,066.

11. Use of Estimates

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

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

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

12. Compensated Absences

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

13. Pensions

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

14. Long-term obligations

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

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

15. Fund equity

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

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

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

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

15. Fund equity (Continued)

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

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

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

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

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

16. Net Position

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

17. Net position flow assumption

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

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

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

A. Excess of expenditures over appropriations

Expenditures for the School Board exceeded appropriations.

B. Deficit fund equity

At June 30, 2017, there were no funds with negative equity.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 3-Deposits and Investments:

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

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

Interest Rate Risk

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

Investment Maturities (in years)			
Investment Type	Fair Value	1 Year	1-5 Years
Local Government Investment Pool	\$ 12,578	\$ 12,578	\$ -
Totals	\$ 12,578	\$ 12,578	\$ -

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 3-Deposits and Investments: (Continued)Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
LGIP	\$ 12,578

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
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Due from other local government agencies	\$ -	\$ 10,000	\$ -
Commonwealth of Virginia:			
Local sales tax	389,868	-	-
Categorical aid-State sales tax	-	-	216,938
Categorical aid-Shared expenses	4,902	-	-
Categorical aid-Other	-	-	128,000
Non-categorical aid	56,609	-	-
Categorical aid-Virginia Public Assistance	35,570	-	-
Categorical aid-Comprehensive Services Act	47,217	-	-
Federal Government:			
Categorical aid-Virginia Public Assistance	55,208	-	-
Categorical aid-Other	99,382	-	320,917
Totals	<u>\$ 688,756</u>	<u>\$ 10,000</u>	<u>\$ 665,855</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 5-Component-Unit Contribution and Obligations:

Primary government contributions to component units for the year ended June 30, 2017, consisted of payments to School Board of \$3,971,823.

Note 6-Interfund Transfers and Balance:

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization. During the fiscal year, the City (Governmental type activities) transferred an asset with a net book value of \$15,416 to the Water and Sewer Fund.

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 123,464	\$ -
Water and Sewer Fund	-	123,464
Total	<u>\$ 123,464</u>	<u>\$ 123,464</u>

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

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, 2017.

	<u>Balance July 1, 2016</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2017</u>
General Obligation Bonds	\$ 3,172,250	\$ 5,773,000	\$ (1,546,500)	\$ 7,398,750
Literary Fund Loans	3,774,419	-	(3,381,101)	393,318
Capital lease	-	163,725	(46,522)	117,203
Landfill closure/postclosure liability	708,458	9,210	-	717,668
Compensated absences	388,280	282,698	(310,624)	360,354
Net OPEB obligation	217,240	30,888	(4,415)	243,713
Net pension liability	2,034,879	1,611,583	(1,319,020)	2,327,442
Total	<u>\$ 10,295,526</u>	<u>\$ 7,871,104</u>	<u>\$ (6,608,182)</u>	<u>\$ 11,558,448</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, 2017

Note 7-Long-Term Obligations: (Continued)

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

Year Ending June 30,	General Obligation Bonds		Literary Fund Loans	
	Principal	Interest	Principal	Interest
2018	\$ 314,000	\$ 160,374	\$ 131,101	\$ 11,800
2019	287,750	190,375	131,101	7,867
2020	297,500	184,391	131,116	3,933
2021	440,500	176,177	-	-
2022	444,500	165,047	-	-
2023-2027	1,820,500	671,814	-	-
2028-2032	2,001,000	407,106	-	-
2033-2037	1,793,000	128,829	-	-
Totals	<u>\$ 7,398,750</u>	<u>\$ 2,084,113</u>	<u>\$ 393,318</u>	<u>\$ 23,600</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 7-Long-Term Obligations: (Continued)Primary Government - Governmental Activities Obligations: (Continued)

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 1,625,750	\$ 135,000
2017 A GO Bond	1.83%	June-17	2022	509,000	509,000	100,000
2017 B GO Bond	2.55%	June-17	2032	711,000	711,000	43,000
2018 C Refunding Bond	2.98%	June-17	2037	4,553,000	4,553,000	36,000
Total General Obligation Bonds					<u>\$ 7,398,750</u>	<u>\$ 314,000</u>
Literary Fund Loan:						
State Literacy Loan	3.00%	April-98	2019	2,622,035	\$ 393,318	\$ 131,101
Total Literary Fund Loan					<u>\$ 393,318</u>	<u>\$ 131,101</u>
Other Obligations:						
Capital lease	n/a	n/a	n/a	n/a	\$ 117,203	\$ 22,634
Landfill closure/post-closure liability	n/a	n/a	n/a	n/a	717,668	-
Compensated Absences	n/a	n/a	n/a	n/a	360,354	288,283
Net OPEB Obligation	n/a	n/a	n/a	n/a	243,713	-
Net Pension Liability	n/a	n/a	n/a	n/a	2,327,442	-
Total Other Obligations					<u>\$ 3,766,380</u>	<u>\$ 310,917</u>
Total Long-term obligations					<u>\$ 11,558,448</u>	<u>\$ 756,018</u>

The City issued a general obligation refunding bond in the amount of \$4,553,000 with an interest rate of 2.98%. The City used \$4,472,803 of proceeds from same for a current refunding of a State Literacy Loan and a General Obligation Bond that carried interest rates of 2.00% and 3.25%, respectively. The remaining proceeds were used to cover issuance costs related to the bond. The purpose of the refinancing was to reduce annual cash flow requirements for debt service and not to achieve a savings from refinancing. Accordingly, the refinancing increased debt service payments over the next twenty year period by \$921,608 and resulted in a net present value loss (discounted at 2.98%) of \$214,361.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2017.

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
Revenue bonds	\$ 1,387,500	\$ -	\$ (92,500)	\$ 1,295,000
Note payable	-	529,000	-	529,000
Compensated absences	96,670	66,245	(77,336)	85,579
Net OPEB obligation	36,364	5,026	(717)	40,673
Net pension liability	554,093	418,445	(355,236)	617,302
Total	<u>\$ 2,074,627</u>	<u>\$ 1,018,716</u>	<u>\$ (525,789)</u>	<u>\$ 2,567,554</u>

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

Year Ending June 30,	Revenue Bond		Note payable	
	Principal	Interest	Principal	Interest
2018	\$ 92,500	\$ -	\$ 529,000	\$ 5,510
2019	92,500	-	-	-
2020	92,500	-	-	-
2021	92,500	-	-	-
2022	92,500	-	-	-
2023-2027	462,500	-	-	-
2028-2031	370,000	-	-	-
Totals	<u>\$ 1,295,000</u>	<u>\$ -</u>	<u>\$ 529,000</u>	<u>\$ 5,510</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 7-Long-Term Obligations: (Continued)Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bond:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 1,295,000	\$ 92,500
Note payable	1.25%	Jul-16	2018	600,000	529,000	529,000
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	85,579	68,463
Net OPEB Obligation	n/a	n/a	n/a	n/a	40,673	-
Net Pension Liability	n/a	n/a	n/a	n/a	617,302	-
Total Other Obligations					<u>\$ 743,554</u>	<u>\$ 68,463</u>
Total Long-term obligations					<u>\$ 2,567,554</u>	<u>\$ 689,963</u>

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, 2017.

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Net OPEB obligation	\$ 264,644	\$ 52,498	\$ (19,443)	\$ 297,699
Compensated absences	173,555	130,804	(138,844)	165,515
Net pension liability	11,900,526	3,000,837	(1,670,464)	13,230,899
Total	<u>\$ 12,338,725</u>	<u>\$ 3,184,139</u>	<u>\$ (1,828,751)</u>	<u>\$ 13,694,113</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 8-Long-Term Obligations-Component Units: (Continued)Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Net OPEB Obligation	n/a	n/a	n/a	n/a	\$ 297,699	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	165,515	132,412
Net Pension Liability	n/a	n/a	n/a	n/a	13,230,899	-
Total long-term obligations					<u>\$ 13,694,113</u>	<u>\$ 132,412</u>

Note 9-Capital Lease:

The City has entered into a capital lease for the purchase of a garbage truck. This lease agreement qualifies as a capital lease 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>(7,036)</u>
Net Book Value of Capital Asset	<u>\$ 133,689</u>

Present value of future minimum lease payments:

Year Ending June 30,	Capital Leases
2018	\$ 24,685
2019	24,685
2020	24,685
2021	24,685
2022	<u>24,687</u>
Total minimum lease payments	\$ 123,427
Less: amount representing interest	<u>(6,224)</u>
Present value of future minimum lease payments	<u>\$ 117,203</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan:*Plan Description*

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

Note 10-Pension Plan: (Continued)**Plan Description (Continued)**

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

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)*Plan Description (Continued)*

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

Note 10-Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2017 was 8.60% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$419,962 and \$550,450 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

At June 30, 2017, the City reported a liability of \$2,944,744 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. 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, 2016 and 2015 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2017 and 2016, the City's proportion was 79.48% and 78.62%, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)***Actuarial Assumptions - General Employees***

The total pension liability for General Employees in the City of Galax Retirement Plan and the Galax City Schools Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Note 10-Pension Plan: (Continued)***Actuarial Assumptions - General Employees (Continued)***

