

# FINANCIAL STATEMENTS



CITY OF GALAX, VIRGINIA

FOR THE YEAR ENDED  
JUNE 30, 2021

**CITY OF GALAX, VIRGINIA**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2021**

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Prepared By:  
Galax City Finance Department

CITY OF GALAX, VIRGINIA  
ANNUAL COMPREHENSIVE FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2021

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## INTRODUCTORY SECTION

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# CITY OF GALAX, VIRGINIA

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## CITY COUNCIL

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C.M. Mitchell, Vice Mayor  
Michael Larrowe  
Martin Warr

Willie Green, Mayor

J. Travis Haynes  
Sharon Ritchie  
Elizabeth White

## CITY SCHOOL BOARD

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Dr. James Adams, Vice-Chair  
Brett Sexton

Melissa Peddy, Chair

Leah Henk  
Larry Spangler

## CITY SOCIAL SERVICES BOARD

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Edit A. Marr Castillo  
C.M. Mitchell

Regina Snow

Kisha Johnson  
Dr. Rev. Kevin Rosenfeld

## OTHER OFFICIALS

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City Manager ..... Vacant  
Director of Finance..... Judy Taylor-Gallimore  
Commissioner of the Revenue..... David Hankley  
Superintendent of Schools ..... Susan Tilley  
Director of Social Services ..... Tammy Smith  
City Attorney..... Steve Durbin  
Chief of Police ..... Dewitt Cooper

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## FINANCIAL SECTION

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

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**Independent Auditors' Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2021, 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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As described in Note 28 to the financial statements, in 2021, the City adopted new accounting guidance, GASB Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

## ***Restatement of Beginning Balances***

As described in Note 29 to the financial statements, in 2021, the City restated beginning balances to reflect the requirements of GASB Statement No. 84 and correction of previously expensed assets. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding on pages 97 and 98-113 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

### *Supplementary and Other Information*

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

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

The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2021, on our consideration of the City of Galax, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Galax, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Galax, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia  
November 23, 2021