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

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

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

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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the City of Galax Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

Note 10-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)***Long-Term Expected Rate of Return***

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

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

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

Note 10-Pension Plan: (Continued)*Discount Rate*

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the City Retirement Plan Net Pension Liability	5,696,430	2,944,744	649,419

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2017, the City recognized pension expense of \$339,896. 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, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 458,675
Change in proportionate share	27,122	4,315
Net difference between projected and actual earnings on pension plan investments	487,684	-
Employer contributions subsequent to the measurement date	419,962	-
Total	\$ 934,768	\$ 462,990

\$419,962 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government
2018	\$ (125,374)
2019	(125,373)
2020	150,970
2021	151,593
Thereafter	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)Component Unit School Board (nonprofessional)*Plan Description*

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

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Component Unit School Board Nonprofessional</u>
Inactive members or their beneficiaries currently receiving benefits	19
Inactive members:	
Vested inactive members	1
Non-vested inactive members	3
Inactive members active elsewhere in VRS	<u>4</u>
Total inactive members	8
Active members	<u>29</u>
Total covered employees	<u><u>56</u></u>

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Note 10-Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 8.88% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the political subdivision's plan was 7.39%.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$42,610 and \$51,508 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017Note 10-Pension Plan: (Continued)Component Unit School Board (nonprofessional) (Continued)*Changes in Net Pension Liability*

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 2,144,738	\$ 1,846,212	\$ 298,526
Changes for the year:			
Service cost	\$ 54,408	\$ -	\$ 54,408
Interest	147,275	-	147,275
Differences between expected and actual experience	(38,600)	-	(38,600)
Contributions - employer	-	51,508	(51,508)
Contributions - employee	-	24,595	(24,595)
Net investment income	-	32,761	(32,761)
Benefit payments, including refunds of employee contributions	(81,606)	(81,606)	-
Administrative expenses	-	(1,140)	1,140
Other changes	-	(14)	14
Net changes	\$ 81,477	\$ 26,104	\$ 55,373
Balances at June 30, 2016	\$ 2,226,215	\$ 1,872,316	\$ 353,899

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Component Unit School Board (nonprofessional)			
Net Pension Liability	605,796	353,899	139,277

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 10-Pension Plan: (Continued)**Component Unit School Board (nonprofessional) (Continued)*****Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2017, the Component Unit School Board (nonprofessional) recognized pension expense of \$17,165. At June 30, 2017, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 75,239
Net difference between projected and actual earnings on pension plan investments	48,105	-
Employer contributions subsequent to the measurement date	42,610	-
Total	\$ 90,715	\$ 75,239

\$42,610 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Component Unit School Board (nonprofessional)
2018	\$ (32,075)
2019	(32,074)
2020	17,766
2021	19,249
Thereafter	-

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional)

Plan Description

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

Contributions

Each School Division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$1,032,736 and \$977,000 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$12,877,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was 0.09189% as compared to 0.09218% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of \$1,122,000. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017Note 10-Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

At June 30, 2017, 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	\$ -	\$ 417,000
Net difference between projected and actual earnings on pension plan investments	736,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	70,000	32,000
Employer contributions subsequent to the measurement date	1,032,736	-
Total	\$ 1,838,736	\$ 449,000

\$1,032,736 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. 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)
2018	\$ (71,000)
2019	(71,000)
2020	330,000
2021	201,000
Thereafter	(32,000)

Note 10-Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Actuarial Assumptions*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Note 10-Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Long-Term Expected Rate of Return*

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

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

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

Note 10-Pension Plan: (Continued)**Component Unit School Board (professional)** (Continued)**Net Pension Liability**

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

		<u>Teacher Employee Retirement Plan</u>
Total Pension Liability	\$	44,182,326
Plan Fiduciary Net Position		30,168,211
Employers' Net Pension Liability (Asset)	\$	<u>14,014,115</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		68.28%

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

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

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

	<u>Rate</u>		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	18,357,000	12,877,000	8,363,000

Note 10-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11-Other Postemployment Benefits - City Health Insurance:

A. Plan Description

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

B. Funding Policy

The City currently pays for post-retirement health care benefits on a pay-as-you-go basis. The City currently has 141 active employees that are eligible for the program. In addition, for retirees of the City, 100 percent of premiums are the responsibility of the retiree. The rates (monthly premiums) were as follows at July 1, 2016:

<u>Participants</u>	<u>Single</u>	<u>Employee/Spouse</u>
Employee	\$ 661	\$ 1,224

C. Annual OPEB Cost and Net OPEB Obligation

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

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

For 2017, the City's annual OPEB cost (expense) was \$35,914 and the ARC was \$36,125. The obligation calculation is as follows:

Annual required contribution	\$ 36,125
Interest on net OPEB obligation	10,144
Adjustment to annual required contribution	(10,355)
Annual OPEB cost (expense)	<u>\$ 35,914</u>
Contributions made	5,132
Increase in net OPEB obligation	<u>\$ 30,782</u>
Net OPEB obligation - beginning of year	253,604
Net OPEB obligation - ending of year	<u>\$ 284,386</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 35,914	14%	\$ 284,386
6/30/2016	47,815	13%	253,604
6/30/2015	47,848	14%	212,105

D. Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2016 (the most recent valuation date), was as follows:

Actuarial accrued liability (AAL)	\$ 326,914
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 326,914
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,519,852
UAAL as a percentage of covered payroll	5.92%

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

D. Funded Status and Funding Progress (Continued)

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

E. Actuarial methods and Assumptions

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

In the July 1, 2016, most recent actuarial valuation, the unit credit cost method was used. Under this method, stable employer contributions are produced in amounts that increase at the same rate as the employer's payroll. The actuarial assumptions included: discount rate at 4%, salary increases (inflation) of 2.5%/year and medical trend rate at 6.5%/year. The UAAL is being amortized as a level percentage over the remaining amortization period, which at July 1, 2016, was 30 years.

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

A. Plan Description

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

B. Funding Policy

The School Board currently pays for post-retirement health care benefits on a pay-as-you-go basis. The School Board currently has 166 employees that are eligible for the program. In addition, for retirees of the School Board, 100 percent of premiums are the responsibility of the retiree. The rates (monthly premiums) were as follows at July 1, 2016:

Participants	Single	Employee/Spouse
Employee	\$ 715	\$ 1,323

C. Annual OPEB Cost and Net OPEB Obligation

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

For 2017, the School Board's annual OPEB cost (expense) was \$52,498 and the ARC was \$52,716. The obligation calculation is as follows:

Annual required contribution	\$ 52,716
Interest on net OPEB obligation	10,586
Adjustment to annual required contribution	(10,804)
Annual OPEB cost (expense)	\$ 52,498
Contributions made	19,443
Increase in net OPEB obligation	\$ 33,055
Net OPEB obligation - beginning of year	264,644
Net OPEB obligation - ending of year	\$ 297,699

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 52,498	37%	\$ 297,699
6/30/2016	64,490	29%	264,644
6/30/2015	64,528	29%	218,874

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

D. Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2016 (the most recent valuation date), was as follows:

Actuarial accrued liability (AAL)	\$	458,048
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability (UAAL)	\$	458,048
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	\$	6,715,390
UAAL as a percentage of covered payroll		6.82%

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

E. Actuarial methods and Assumptions

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

In the July 1, 2016, most recent actuarial valuation, the unit credit cost method was used. Under this method, stable employer contributions are produced in amounts that increase at the same rate as the employer's payroll. The actuarial assumptions included: discount rate at 4%, salary increases (inflation) of 2.5%/year and a medical trend rate at 6.5%/year. Mortality rates are based on the 1994 GAM. The UAAL is being amortized as a level percentage over the remaining amortization period, which at July 1, 2016, was 30 years.

Note 13-Other Post-Employment Benefits - VRS Health Insurance Credit:

Professional Employees - Discretely Presented Component Unit School Board:

A. Plan Description

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

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

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2017, 2016, and 2015 were \$78,736, \$74,267, and \$72,649, respectively, and equaled the required contributions.

Note 14-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.

Primary Government:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$422,443 at June 30, 2017.

Unavailable Meals Tax Revenue - Unavailable revenue representing uncollected meals tax not available for funding of current expenditures totaled \$41,574 at June 30, 2017.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2017 but paid in advance by the taxpayers totaled \$9,719. Property taxes paid on advance of an enforceable legal claim by the City are considered deferred inflows under the full and modified accrual basis of accounting and are treated accordingly in the statement of net position and balance sheet.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**Note 15-Capital Assets:**

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,051,349	\$ -	\$ -	\$ 2,051,349
Construction in progress	3,500	62,566	(3,500)	62,566
Total capital assets not being depreciated	<u>\$ 2,054,849</u>	<u>\$ 62,566</u>	<u>\$ (3,500)</u>	<u>\$ 2,113,915</u>
Capital assets, being depreciated:				
Infrastructure	\$ 4,142,103	\$ 3,935	\$ (26,840)	\$ 4,119,198
Buildings and improvements	19,262,192	13,380	-	19,275,572
Machinery and equipment	5,007,317	332,206	(81,720)	5,257,803
Total capital assets being depreciated	<u>\$ 28,411,612</u>	<u>\$ 349,521</u>	<u>\$ (108,560)</u>	<u>\$ 28,652,573</u>
Accumulated depreciation:				
Infrastructure	\$ (190,161)	\$ (594,183)	\$ 3,914	\$ (780,430)
Buildings and improvements	(6,670,792)	(134,155)	-	(6,804,947)
Machinery and equipment	(3,650,382)	(252,430)	66,304	(3,836,508)
Total accumulated depreciation	<u>\$ (10,511,335)</u>	<u>\$ (980,768)</u>	<u>\$ 70,218</u>	<u>\$ (11,421,885)</u>
Total capital assets being depreciated, net	<u>\$ 17,900,277</u>	<u>\$ (631,247)</u>	<u>\$ (38,342)</u>	<u>\$ 17,230,688</u>
Governmental activities capital assets, net	<u><u>\$ 19,955,126</u></u>	<u><u>\$ (568,681)</u></u>	<u><u>\$ (41,842)</u></u>	<u><u>\$ 19,344,603</u></u>

Current year decreases for assets and accumulated depreciation include the transfer of a truck at an original cost of \$27,205 net of accumulated depreciation of \$11,789 to Business-type activities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**Note 15-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	41,126	540,400	-	581,526
Total capital assets not being depreciated	<u>\$ 190,500</u>	<u>\$ 540,400</u>	<u>\$ -</u>	<u>\$ 730,900</u>
Capital assets, being depreciated:				
Infrastructure	\$ 18,038,224	\$ 31,900	\$ -	\$ 18,070,124
Building and improvements	1,823,395	-	-	1,823,395
Machinery and equipment	778,291	27,205	-	805,496
Total capital assets being depreciated	<u>\$ 20,639,910</u>	<u>\$ 59,105</u>	<u>\$ -</u>	<u>\$ 20,699,015</u>
Accumulated depreciation:				
Infrastructure	\$ (15,344,561)	\$ (163,632)	\$ -	\$ (15,508,193)
Building and improvements	(500,072)	(88,565)	-	(588,637)
Machinery and equipment	(506,160)	(49,820)	-	(555,980)
Total accumulated depreciation	<u>\$ (16,350,793)</u>	<u>\$ (302,017)</u>	<u>\$ -</u>	<u>\$ (16,652,810)</u>
Total capital assets being depreciated, net	<u>\$ 4,289,117</u>	<u>\$ (242,912)</u>	<u>\$ -</u>	<u>\$ 4,046,205</u>
Business-type activities capital assets, net	<u><u>\$ 4,479,617</u></u>	<u><u>\$ 297,488</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,777,105</u></u>

Current year increases for assets and accumulated depreciation include the transfer of a truck at an original cost of \$27,205 net of accumulated depreciation of \$11,789 from Governmental activities.

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Note 15-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	219,271
Public works	240,502
Health and welfare	815
Education	257,453
Parks, recreation, and culture	<u>247,370</u>

Total depreciation expense-governmental activities	<u><u>\$ 980,768</u></u>
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Business-type activities:

Water and sewer	<u><u>\$ 290,228</u></u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 15-Capital Assets: (Continued)

Capital asset activity for the School Board for the year ended June 30, 2017 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 439,368	\$ -	\$ -	\$ 439,368
Construction in progress	-	353,104	-	353,104
Total capital assets not being depreciated	<u>\$ 439,368</u>	<u>\$ 353,104</u>	<u>\$ -</u>	<u>\$ 792,472</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,018,027	\$ 248,737	\$ -	\$ 9,266,764
Machinery and equipment	1,816,901	129,136	-	1,946,037
Total capital assets being depreciated	<u>\$ 10,834,928</u>	<u>\$ 377,873</u>	<u>\$ -</u>	<u>\$ 11,212,801</u>
Accumulated depreciation:				
Buildings and improvements	\$ (5,022,379)	\$ (207,203)	\$ -	\$ (5,229,582)
Machinery and equipment	(1,305,181)	(85,309)	-	(1,390,490)
Total accumulated depreciation	<u>\$ (6,327,560)</u>	<u>\$ (292,512)</u>	<u>\$ -</u>	<u>\$ (6,620,072)</u>
Total capital assets being depreciated, net	<u>\$ 4,507,368</u>	<u>\$ 85,361</u>	<u>\$ -</u>	<u>\$ 4,592,729</u>
School Board capital assets, net	<u>\$ 4,946,736</u>	<u>\$ 438,465</u>	<u>\$ -</u>	<u>\$ 5,385,201</u>

Note 16-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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Note 16-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 17-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 18-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 \$717,668. 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, 2017

Note 18-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 19-Commitments and Contingencies:**Construction Commitments**

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

Project	Contract Amount	Contract Amount Outstanding at June 30, 2017
Blue Ridge Crossroads Commerce Park	\$ 4,000	\$ 2,800
VDOT Construction Cranberry Road:1PER	9,000	4,500
VDOT Construction Cranberry Road:2PREL	53,000	26,500
VDOT Construction Cranberry Road:3FINAL	54,000	54,000
VDOT Construction Cranberry Road:4BID	13,000	13,000
VDOT Construction Cranberry Road:5CONA	36,500	36,500
VDOT Construction Cranberry Road:6CLOSE	8,500	8,500
VDOT Construction Cranberry Road:7ADDT	28,000	28,000
VDOT Construction Cranberry Road:8INSP	106,500	106,500
Living Cabin Rebuild	36,000	4,434
WWTP Renovation	1,152,400	612,400
Galax High School Turf	879,000	527,895

Wired Road Authority

During 2009, the Wired Road Authority entered a lease agreement and received a loan in the amount of \$260,000 to complete a broadband infrastructure project. The Authority is responsible for the debt service on the lease. The City has a non-binding commitment to make the debt service payments for the Authority. The balance remaining on the lease at the end of the year is \$59,924. At year end, the City reports an amount of \$31,658 for the reimbursement of amounts paid by the City on the Authority's behalf.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**Note 19-Commitments and Contingencies: (Continued)**Shared Service Fees

The City shares services with Carroll County and Grayson County for costs incurred for the localities courts and sheriff offices. Due to the nature of these services the final amount due to each County is not known until after the financial statement audit has been completed. It is management's policy to record a liability and expenditure during the current period that is equal to the amount paid during the prior year to account for unbilled shared service fees. Any difference caused during the true-up after year end is recorded in the year the bill is paid. During the current year, the shared service liability due to Carroll County and Grayson County is estimated at \$560,000. The true-up amount recorded during the current year for 2016 actual cost was \$32,666.

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 20-Restricted and Committed Funds and Restricted Net Position:

	General Government	Component Unit School Fund
Governmental Activities:		
Restricted:		
Anthem stock proceeds	\$ 26,881	\$ -
Blue Ridge Post book fund	14,525	-
Revolving housing loans program	28,436	-
Small business loans program	19,706	-
Cafeteria funds	-	325,998
Total restricted balances	\$ 89,548	\$ 325,998
Governmental Funds:		
Restricted funds above	\$ 89,548	\$ -
Restricted debt proceeds	1,200,000	-
Total restricted balances	\$ 1,289,548	\$ -
Committed funds:		
Police narcotics	12,889	-
Police DARE	3,258	-
Fire Department grants	38,634	-
Total committed funds	\$ 54,781	\$ -

Note 21-Upcoming Pronouncements:

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

Statement No. 81, Irrevocable Split-Interest Agreements, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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

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

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Note 21-Upcoming Pronouncements: (Continued)

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

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, 2017

	Budgeted Amounts				Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts		
REVENUES					
General property taxes	\$ 5,059,500	\$ 5,059,500	\$ 5,099,456	\$	39,956
Other local taxes	5,882,997	5,882,997	6,010,288		127,291
Permits, privilege fees, and regulatory licenses	19,900	19,900	18,839		(1,061)
Fines and forfeitures	100,500	100,500	124,835		24,335
Revenue from the use of money and property	41,075	41,075	39,050		(2,025)
Charges for services	795,300	795,300	771,832		(23,468)
Miscellaneous	76,650	76,650	114,616		37,966
Recovered costs	208,257	208,257	163,680		(44,577)
Intergovernmental	5,680,934	5,680,934	5,494,771		(186,163)
Total revenues	\$ 17,865,113	\$ 17,865,113	\$ 17,837,367	\$	(27,746)
EXPENDITURES					
Current:					
General government administration	\$ 1,520,952	\$ 1,520,952	\$ 1,434,109	\$	86,843
Judicial administration	645,950	645,950	637,709		8,241
Public safety	3,034,541	3,034,541	3,024,857		9,684
Public works	2,826,219	2,826,219	2,485,242		340,977
Health and welfare	2,037,380	2,037,380	1,782,364		255,016
Education	3,985,803	3,985,803	3,985,803		-
Parks, recreation, and cultural	1,960,307	1,960,307	1,868,942		91,365
Community development	581,529	581,529	556,537		24,992
Nondepartmental	141,373	141,373	98,195		43,178
Capital projects	976,170	976,170	960,284		15,886
Debt service:					
Principal retirement	600,601	600,601	560,123		40,478
Bond issuance costs	102,964	102,964	102,964		-
Interest and other fiscal charges	227,385	227,385	228,627		(1,242)
Total expenditures	\$ 18,641,174	\$ 18,641,174	\$ 17,725,756	\$	915,418
Excess (deficiency) of revenues over (under) expenditures					
	\$ (776,061)	\$ (776,061)	\$ 111,611	\$	887,672
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 312,625	\$ 312,625	\$ -	\$	(312,625)
Debt service - current refunding - principal	(4,414,000)	(4,414,000)	(4,414,000)		-
Issuance of general obligation bond and capital lease	1,383,725	1,383,725	1,383,725		-
Issuance of refunding bonds	4,553,000	4,553,000	4,553,000		-
Total other financing sources (uses)	\$ 1,835,350	\$ 1,835,350	\$ 1,522,725	\$	(312,625)
Net change in fund balances					
	\$ 1,059,289	\$ 1,059,289	\$ 1,634,336	\$	575,047
Fund balances - beginning	-	-	2,672,333		2,672,333
Fund balances - ending	\$ 1,059,289	\$ 1,059,289	\$ 4,306,669	\$	3,247,380