City of Galax, Virginia  
Statement of Net Position  
June 30, 2021

	Primary Government			Component Units	
	Governmental	Business-type	Total	School Board	IDA
	Activities	Activities			
<b>ASSETS</b>					
Cash and cash equivalents	\$ 9,991,981	\$ 1,040,983	\$ 11,032,964	\$ 2,580,821	\$ 43,394
Investments	-	-	-	66,456	-
Receivables (net of allowance for uncollectibles):					
Taxes receivable	446,891	-	446,891	-	-
Accounts receivable	932,399	754,017	1,686,416	8,214	-
Internal balances	300,000	(300,000)	-	-	-
Due from primary government	-	-	-	135,169	10
Due from other governmental units	1,490,354	-	1,490,354	1,997,015	-
Inventory	-	-	-	46,899	773,025
Loans receivable	4,514	-	4,514	-	-
Prepaid items	21,313	14,798	36,111	171,606	-
Restricted assets:					
Cash and cash equivalents	78,939	74,682	153,621	734,882	-
Capital assets (net of accumulated depreciation):					
Land	2,940,649	149,374	3,090,023	192,021	-
Buildings and improvements	11,043,505	866,204	11,909,709	3,641,358	-
Machinery and equipment	1,951,282	165,431	2,116,713	736,919	-
Infrastructure	3,248,864	13,761,700	17,010,564	-	-
Construction in progress	19,848,293	67,877	19,916,170	317,775	-
Total assets	<u>\$ 52,298,984</u>	<u>\$ 16,595,066</u>	<u>\$ 68,894,050</u>	<u>\$ 10,629,135</u>	<u>\$ 816,429</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred charge on refunding	\$ 28,783	\$ -	\$ 28,783	\$ -	\$ -
Pension related items	1,364,606	339,698	1,704,304	3,105,180	-
OPEB related items	161,324	40,689	202,013	570,932	-
Total deferred outflows of resources	<u>\$ 1,554,713</u>	<u>\$ 380,387</u>	<u>\$ 1,935,100</u>	<u>\$ 3,676,112</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts payable and retainage payable	\$ 776,223	\$ 64,397	\$ 840,620	\$ 359,349	\$ -
Wages and withholdings payable	394,670	79,313	473,983	1,184,173	-
Accrued health claims	88,421	-	88,421	-	-
Due to other governments	560,000	-	560,000	-	-
Customers' deposits	-	74,682	74,682	-	-
Accrued interest payable	249,874	-	249,874	-	-
Due to component unit	135,179	-	135,179	-	-
Unearned revenue	3,292,559	20,535	3,313,094	-	-
Long-term liabilities:					
Due within one year	779,232	655,023	1,434,255	184,729	-
Due in more than one year	26,760,290	10,165,856	36,926,146	15,176,897	-
Total liabilities	<u>\$ 33,036,448</u>	<u>\$ 11,059,806</u>	<u>\$ 44,096,254</u>	<u>\$ 16,905,148</u>	<u>\$ -</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred revenue - property taxes	\$ 18,729	\$ -	\$ 18,729	\$ -	\$ -
Pension related items	45,187	26,655	71,842	1,381,986	-
OPEB related items	31,551	8,025	39,576	152,391	-
Total deferred inflows of resources	<u>\$ 95,467</u>	<u>\$ 34,680</u>	<u>\$ 130,147</u>	<u>\$ 1,534,377</u>	<u>\$ -</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 15,850,308	\$ 5,141,453	\$ 20,991,761	\$ 4,888,073	\$ -
Restricted					
Fire department funds	38,584	-	38,584	-	-
Blue Ridge Post book fund	14,584	-	14,584	-	-
Small business loans program	25,771	-	25,771	-	-
Cafeteria operations	-	-	-	537,221	-
School activity funds	-	-	-	197,661	-
Unrestricted	4,792,535	739,514	5,532,049	(9,757,233)	816,429
Total net position	<u>\$ 20,721,782</u>	<u>\$ 5,880,967</u>	<u>\$ 26,602,749</u>	<u>\$ (4,134,278)</u>	<u>\$ 816,429</u>