Note 1: GAAP serves as the budgetary basis of accounting

City of Galax, Virginia
Schedule of OPEB Funding
For the Year Ended June 30, 2017

Primary Government:

City Health Care Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2016	\$ -	\$ 326,914	\$ 326,914	0.00%	\$ 5,519,852	5.92%
July 1, 2014	-	428,204	428,204	0.00%	5,216,393	8.21%
July 1, 2012	-	336,490	336,490	0.00%	4,549,428	7.40%

Discretely Presented Component Unit:

School Board Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2016	\$ -	\$ 458,048	\$ 458,048	0.00%	\$ 6,715,390	6.82%
July 1, 2014	-	563,375	563,375	0.00%	6,695,000	8.41%
July 1, 2012	-	435,711	435,711	0.00%	5,800,144	7.51%

City of Galax, Virginia
Schedule of Employer's Proportionate Share of Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2017

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					
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)					
2016	0.09189%	\$ 12,877,000	\$ 7,006,311	183.79%	68.28%
2015	0.09218%	11,602,000	6,853,703	169.28%	70.68%
2014	0.09215%	11,136,000	6,740,206	165.22%	70.88%

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

City of Galax, Virginia
Schedule of Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 54,408	\$ 52,788	\$ 59,100
Interest	147,275	146,030	138,221
Differences between expected and actual experience	(38,600)	(92,264)	-
Benefit payments, including refunds of employee contributions	(81,606)	(95,913)	(75,607)
Net change in total pension liability	\$ 81,477	\$ 10,641	\$ 121,714
Total pension liability - beginning	<u>2,144,738</u>	<u>2,134,097</u>	<u>2,012,383</u>
Total pension liability - ending (a)	<u><u>2,226,215</u></u>	<u><u>2,144,738</u></u>	<u><u>2,134,097</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 51,508	\$ 56,560	\$ 58,635
Contributions - employee	24,595	27,173	27,537
Net investment income	32,761	81,921	242,426
Benefit payments, including refunds of employee contributions	(81,606)	(95,913)	(75,607)
Administrative expense	(1,140)	(1,116)	(1,285)
Other	(14)	(16)	13
Net change in plan fiduciary net position	\$ 26,104	\$ 68,609	\$ 251,719
Plan fiduciary net position - beginning	<u>1,846,212</u>	<u>1,777,603</u>	<u>1,525,884</u>
Plan fiduciary net position - ending (b)	<u><u>1,872,316</u></u>	<u><u>1,846,212</u></u>	<u><u>1,777,603</u></u>
 School Division's net pension liability - ending (a) - (b)	 \$ 353,899	 \$ 298,526	 \$ 356,494
 Plan fiduciary net position as a percentage of the total pension liability	 84.10%	 86.08%	 83.30%
 Covered payroll	 \$ 507,791	 \$ 554,534	 \$ 552,382
 School Division's net pension liability as a percentage of covered payroll	 69.69%	 53.83%	 64.54%

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

City of Galax, Virginia
Schedule of Employer Contributions
For the Years Ended June 30, 2008 through June 30, 2017

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					
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)					
2017	\$ 36,336	\$ 42,610	\$ (6,274)	\$ 491,690	8.67%
2016	51,508	51,508	-	507,791	10.14%
2015	56,560	56,560	-	554,534	10.20%
2014	58,635	58,635	-	552,382	10.61%
2013	59,223	59,223	-	557,134	10.63%
2012	46,062	46,062	-	518,711	8.88%
2011	44,814	44,814	-	504,659	8.88%
2010	43,050	43,050	-	502,916	8.56%
2009	41,852	41,852	-	488,930	8.56%
2008	23,360	23,360	-	442,422	5.28%
Component Unit School Board (professional)					
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 reported included participants that are not reported in the City's report. Therefore, no additional data is currently available for the City. Data prior to 2013 for the Component Unit School Board professional was not available. Additional years will be included as they become available.

City of Galax, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

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

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Component Unit School Board - Professional Employees

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

Other Supplementary Information

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

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, 2017

	School Operating <u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,982,949
Receivables (net of allowance for uncollectibles):	
Accounts receivable	9,765
Due from other governmental units	665,855
Inventories	31,776
Prepaid items	107,326
Total assets	<u>\$ 3,797,671</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 396,519
Salaries payable	860,839
Total liabilities	<u>\$ 1,257,358</u>
Fund balances:	
Nonspendable	
Prepaid and inventory	\$ 139,102
Restricted	
School cafeterias	325,998
Unassigned	2,075,213
Total fund balances	<u>\$ 2,540,313</u>
Total liabilities and fund balances	<u>\$ 3,797,671</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 2,540,313
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 439,368
Buildings and improvements	4,037,182
Machinery and equipment	555,547
Construction in progress	<u>353,104</u>
	5,385,201
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.	
	1,075,346
Items related to measurement of the net pension liability are considered deferred outflows or deferred inflows and will be amortized and recognized in pension expense over future years.	
Deferred outflows of resources	854,105
Deferred inflows of resources	(524,239)
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	\$ (165,515)
Net OPEB obligation	(297,699)
Net pension liability	<u>(13,230,899)</u>
	(13,694,113)
Net position of governmental activities	<u>\$ (4,363,387)</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, 2017

	Total Governmental Funds
REVENUES	
Revenue from the use of money and property	\$ 210
Charges for services	322,555
Miscellaneous	52,833
Recovered costs	971
Intergovernmental	14,636,458
Total revenues	<u>\$ 15,013,027</u>
EXPENDITURES	
Current:	
Education	\$ 14,997,745
Total expenditures	<u>\$ 14,997,745</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 15,282</u>
Net change in fund balances	\$ 15,282
Fund balances - beginning	2,525,031
Fund balances - ending	<u><u>\$ 2,540,313</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	\$ 15,282
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 capital outlays exceeded depreciation expense in the current period.	
Capital outlays	\$ 730,977
Depreciation expense	<u>(292,512)</u>
	438,465
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred inflows related to the measurement of the net pension liability	462,611
Pension contribution subsequent to the measurement date will be a decrease in the net pension liability in the next fiscal year and therefore, are not reported in the funds.	
	44,287
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	\$ 8,040
Change in net OPEB obligation	(33,055)
Change in net pension liability	(1,330,373)
Change in deferred outflows related to the measurement of the net pension liability	<u>757,105</u>
	(598,283)
Change in net position of governmental activities	<u><u>\$ 362,362</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, 2017

	School Operating Fund			Variance with Final Budget Positive Positive (Negative)
	Budgeted Amounts		Actual	(Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 210	\$ (290)
Charges for services	206,492	206,492	322,555	116,063
Miscellaneous	500	500	52,833	52,333
Recovered costs	1,500	1,500	971	(529)
Intergovernmental	14,573,194	14,573,194	14,636,458	63,264
Total revenues	\$ 14,782,186	\$ 14,782,186	\$ 15,013,027	\$ 230,841
EXPENDITURES				
Current:				
Education	\$ 14,782,186	\$ 14,782,186	\$ 14,997,745	\$ (215,559)
Total expenditures	\$ 14,782,186	\$ 14,782,186	\$ 14,997,745	\$ (215,559)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 15,282	\$ 15,282
Net change in fund balances	\$ -	\$ -	\$ 15,282	\$ 15,282
Fund balances - beginning	-	-	2,525,031	2,525,031
Fund balances - ending	\$ -	\$ -	\$ 2,540,313	\$ 2,540,313

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, 2017

	Enterprise Fund
<hr/>	
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 79,051
Total assets	<u>\$ 79,051</u>
 NET POSITION	
Unrestricted	\$ 79,051
Total net position	<u><u>\$ 79,051</u></u>

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, 2017

	Enterprise Fund
OPERATING REVENUES	
Charges for services:	
Miscellaneous	\$ 18
Total operating revenues	<u>\$ 18</u>
OPERATING EXPENSES	
Miscellaneous	\$ 401
Total operating expenses	<u>\$ 401</u>
Operating income (loss)	<u>\$ (383)</u>
Change in net position	\$ (383)
Total net position - beginning	79,434
Total net position - ending	<u><u>\$ 79,051</u></u>

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, 2017

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 18
Payments to suppliers	(10,151)
Net cash provided by (used for) operating activities	<u>\$ (10,133)</u>
Net increase (decrease) in cash and cash equivalents	\$ (10,133)
Cash and cash equivalents - beginning	89,184
Cash and cash equivalents - ending	<u><u>\$ 79,051</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (383)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Increase (decrease) in due to primary government	(9,750)
Total adjustments	<u>\$ (9,750)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (10,133)</u></u>

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

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	\$ 3,220,000	\$ 3,220,000	\$ 3,276,486	\$ 56,486
Real and personal public service corporation taxes	111,000	111,000	111,861	861
Personal property taxes	530,000	530,000	553,325	23,325
Furniture and fixtures	340,000	340,000	344,349	4,349
Machinery and tools taxes	805,000	805,000	748,320	(56,680)
Delinquent administrative fee	1,000	1,000	3,385	2,385
Penalties	17,500	17,500	45,836	28,336
Interest	35,000	35,000	15,894	(19,106)
Total general property taxes	<u>\$ 5,059,500</u>	<u>\$ 5,059,500</u>	<u>\$ 5,099,456</u>	<u>\$ 39,956</u>
Other local taxes:				
Local sales and use taxes	\$ 2,243,997	\$ 2,243,997	\$ 2,210,086	\$ (33,911)
Consumers' utility taxes	180,000	180,000	179,709	(291)
Local consumption tax	50,000	50,000	46,623	(3,377)
Local admissions tax	20,000	20,000	17,880	(2,120)
Business license taxes	1,100,000	1,100,000	1,036,478	(63,522)
Motor vehicle licenses	115,000	115,000	90,779	(24,221)
Bank stock taxes	134,000	134,000	155,171	21,171
Hotel and motel room taxes	140,000	140,000	161,289	21,289
Restaurant food taxes	1,900,000	1,900,000	2,112,273	212,273
Total other local taxes	<u>\$ 5,882,997</u>	<u>\$ 5,882,997</u>	<u>\$ 6,010,288</u>	<u>\$ 127,291</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,900	\$ 3,900	\$ 3,897	\$ (3)
Building permits and other licenses	16,000	16,000	14,942	(1,058)
Total permits, privilege fees, and regulatory licenses	<u>\$ 19,900</u>	<u>\$ 19,900</u>	<u>\$ 18,839</u>	<u>\$ (1,061)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 100,000	\$ 100,000	\$ 124,597	\$ 24,597
Parking fines	500	500	238	(262)
Total fines and forfeitures	<u>\$ 100,500</u>	<u>\$ 100,500</u>	<u>\$ 124,835</u>	<u>\$ 24,335</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 75	\$ 75	\$ 164	\$ 89
Revenue from use of property	41,000	41,000	38,886	(2,114)
Total revenue from use of money and property	<u>\$ 41,075</u>	<u>\$ 41,075</u>	<u>\$ 39,050</u>	<u>\$ (2,025)</u>
Charges for services:				
Charges for animal adoptions	\$ 5,500	\$ 5,500	\$ 8,281	\$ 2,781
Charges for courthouse maintenance	5,300	5,300	4,480	(820)
Charges for parking spaces	2,000	2,000	1,584	(416)
Charges for courtroom security	18,000	18,000	19,248	1,248
Other charges for services	22,000	22,000	21,317	(683)
Charges for sanitation and waste removal	395,500	395,500	389,463	(6,037)
Charges for parks and recreation	347,000	347,000	327,459	(19,541)
Total charges for services	<u>\$ 795,300</u>	<u>\$ 795,300</u>	<u>\$ 771,832</u>	<u>\$ (23,468)</u>

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

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<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	\$ 46,000	\$ 62,268	\$ 16,268
Sale of surplus	1,000	1,000	12,307	11,307
Sale of cemetery lots	6,000	6,000	13,000	7,000
Donations and contributions	23,650	23,650	24,705	1,055
Asset forfeiture funds	-	-	2,336	2,336
Total miscellaneous	<u>\$ 76,650</u>	<u>\$ 76,650</u>	<u>\$ 114,616</u>	<u>\$ 37,966</u>
Recovered costs:				
Wired Road	\$ 31,658	\$ 31,658	\$ -	\$ (31,658)
Juvenile probation	29,367	29,367	21,538	(7,829)
Animal Shelter	71,132	71,132	67,670	(3,462)
Sanitation recovered costs	2,500	2,500	2,117	(383)
Police recovered costs	55,000	55,000	54,271	(729)
Bottom Area project	6,000	6,000	12,300	6,300
Other recovered costs	12,600	12,600	5,784	(6,816)
Total recovered costs	<u>\$ 208,257</u>	<u>\$ 208,257</u>	<u>\$ 163,680</u>	<u>\$ (44,577)</u>
Total revenue from local sources	<u>\$ 12,184,179</u>	<u>\$ 12,184,179</u>	<u>\$ 12,342,596</u>	<u>\$ 158,417</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications sales and use taxes	\$ 235,000	\$ 235,000	\$ 220,494	\$ (14,506)
Recordation tax	10,000	10,000	10,209	209
Motor vehicle carriers' tax	28,000	28,000	36,968	8,968
Mobile home titling tax	2,000	2,000	2,355	355
Personal property tax relief funds	230,000	230,000	230,012	12
Total noncategorical aid	<u>\$ 505,000</u>	<u>\$ 505,000</u>	<u>\$ 500,048</u>	<u>\$ (4,952)</u>
Categorical aid:				
Shared expenses:				
Commissioner of the revenue	\$ 57,000	\$ 57,000	\$ 58,420	\$ 1,420
Registrar/electoral board	35,000	35,000	34,662	(338)
Total shared expenses	<u>\$ 92,000</u>	<u>\$ 92,000</u>	<u>\$ 93,082</u>	<u>\$ 1,082</u>
Other categorical aid:				
599 Funds (Police funding)	\$ 323,000	\$ 323,000	\$ 323,596	\$ 596
Comprehensive services act	1,032,222	1,032,222	192,926	(839,296)
Street and highway funds	1,891,604	1,891,604	1,891,739	135
Litter control	6,000	6,000	6,192	192
Virginia Commission for the Arts	5,000	5,000	5,000	-
Public assistance and welfare administration	191,410	191,410	422,909	231,499
Department of Fire Programs	45,171	45,171	45,171	-
VTC Marketing Leveraging Grant	10,000	10,000	3,308	(6,692)
EMS 4 for Life Funding	-	-	5,944	5,944

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
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<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	\$ -	\$ -	\$ 6,475	\$ 6,475
Highway construction funds	-	-	167,738	167,738
Total other categorical aid	\$ 3,504,407	\$ 3,504,407	\$ 3,070,998	\$ (433,409)
Total categorical aid	\$ 3,596,407	\$ 3,596,407	\$ 3,164,080	\$ (432,327)
Total revenue from the Commonwealth	\$ 4,101,407	\$ 4,101,407	\$ 3,664,128	\$ (437,279)
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ -	\$ -	\$ 722,516	\$ 722,516
Community development block grants	189,381	189,381	189,381	-
Public safety grants	95,856	95,856	66,621	(29,235)
Community improvement grants	25,500	25,500	-	(25,500)
FEMA safer grant	62,673	62,673	58,659	(4,014)
Highway planning and construction grants	1,167,117	1,167,117	748,804	(418,313)
Rural Development grants	27,000	27,000	27,000	-
RBEG grant	-	-	7,027	7,027
High intensity drug trafficking grant	12,000	12,000	10,635	(1,365)
Total categorical aid	\$ 1,579,527	\$ 1,579,527	\$ 1,830,643	\$ 251,116
Total revenue from the federal government	\$ 1,579,527	\$ 1,579,527	\$ 1,830,643	\$ 251,116
Total General Fund	\$ 17,865,113	\$ 17,865,113	\$ 17,837,367	\$ (27,746)
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 property	\$ 500	\$ 500	\$ 210	\$ (290)
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 107,400	\$ 107,400
Payments from other divisions	201,492	201,492	211,971	10,479
Tuition and payments from other divisions	5,000	5,000	3,184	(1,816)
Total charges for services	\$ 206,492	\$ 206,492	\$ 322,555	\$ 116,063
Miscellaneous:				
Donations	\$ -	\$ -	\$ 1,000	\$ 1,000
Medicaid payments	-	-	50,047	50,047
Other miscellaneous	500	500	1,786	1,286
Total miscellaneous	\$ 500	\$ 500	\$ 52,833	\$ 52,333

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
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For the Year Ended June 30, 2017