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

City of Galax, Virginia  
Statement of Activities  
For the Year Ended June 30, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				Component Units			
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	Total	School Board	IDA	Component Units		
			Operating Grants and Contributions	Capital Grants and Contributions						School Board	IDA	
<b>PRIMARY GOVERNMENT:</b>												
Governmental activities:												
General government administration	\$ 1,673,437	\$ 35	\$ 123,066	\$ -	\$ (1,550,336)	\$ -	\$ (1,550,336)	\$ -	\$ -			
Judicial administration	597,852	110,403	-	-	(487,449)	-	(487,449)	-	-			
Public safety	4,553,484	38,624	1,544,936	-	(2,969,924)	-	(2,969,924)	-	-			
Public works	2,601,743	425,610	2,023,250	2,184,930	2,032,047	-	2,032,047	-	-			
Health and welfare	3,894,635	-	2,941,562	-	(953,073)	-	(953,073)	-	-			
Education	3,838,187	-	-	-	(3,838,187)	-	(3,838,187)	-	-			
Parks, recreation, and cultural	1,799,188	194,289	4,500	-	(1,600,399)	-	(1,600,399)	-	-			
Community development	913,010	-	-	371,882	(541,128)	-	(541,128)	-	-			
Interest on long-term debt	632,166	-	-	-	(632,166)	-	(632,166)	-	-			
Total governmental activities	\$ 20,503,702	\$ 768,961	\$ 6,637,314	\$ 2,556,812	\$ (10,540,615)	\$ -	\$ (10,540,615)	\$ -	\$ -			
Business-type activities:												
Water and sewer	\$ 2,808,539	\$ 2,930,886	\$ -	\$ 69,910	\$ -	\$ 192,257	\$ 192,257	\$ -	\$ -			
Stormwater	51,474	480,779	-	-	-	429,305	429,305	-	-			
Total business-type activities	\$ 2,860,013	\$ 3,411,665	\$ -	\$ 69,910	\$ -	\$ 621,562	\$ 621,562	\$ -	\$ -			
Total primary government	\$ 23,363,715	\$ 4,180,626	\$ 6,637,314	\$ 2,626,722	\$ (10,540,615)	\$ 621,562	\$ (9,919,053)	\$ -	\$ -			
<b>COMPONENT UNITS:</b>												
School Board	\$ 17,218,551	\$ 402,552	\$ 13,668,284	\$ -	\$ -	\$ -	\$ -	\$ (3,147,715)	\$ -			
Industrial Development Authority	9	10	-	-	-	-	-	-	-			1
Total component units	\$ 17,218,560	\$ 402,562	\$ 13,668,284	\$ -	\$ -	\$ -	\$ -	\$ (3,147,715)	\$ -			1
General revenues:												
General property taxes					\$ 6,522,881	\$ -	\$ 6,522,881	\$ -	\$ -			
Other local taxes:												
Local sales and use taxes					2,782,205	-	2,782,205	-	-			
Consumers' utility taxes					180,240	-	180,240	-	-			
Business license taxes					1,045,935	-	1,045,935	-	-			
Motor vehicle taxes					151,345	-	151,345	-	-			
Restaurant food taxes					2,312,753	-	2,312,753	-	-			
Lodging taxes					161,167	-	161,167	-	-			
Bank stock taxes					233,369	-	233,369	-	-			
Other local taxes					16,949	-	16,949	-	-			
Unrestricted revenues from the use of money and property					45,990	2,142	48,132	336	336			32
Miscellaneous					246,710	-	246,710	107,324	107,324			-
Grants and contributions not restricted to specific programs					464,462	-	464,462	3,880,975	3,880,975			210,000
Total general revenues					\$ 14,164,006	\$ 2,142	\$ 14,166,148	\$ 3,988,635	\$ 210,032			
Change in net position					\$ 3,623,391	\$ 623,704	\$ 4,247,095	\$ 840,920	\$ 210,033			
Net position - beginning, as restated					17,098,391	5,257,263	22,355,654	(4,975,198)	606,396			
Net position - ending					\$ 20,721,782	\$ 5,880,967	\$ 26,602,749	\$ (4,134,278)	\$ 816,429			

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

## **Basic Financial Statements**

City of Galax, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2021

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	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 10,068,964
Receivables (net of allowance for uncollectibles):	
Taxes receivable	446,891
Accounts receivable	762,696
Due from other funds	368,000
Due from other governmental units	1,490,354
Loan receivable	4,514
Prepaid items	21,313
Total assets	<u>\$ 13,162,732</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 761,812
Retainage payable	14,411
Wages and withholdings payable	394,670
Due to other governments	560,000
Due to component unit	135,179
Unearned revenue	3,292,559
Total liabilities	<u>\$ 5,158,631</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	\$ 407,874
Unavailable revenue - meals tax	24,123
Property taxes paid in advance	18,729
Total deferred inflows of resources	<u>\$ 450,726</u>
<b>FUND BALANCES</b>	
Nonspendable	
Prepaid items	\$ 21,313
Loans receivable	4,514
Restricted	74,425
Committed	27,002
Unassigned	7,426,121
Total fund balances	<u>\$ 7,553,375</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 13,162,732</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, 2021

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	7,553,375
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	2,940,649
Buildings and improvements		11,043,505
Infrastructure		3,248,864
Machinery and equipment		1,951,282
Construction in progress		19,848,293
		39,032,593
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		431,997
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	\$	1,364,606
OPEB related items		161,324
		1,525,930
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		15,238
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds, loans, and capital leases	\$	(23,196,657)
Less: Unamortized charge on advance refunding		28,783
Accrued interest payable		(249,874)
Accrued landfill closure/postclosure monitoring liability		(545,214)
Compensated absences		(378,118)
Net OPEB liabilities		(786,139)
Net pension liability		(2,633,394)
		(27,760,613)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$	(45,187)
OPEB related items		(31,551)
		(76,738)
Net position of governmental activities		\$ 20,721,782

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, 2021

---

		<u>General</u>
<b>REVENUES</b>		
General property taxes	\$	6,520,563
Other local taxes		6,903,229
Permits, privilege fees, and regulatory licenses		20,104
Fines and forfeitures		110,403
Revenue from the use of money and property		45,990
Charges for services		638,454
Miscellaneous		246,710
Recovered costs		179,111
Intergovernmental		9,658,588
Total revenues	\$	<u>24,323,152</u>
<b>EXPENDITURES</b>		
Current:		
General government administration	\$	1,562,805
Judicial administration		601,626
Public safety		4,092,785
Public works		4,779,631
Health and welfare		3,819,920
Education		3,893,123
Parks, recreation, and cultural		1,572,926
Community development		930,161
Nondepartmental		80,135
Capital projects		2,497,636
Debt service:		
Principal retirement		513,602
Interest and other fiscal charges		546,110
Total expenditures	\$	<u>24,890,460</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>(567,308)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds of refunding bonds	\$	17,100,000
Issuance of general obligation bonds		4,100,719
Debt service - current refunding - principal		(16,830,417)
Total other financing sources (uses)	\$	<u>4,370,302</u>
Net change in fund balances	\$	3,802,994
Fund balances - beginning		3,750,381
Fund balances - ending	\$	<u><u>7,553,375</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, 2021

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

Net change in fund balances - total governmental funds \$ 3,802,994

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

Capital outlays	\$ 4,890,607	
Depreciation expense	(978,380)	3,912,227

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

Transfer of assets (net) to Component Unit-School Board	\$ 102,534	
Donation of assets	(102,555)	(21)

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

Property taxes	\$ 2,318	
Meals tax	(19,266)	(16,948)

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	\$ (4,100,719)	
Issuance of refunding bond	(17,100,000)	
Change in accrued landfill closure/postclosure liability	31,763	
Principal repayments:		
Current refunding of debt	16,830,417	
General obligation bonds and literary fund loans	489,759	
Capital leases	23,843	(3,824,937)

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	\$ (6,045)	
Change in accrued interest payable	(83,753)	
Amortization of deferred charge on refunding	(2,303)	
Change in pension related items	(232,618)	
Change in OPEB related items	(28,275)	(352,994)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