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
Other recovered costs	\$ 1,500	\$ 1,500	\$ 971	\$ (529)
Total revenue from local sources	\$ 208,992	\$ 208,992	\$ 376,569	\$ 167,577
Intergovernmental:				
Revenues from local governments:				
Contribution from the City of Galax, Virginia	\$ 3,834,160	\$ 3,834,160	\$ 3,971,823	\$ 137,663
Total revenues from local governments	\$ 3,834,160	\$ 3,834,160	\$ 3,971,823	\$ 137,663
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 1,150,000	\$ 1,150,000	\$ 1,177,375	\$ 27,375
Basic school aid	4,157,382	4,157,382	4,142,051	(15,331)
Remedial summer education	264,386	264,386	264,386	-
Adult secondary education	7,859	7,859	8,418	559
Gifted and talented	44,488	44,488	44,352	(136)
Remedial education	243,757	243,757	243,012	(745)
Migrant education	2,206	2,206	-	(2,206)
Virginia preschool initiative	135,810	135,810	135,810	-
Textbook payment	101,747	101,747	101,437	(310)
Vocational SOQ payments	114,000	114,000	113,652	(348)
Lottery payments	48,714	48,714	48,565	(149)
Social security fringe benefits	259,513	259,513	258,720	(793)
Retirement fringe benefits	534,782	534,782	533,148	(1,634)
Group life insurance benefits	17,610	17,610	17,556	(54)
Early reading intervention	26,546	26,546	26,546	-
Homebound education	8,867	8,867	8,868	1
Special education	371,659	371,659	370,524	(1,135)
Regional program tuition	95,357	95,357	84,204	(11,153)
Vocation equipment	3,776	3,776	3,824	48
Vocational occupational preparedness	23,841	23,841	9,195	(14,646)
At risk payments	300,526	300,526	299,726	(800)
Mentor teacher program	1,581	1,581	632	(949)
Primary class size	374,223	374,223	374,223	-
Technology	128,000	128,000	128,000	-
Standards of Learning algebra readiness	29,746	29,746	29,746	-
School Food	11,580	11,580	10,300	(1,280)
Other State revenue	445,614	445,614	144,549	(301,065)
English as a second language	132,401	132,401	132,401	-
Early reading specialist	34,945	34,945	34,945	-
Total categorical aid	\$ 9,070,916	\$ 9,070,916	\$ 8,746,165	\$ (324,751)
Total revenue from the Commonwealth	\$ 9,070,916	\$ 9,070,916	\$ 8,746,165	\$ (324,751)

City of Galax, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
School breakfast program	\$ -	\$ -	\$ 137,657	\$ 137,657
School lunch program	585,450	585,450	457,308	(128,142)
Summer feeding	-	-	21,168	21,168
School meals equipment	7,257	7,257	78,352	71,095
Title I	518,075	518,075	517,397	(678)
Title VI-B, Special education flow-through	253,729	253,729	252,119	(1,610)
Vocational education	29,779	29,779	30,212	433
Title VI-B, Special education pre-school	13,107	13,107	13,107	-
Rural and low income schools	21,875	21,875	21,874	(1)
English language acquisition grant	23,731	23,731	21,821	(1,910)
Advanced placement program	999	999	152	(847)
Improving teacher quality	64,520	64,520	67,137	2,617
Twenty-first century community learning centers	133,396	133,396	125,991	(7,405)
Child and adult care food program	-	-	174,175	174,175
Other federal funds	16,200	16,200	-	(16,200)
Total categorical aid	<u>\$ 1,668,118</u>	<u>\$ 1,668,118</u>	<u>\$ 1,918,470</u>	<u>\$ 250,352</u>
Total revenue from the federal government	<u>\$ 1,668,118</u>	<u>\$ 1,668,118</u>	<u>\$ 1,918,470</u>	<u>\$ 250,352</u>
Total School Operating Fund	<u>\$ 14,782,186</u>	<u>\$ 14,782,186</u>	<u>\$ 15,013,027</u>	<u>\$ 230,841</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 14,782,186</u>	<u>\$ 14,782,186</u>	<u>\$ 15,013,027</u>	<u>\$ 230,841</u>

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

<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	\$ 36,314	\$ 36,314	\$ 34,096	\$ 2,218
General and financial administration:				
City Manager	\$ 479,640	\$ 479,640	\$ 479,385	\$ 255
City Attorney	60,500	60,500	61,965	(1,465)
Marketing	163,937	163,937	161,631	2,306
Commissioner of revenue	161,347	161,347	160,831	516
Finance department	526,489	526,489	444,118	82,371
Total general and financial administration	\$ 1,391,913	\$ 1,391,913	\$ 1,307,930	\$ 83,983
Board of elections:				
Electoral Board	\$ 20,701	\$ 20,701	\$ 20,319	\$ 382
Registrar	72,024	72,024	71,764	260
Total board of elections	\$ 92,725	\$ 92,725	\$ 92,083	\$ 642
Total general government administration	\$ 1,520,952	\$ 1,520,952	\$ 1,434,109	\$ 86,843
Judicial administration:				
Courts:				
General district court	\$ 44,750	\$ 44,750	\$ 44,122	\$ 628
Magistrate	1,200	1,200	921	279
Shared services	600,000	600,000	592,666	7,334
Total courts	\$ 645,950	\$ 645,950	\$ 637,709	\$ 8,241
Total judicial administration	\$ 645,950	\$ 645,950	\$ 637,709	\$ 8,241
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,148,324	\$ 2,148,324	\$ 2,095,458	\$ 52,866
Narcotics	1,000	1,000	1,633	(633)
Community policing	2,000	2,000	3,436	(1,436)
Total law enforcement and traffic control	\$ 2,151,324	\$ 2,151,324	\$ 2,100,527	\$ 50,797
Fire and rescue services:				
Fire programs	\$ 317,453	\$ 317,453	\$ 318,379	\$ (926)
E911 programs	94,585	94,585	95,601	(1,016)
Ambulance and rescue services	161,177	161,177	187,969	(26,792)
Total fire and rescue services	\$ 573,215	\$ 573,215	\$ 601,949	\$ (28,734)

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

<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	\$ 149,850	\$ 149,850	\$ 147,657	\$ 2,193
Correction and probation	4,275	4,275	3,800	475
Total correction and detention	\$ 154,125	\$ 154,125	\$ 151,457	\$ 2,668
Other protection:				
Animal control	\$ 28,236	\$ 28,236	\$ 41,136	\$ (12,900)
Medical examiner	200	200	120	80
Animal shelter	106,044	106,044	109,183	(3,139)
Safe routes to schools	21,397	21,397	20,485	912
Total other protection	\$ 155,877	\$ 155,877	\$ 170,924	\$ (15,047)
Total public safety	\$ 3,034,541	\$ 3,034,541	\$ 3,024,857	\$ 9,684
Public works:				
Engineering:				
Engineering	\$ 132,182	\$ 132,182	\$ 141,703	\$ (9,521)
Maintenance of highways, streets and bridges:				
Highways, streets, bridges and sidewalks	\$ 1,782,413	\$ 1,782,413	\$ 1,447,625	\$ 334,788
Street lighting	73,000	73,000	74,103	(1,103)
Traffic signals	32,100	32,100	35,340	(3,240)
Total maintenance of highways, streets and bridges	\$ 1,887,513	\$ 1,887,513	\$ 1,557,068	\$ 330,445
Sanitation and waste removal:				
Refuse collection and disposal	\$ 383,950	\$ 383,950	\$ 397,275	\$ (13,325)
Landfill	33,800	33,800	26,406	7,394
Total sanitation and waste removal	\$ 417,750	\$ 417,750	\$ 423,681	\$ (5,931)
Maintenance of general buildings and grounds:				
Building maintenance	\$ 256,033	\$ 256,033	\$ 264,047	\$ (8,014)
Property maintenance	132,741	132,741	98,743	33,998
Total maintenance of general buildings and grounds	\$ 388,774	\$ 388,774	\$ 362,790	\$ 25,984
Total public works	\$ 2,826,219	\$ 2,826,219	\$ 2,485,242	\$ 340,977
Health and welfare:				
Health:				
Supplement of local health department	\$ 112,958	\$ 112,958	\$ 112,958	\$ -
Mental health and mental retardation:				
Mental health contribution	\$ 34,983	\$ 34,983	\$ 34,983	\$ -