103,070

Change in net position of governmental activities		\$ 3,623,391

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, 2021

	Enterprise Fund			Internal Service Funds
	Water and Sewer	Stormwater	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 584,041	\$ 456,942	\$ 1,040,983	\$ 1,956
Accounts receivable (net of allowance for uncollectibles)	731,902	22,115	754,017	169,703
Prepaid items	14,798	-	14,798	-
Total current assets	<u>\$ 1,330,741</u>	<u>\$ 479,057</u>	<u>\$ 1,809,798</u>	<u>\$ 171,659</u>
Noncurrent assets:				
Restricted cash and cash equivalents	\$ 74,682	\$ -	\$ 74,682	\$ -
Capital assets:				
Land	149,374	-	149,374	-
Utility plant in service and infrastructure	29,173,091	840,839	30,013,930	-
Machinery and equipment	626,481	-	626,481	-
Buildings and improvements	1,823,395	-	1,823,395	-
Construction in progress	67,877	-	67,877	-
Accumulated depreciation	(17,655,277)	(15,194)	(17,670,471)	-
Net capital assets	<u>\$ 14,184,941</u>	<u>\$ 825,645</u>	<u>\$ 15,010,586</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 14,259,623</u>	<u>\$ 825,645</u>	<u>\$ 15,085,268</u>	<u>\$ -</u>
Total assets	<u>\$ 15,590,364</u>	<u>\$ 1,304,702</u>	<u>\$ 16,895,066</u>	<u>\$ 171,659</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	\$ 332,650	\$ 7,048	\$ 339,698	\$ -
OPEB related items	39,985	704	40,689	-
Total deferred outflows of resources	<u>\$ 372,635</u>	<u>\$ 7,752</u>	<u>\$ 380,387</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 46,397	\$ -	\$ 46,397	\$ -
Construction and retainage payable	18,000	-	18,000	-
Accrued payroll and related liabilities	77,872	1,441	79,313	-
Accrued health claims	-	-	-	88,421
Due to other funds	300,000	-	300,000	68,000
Customers' deposits	74,682	-	74,682	-
Unearned revenue	-	20,535	20,535	-
Compensated absences - current portion	79,948	-	79,948	-
Bond payable - current portion	575,075	-	575,075	-
Total current liabilities	<u>\$ 1,171,974</u>	<u>\$ 21,976</u>	<u>\$ 1,193,950</u>	<u>\$ 156,421</u>
Noncurrent liabilities:				
Compensated absences - net of current portion	\$ 19,987	\$ -	\$ 19,987	\$ -
Bond payable - net of current portion	9,276,058	-	9,276,058	-
Net OPEB liabilities	196,740	3,227	199,967	-
Net pension liability	659,033	10,811	669,844	-
Total noncurrent liabilities	<u>\$ 10,151,818</u>	<u>\$ 14,038</u>	<u>\$ 10,165,856</u>	<u>\$ -</u>
Total liabilities	<u>\$ 11,323,792</u>	<u>\$ 36,014</u>	<u>\$ 11,359,806</u>	<u>\$ 156,421</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension related items	\$ 24,276	\$ 2,379	\$ 26,655	\$ -
OPEB related items	7,895	130	8,025	-
Total deferred inflows of resources	<u>\$ 32,171</u>	<u>\$ 2,509</u>	<u>\$ 34,680</u>	<u>\$ -</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 4,315,808	\$ 825,645	\$ 5,141,453	\$ -
Unrestricted	291,228	448,286	739,514	15,238
Total net position	<u>\$ 4,607,036</u>	<u>\$ 1,273,931</u>	<u>\$ 5,880,967</u>	<u>\$ 15,238</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, 2021

	Enterprise Fund			Internal Service Funds
	<u>Water and Sewer</u>	<u>Stormwater</u>	<u>Total</u>	
<b>OPERATING REVENUES</b>				
Charges for services:				
Water revenues pledged as security for revenue bonds	\$ 1,388,507	\$ -	\$ 1,388,507	\$ -
Sewer revenues pledged as security for revenue bonds	1,425,962	-	1,425,962	-
Stormwater fees	-	480,779	480,779	-
Tap fees	19,500	-	19,500	-
Penalties and interest	9,253	-	9,253	-
Insurance premium	-	-	-	1,775,823
Other revenue	87,664	-	87,664	-
Total operating revenues	<u>\$ 2,930,886</u>	<u>\$ 480,779</u>	<u>\$ 3,411,665</u>	<u>\$ 1,775,823</u>
<b>OPERATING EXPENSES</b>				
Personnel services	\$ 1,639,345	\$ 35,944	\$ 1,675,289	\$ -
Insurance claims and expenses	19,668	-	19,668	1,672,753
Utilities and telecommunication	277,841	-	277,841	-
Materials and supplies	305,401	187	305,588	-
Repairs and maintenance	185,289	-	185,289	-
Contractual services	-	149	149	-
Professional development and membership	21,965	-	21,965	-
Depreciation	334,735	15,194	349,929	-
Total operating expenses	<u>\$ 2,784,244</u>	<u>\$ 51,474</u>	<u>\$ 2,835,718</u>	<u>\$ 1,672,753</u>
Operating income (loss)	<u>\$ 146,642</u>	<u>\$ 429,305</u>	<u>\$ 575,947</u>	<u>\$ 103,070</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ 895	\$ 1,247	\$ 2,142	\$ -
Loss on disposal of assets	(24,295)	-	(24,295)	-
Total nonoperating revenues (expenses)	<u>\$ (23,400)</u>	<u>\$ 1,247</u>	<u>\$ (22,153)</u>	<u>\$ -</u>
Income before contributions and grants	<u>\$ 123,242</u>	<u>\$ 430,552</u>	<u>\$ 553,794</u>	<u>\$ 103,070</u>
Capital contributions and construction grants	69,910	-	69,910	-
Change in net position	<u>\$ 193,152</u>	<u>\$ 430,552</u>	<u>\$ 623,704</u>	<u>\$ 103,070</u>
Net position - beginning	4,413,884	843,379	5,257,263	(87,832)
Net position - ending	<u>\$ 4,607,036</u>	<u>\$ 1,273,931</u>	<u>\$ 5,880,967</u>	<u>\$ 15,238</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, 2021