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

<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	\$ 1,532,007	\$ 1,532,007	\$ 1,593,021	\$ (61,014)
Contributions to welfare agencies	357,432	357,432	41,402	316,030
Total welfare	<u>\$ 1,889,439</u>	<u>\$ 1,889,439</u>	<u>\$ 1,634,423</u>	<u>\$ 255,016</u>
Total health and welfare	<u>\$ 2,037,380</u>	<u>\$ 2,037,380</u>	<u>\$ 1,782,364</u>	<u>\$ 255,016</u>
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 13,980	\$ 13,980	\$ 13,980	\$ -
Contribution to the City School Board	3,971,823	3,971,823	3,971,823	-
Total education	<u>\$ 3,985,803</u>	<u>\$ 3,985,803</u>	<u>\$ 3,985,803</u>	<u>\$ -</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks	\$ 61,000	\$ 61,000	\$ 51,780	\$ 9,220
Recreation	1,202,646	1,202,646	1,184,620	18,026
Rosewald Felts	1,000	1,000	1,465	(465)
Rex Theater	27,040	27,040	22,777	4,263
Golf Course	212,417	212,417	183,485	28,932
Farmer's Market	3,100	3,100	2,263	837
Total parks and recreation	<u>\$ 1,507,203</u>	<u>\$ 1,507,203</u>	<u>\$ 1,446,390</u>	<u>\$ 60,813</u>
Cultural enrichment:				
Museum	\$ 31,845	\$ 31,845	\$ 30,810	\$ 1,035
Chestnut Creek School of the Arts	125,000	125,000	125,000	-
Art programs and contributions	13,000	13,000	13,000	-
CCSA woodworking ship	48,043	48,043	19,756	28,287
Total cultural enrichment	<u>\$ 217,888</u>	<u>\$ 217,888</u>	<u>\$ 188,566</u>	<u>\$ 29,322</u>
Library:				
Regional library	<u>\$ 235,216</u>	<u>\$ 235,216</u>	<u>\$ 233,986</u>	<u>\$ 1,230</u>
Total parks, recreation, and cultural	<u>\$ 1,960,307</u>	<u>\$ 1,960,307</u>	<u>\$ 1,868,942</u>	<u>\$ 91,365</u>
Community development:				
Planning and community development:				
Planning and development	\$ 178,512	\$ 178,512	\$ 179,150	\$ (638)
Broadband	31,658	31,658	-	31,658
Bottom area project	208,276	208,276	216,240	(7,964)
BRCEDA	163,083	163,083	161,147	1,936
Total planning and community development	<u>\$ 581,529</u>	<u>\$ 581,529</u>	<u>\$ 556,537</u>	<u>\$ 24,992</u>
Total community development	<u>\$ 581,529</u>	<u>\$ 581,529</u>	<u>\$ 556,537</u>	<u>\$ 24,992</u>

City of Galax, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

<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	\$ 141,373	\$ 141,373	\$ 98,195	\$ 43,178
Capital projects:				
Capital projects	\$ 976,170	\$ 976,170	\$ 960,284	\$ 15,886
Debt service:				
Principal retirement	\$ 600,601	\$ 600,601	\$ 560,123	\$ 40,478
Bond issuance costs	102,964	102,964	102,964	-
Interest and other fiscal charges	227,385	227,385	228,627	(1,242)
Total debt service	\$ 930,950	\$ 930,950	\$ 891,714	\$ 39,236
Total General Fund	\$ 18,641,174	\$ 18,641,174	\$ 17,725,756	\$ 915,418
Discretely Presented Component Unit - School Board				
School Operating Fund:				
Education:				
Administration of schools:				
Administration and health services	\$ 768,939	\$ 768,939	\$ 678,945	\$ 89,994
Instruction costs:				
Instructional costs	\$ 10,477,188	\$ 10,477,188	\$ 10,166,692	\$ 310,496
Operating costs:				
Pupil transportation	\$ 483,533	\$ 483,533	\$ 598,714	\$ (115,181)
Operation and maintenance of school plant	1,446,178	1,446,178	1,334,359	111,819
School food service	895,885	895,885	858,248	37,637
Facilities	-	-	629,649	(629,649)
Technology	710,463	710,463	731,138	(20,675)
Total operating costs	\$ 3,536,059	\$ 3,536,059	\$ 4,152,108	\$ (616,049)
Total School Operating Fund	\$ 14,782,186	\$ 14,782,186	\$ 14,997,745	\$ (215,559)
Total Discretely Presented Component Unit - School Board	\$ 14,782,186	\$ 14,782,186	\$ 14,997,745	\$ (215,559)

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
2016-17	\$ 1,654,893	\$ 637,709	\$ 2,806,546	\$ 3,438,660	\$ 1,770,223	\$ 4,243,256	\$ 2,122,046	\$ 544,237	\$ 267,120	\$ 2,590,357	24,152	\$ 20,099,199
2015-16	1,593,969	550,420	2,968,540	2,498,899	1,621,459	4,027,300	2,084,825	558,833	177,870	2,511,724	-	18,593,839
2014-15	1,574,606	665,677	2,796,916	2,441,402	1,425,069	3,928,234	2,023,767	560,934	198,755	2,562,104	-	18,177,464
2013-14	1,552,436	601,213	2,990,921	2,594,079	1,423,738	3,879,492	2,016,590	728,676	157,580	2,949,673	-	18,894,398
2012-13	1,543,098	394,278	2,790,642	2,556,297	1,508,926	4,269,959	2,040,066	399,464	230,446	2,725,663	-	18,458,839
2011-12	1,496,085	618,300	2,803,284	2,084,134	1,664,552	3,700,277	1,749,789	2,004,859	235,567	2,572,434	-	18,929,281
2010-11	1,403,607	525,130	2,764,659	2,142,439	1,601,606	3,395,746	1,537,985	648,415	249,393	2,423,328	-	16,692,308
2009-10	1,354,495	516,416	2,572,717	1,399,049	1,730,389	3,878,868	1,728,558	1,041,925	278,631	2,436,820	-	16,937,868
2008-09	1,410,590	421,172	2,523,114	3,671,499	1,683,602	1,498,542	1,838,667	922,152	279,653	2,539,619	-	16,788,610
2007-08	1,216,686	252,958	2,380,854	2,913,678	1,878,593	2,804,597	1,460,945	570,362	325,285	2,587,485	-	16,391,443

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
2016-17	\$ 3,590,458	\$ 3,861,800	\$ 1,174,823	\$	\$ 5,320,011	\$ 6,016,025	\$ 39,160	\$ 114,616	\$ 500,048	\$ 20,616,941
2015-16	3,447,108	3,828,543	2,052,758		5,185,806	5,940,149	29,315	222,549	505,191	21,211,419
2014-15	3,426,178	3,637,090	2,085,511		5,008,653	5,802,799	38,320	190,713	504,695	20,693,959
2013-14	3,411,297	3,935,728	694,719		4,890,742	5,571,854	39,350	93,493	505,750	19,142,933
2012-13	3,288,734	3,766,099	151,082		4,725,836	5,564,801	43,230	131,054	516,143	18,186,979
2011-12	3,786,646	4,881,858	269,036		4,107,727	4,737,461	118	127,348	465,184	18,375,378
2010-11	4,246,388	3,955,984	396,163		3,870,781	4,652,947	25,654	22,744	472,432	17,643,093
2009-10	3,380,558	3,458,555	1,618,233		3,922,184	4,630,039	1,238	72,478	481,486	17,564,771
2008-09	3,090,007	3,807,358	1,687,649		3,582,227	4,292,452	28,292	48,352	443,907	16,980,244
2007-08	2,994,718	3,696,593	483,792		3,834,008	4,533,937	394,984	31,333	492,427	16,461,792

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
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
2008-09	1,645,052	421,062	2,537,988	3,787,262	1,677,544	13,179,538	2,267,225	899,677	-	501,901	2,331,368	29,248,617
2007-08	1,207,346	252,753	2,590,060	2,563,386	1,857,486	12,534,267	1,421,845	703,970	-	5,607,283	5,916,422	34,654,818

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
2016-17	\$ 5,099,456	\$ 6,010,288	\$ 18,839	\$ 124,835	\$ 39,260	\$ 1,094,387	\$ 167,449	\$ 164,651	\$ 16,159,406	\$ 28,878,571
2015-16	5,243,024	5,964,380	30,007	135,077	29,885	1,235,544	251,626	177,454	15,425,698	28,492,695
2014-15	5,068,041	5,785,608	21,470	119,843	39,017	1,232,726	236,417	226,067	16,351,303	29,080,492
2013-14	4,817,729	5,574,405	18,839	112,962	39,800	1,130,665	130,179	217,555	14,381,023	26,423,157
2012-13	4,641,973	5,570,787	26,096	142,786	43,230	1,194,579	385,226	182,339	13,547,049	25,734,065
2011-12	4,087,009	4,798,066	19,390	104,879	112,220	1,768,475	144,811	942	14,296,633	25,332,425
2010-11	3,870,688	4,675,312	16,353	114,770	127,190	2,203,561	170,396	181	13,078,590	24,257,041
2009-10	3,816,000	4,560,283	18,849	103,750	130,041	1,741,837	282,077	3,601	14,371,445	25,027,883
2008-09	3,570,161	4,296,653	20,162	89,124	68,520	1,550,100	116,451	1,299	15,331,075	25,043,545
2007-08	3,692,282	4,529,736	24,176	153,381	520,585	1,627,701	195,078	453	13,225,335	23,968,727

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	Collected within the						Total Collections to Date	
	Current Tax Levy	Year of Levy		Percent of Levy	Collections in Subsequent Years		Amount	Percent of Levy
		Amount						
2016-17	\$ 5,244,627	\$ 5,012,946		95.58%	\$ -		\$ 5,012,946	95.58%
2015-16	5,117,544	5,012,946		97.96%	-		5,012,946	97.96%
2014-15	4,909,132	4,758,955		96.94%	83,147		4,842,102	98.63%
2013-14	4,849,276	4,654,991		95.99%	131,319		4,786,310	98.70%
2012-13	4,643,429	4,428,347		95.37%	153,504		4,581,851	98.67%
2011-12	3,999,533	3,831,544		95.80%	127,428		3,958,972	98.99%
2010-11	3,728,831	3,588,318		96.23%	121,830		3,710,148	99.50%
2009-10	3,916,477	3,776,354		96.42%	110,004		3,886,358	99.23%
2008-09	3,923,267	3,699,935		94.31%	178,037		3,877,972	98.85%
2007-08	3,991,116	3,795,947		95.11%	149,303		3,945,250	98.85%

(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
2016-17	\$ 443,176,050	\$ 118,189,339	\$ 14,114,928	\$ 575,480,317
2015-16	458,384,400	111,389,059	14,751,447	584,524,906
2014-15	457,205,000	110,616,317	15,688,304	583,509,621
2013-14	452,108,700	108,178,991	14,644,537	574,932,228
2012-13	449,458,875	102,868,300	13,364,028	565,691,203
2011-12	443,963,100	99,871,993	14,483,951	558,319,044
2010-11	444,067,400	96,562,916	13,770,881	554,401,197
2009-10	442,517,089	82,983,895	13,567,565	539,068,549
2008-09	441,047,000	102,287,271	13,938,302	557,272,573
2007-08	358,067,015	98,479,264	13,145,695	469,691,974

(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
2016-17	\$ 0.76	\$ 0.76	\$ 2.25	\$ 1.50
2015-16	0.73	0.73	2.25	1.50
2014-15	0.69	0.69	2.25	1.50
2013-14	0.69	0.69	2.25	1.50
2012-13	0.67	0.67	2.25	1.50
2011-12	0.62	0.62	1.68	1.42
2010-11	0.57	0.70	1.68	1.42
2009-10	0.57	0.70	1.68	1.42
2008-09	0.55	0.55	1.42	1.42
2007-08	0.50	0.50	1.42	1.42

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2016-17	6,775	5,754,803	\$ 7,792,068	7,792,068	1.35%	1,150
2015-16	7,034	5,845,249	6,946,669	6,946,669	1.19%	988
2014-15	7,034	5,835,096	7,509,306	7,509,306	1.29%	1,068
2013-14	7,035	5,749,322	6,690,956	6,690,956	1.16%	951
2012-13	6,928	5,656,912	7,275,989	7,275,989	1.29%	1,050
2011-12	6,877	5,583,190	7,402,698	7,402,698	1.33%	1,076
2010-11	7,077	5,544,012	7,873,915	7,873,915	1.42%	1,113
2009-10	6,880	5,390,685	8,348,105	8,348,105	1.55%	1,213
2008-09	6,823	5,572,726	8,822,196	8,822,196	1.58%	1,293
2007-08	6,796	4,696,920	9,435,220	9,435,220	2.01%	1,388

(1) Source: United States Census Bureau

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

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

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

Table 9

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2016-17	\$ 560,123	\$ 331,591	\$ 891,714	\$ 28,751,678	3.10%
2015-16	562,637	177,772	740,409	28,665,905	2.58%
2014-15	595,650	190,893	786,543	29,139,736	2.70%
2013-14	607,493	167,842	775,335	26,690,085	2.90%
2012-13	555,677	230,311	785,988	26,141,062	3.01%
2011-12	526,929	230,071	757,000	29,501,140	2.57%
2010-11	517,681	250,369	768,050	27,207,272	2.82%
2009-10	516,911	275,887	792,798	29,221,393	2.71%
2008-09	300,835	201,066	501,901	29,248,617	1.72%
2007-08	5,261,321	345,962	5,607,283	34,654,818	16.18%

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

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia as of and for the year ended June 30, 2017, 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 14, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. (2017-001)

Compliance and Other Matters

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

City of Galax, Virginia Response to Findings

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

Purpose of this Report

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



Blacksburg, Virginia
November 14, 2017

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Galax, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Galax, Virginia's major federal programs for the year ended June 30, 2017. 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, 2017.

Report on Internal Control over Compliance

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

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

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

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

Robinson, Turner, Co. Associates

Blacksburg, Virginia
November 14, 2017

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Direct payments:			
Community Facilities Loans and Grants	10.766	NA	\$ 27,000
Pass through payments from:			
<i>Department of Social Services:</i>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010110/0040110/0040111	119,631
<i>Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	40591	\$ 137,657
National School Lunch Program	10.555	40623	\$ 402,235
<i>State Department of Agriculture:</i>			
Food Distribution-Schools (Note C)	10.555	Unknown	55,073
Summer Food Service Program for Children (Note C)	10.559	Unknown	21,168
Total Child Nutrition Cluster			616,133
Child Nutrition Discretionary Grants Limited Availability	10.579	Unknown	78,352
Rural Business Enterprise Grants	10.769	Unknown	7,027
Child and Adult Care Food Program	10.558	Unknown	174,175
Total Department of Agriculture			<u>\$ 1,022,318</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass through payments from:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950110/0950111	\$ 12,106
Temporary Assistance for Needy Families	93.558	0400111	110,583
Refugee and Entrant Assistance - State Administered Programs	93.566	0500110/0500111	419
Low Income Home Energy Assistance	93.568	0600410/0600411	13,675
Social Services Block Grant	93.667	1000110/1000111	78,787
Chafee Foster Care Independence Program	93.674	9150110/9150111	1,004
Children's Health Insurance Program	93.767	0540110/0540111	4,661
Medical Assistance Program	93.778	1200110/1200111	150,933
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900110/0900111	212
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760110/0760111	23,190
Foster Care - Title IV E	93.658	1100110/1100111	158,231
Adoption Assistance	93.659	1120110/1120111	49,084
Total Department of Health and Human Services			<u>\$ 602,885</u>
DEPARTMENT OF JUSTICE:			
Pass through payments from:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Unknown	\$ 41,581
Total Department of Justice			<u>\$ 41,581</u>
DEPARTMENT OF HOMELAND SECURITY:			
Direct payments:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	NA	\$ 58,659
Pass through payments from:			
<i>Department of Emergency Management:</i>			
Emergency Management Performance Grants	97.042	158	7,500
<i>Federal Emergency Management Agency</i>			
Homeland Security Grant Program	97.067	Unknown	1,016
Total Department of Homeland Security			<u>\$ 67,175</u>

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF TRANSPORTATION:			
Pass through payments from:			
<i>Department of Motor Vehicles:</i>			
Highway Planning and Construction	20.205	Unknown	\$ 748,804
Alcohol Open Container Requirements	20.607	Unknown	5,441
<i>National Highway Traffic Safety Administration</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	Unknown	\$ 7,432
National Priority Safety Programs	20.616	Unknown	3,651
Highway Safety Cluster:			11,083
Total Department of Transportation			<u>\$ 765,328</u>
EXECUTIVE OFFICE OF THE PRESIDENT:			
Direct payments:			
High Intensity Drug Trafficking Areas Program	95.001	Unknown	\$ 10,635
Total Executive Office of the President			<u>\$ 10,635</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	\$ 189,381
Total Department of Housing and Urban Development			<u>\$ 189,381</u>
DEPARTMENT OF EDUCATION:			
Pass through payments from:			
<i>Department of Education:</i>			
Career and Technical Education -- Basic Grants to States	84.048	61095	\$ 30,212
Supporting Effective Instruction State Grant	84.367	61480	67,137
English Language Acquisition State Grants	84.365	Unknown	21,821
Rural Education	84.358	43481	21,874
Advance Placement Incentive Program	84.330	60957	152
Title I Grants to Local Educational Agencies	84.010	42901	517,397
Twenty-First Century Community Learning Centers	84.287	Unknown	125,991
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	73071	\$ 252,119
Special Education - Preschool Grants	84.173	62521	13,107
Total Special Education Cluster (IDEA)			265,226
Total Department of Education			<u>\$ 1,049,810</u>
Total Expenditures of Federal Awards			<u>\$ 3,749,113</u>

CITY OF GALAX, VIRGINIA

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

Note to Schedule of Expenditures of Federal Awards

Note A--Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Galax, Virginia under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget's Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the City of Galax, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Galax, Virginia.

Note B--Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

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

(3) The City did not elect the 10% de 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, 2017.

Note E--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	\$ 5,494,771
Less: Revenue from the Commonwealth	(3,664,128)
Component Unit School Board:	
School Operating Fund-Intergovernmental	15,136,458
Less: Revenue from Local Governments	(4,471,823)
Less: Revenue from the Commonwealth	<u>(8,746,165)</u>

Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 3,749,113</u>
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City of Galax, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

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

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR section,
200.516 (a)?

No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555/10.559	Child Nutrition Cluster
20.205	Highway Planning and Construction Grants
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?

Yes

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017 (Continued)

Section II - Financial Statement Findings

2017-001

Criteria:	Per Statement on Auditing Standards 115, identification of adjustments to the financial statements that were not detected by the entity's internal controls indicates that a significant deficiency may exist.
Condition:	The City's financial statements required year end adjusting entries by the Auditor to ensure such statements complied with Generally Accepted Accounting Principles.
Cause of Condition:	The City 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 more than a remote likelihood 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's current staff has a good understanding of the City'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

There were no prior audit findings related to federal awards.