	Enterprise Fund			Internal Service Funds
	Water and Sewer	Stormwater	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 2,848,489	\$ 480,564	\$ 3,329,053	\$ -
Receipts for insurance premiums	-	-	-	1,679,932
Payments to suppliers	(805,751)	(2,485)	(808,236)	-
Payments to employees	(1,588,109)	(36,657)	(1,624,766)	-
Payments for health claims	-	-	-	(1,685,953)
Net cash provided by (used for) operating activities	<u>\$ 454,629</u>	<u>\$ 441,422</u>	<u>\$ 896,051</u>	<u>\$ (6,021)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ -	\$ -	\$ -	\$ (14,088)
Net cash provided by (used for) noncapital financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,088)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to utility plant	\$ (636,053)	\$ (277,275)	\$ (913,328)	\$ -
Principal payments on bond payable	(575,075)	-	(575,075)	-
Contributions in aid of construction	92,266	184,361	276,627	-
Proceeds from indebtedness	665,157	-	665,157	-
Net cash provided by (used for) capital and related financing activities	<u>\$ (453,705)</u>	<u>\$ (92,914)</u>	<u>\$ (546,619)</u>	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	\$ 895	\$ 1,247	\$ 2,142	\$ -
Net cash provided by (used for) investing activities	<u>\$ 895</u>	<u>\$ 1,247</u>	<u>\$ 2,142</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,819	\$ 349,755	\$ 351,574	\$ (20,109)
Cash and cash equivalents - beginning (including restricted of \$132,851)	656,904	107,187	764,091	22,065
Cash and cash equivalents - ending (including restricted of \$74,682)	<u>\$ 658,723</u>	<u>\$ 456,942</u>	<u>\$ 1,115,665</u>	<u>\$ 1,956</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 146,642	\$ 429,305	\$ 575,947	\$ 103,070
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 334,735	\$ 15,194	\$ 349,929	\$ -
(Increase) decrease in accounts receivable	(83,457)	(12,153)	(95,610)	(95,891)
(Increase) decrease in prepaid items	(3,401)	-	(3,401)	31,248
(Increase) decrease in deferred outflows of resources	(149,782)	2,235	(147,547)	-
Increase (decrease) in deferred inflows of resources	(87,993)	231	(87,762)	-
Increase (decrease) in customer deposits	1,060	-	1,060	-
Increase (decrease) in accrued payroll and related liabilities	8,645	(724)	7,921	-
Increase (decrease) in accounts payable	7,814	(2,149)	5,665	-
Increase (decrease) in health claims payable	-	-	-	(44,448)
Increase (decrease) in unearned revenue	-	11,938	11,938	-
Increase (decrease) in compensated absences	(7,344)	-	(7,344)	-
Increase (decrease) in net OPEB liabilities	646	(2,467)	(1,821)	-
Increase (decrease) in net pension liability	287,064	12	287,076	-
Total adjustments	<u>\$ 307,987</u>	<u>\$ 12,117</u>	<u>\$ 320,104</u>	<u>\$ (109,091)</u>
Net cash provided by (used for) operating activities	<u>\$ 454,629</u>	<u>\$ 441,422</u>	<u>\$ 896,051</u>	<u>\$ (6,021)</u>

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

**City of Galax, Virginia**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2021**

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	<b>Custodial Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 23,555
Total assets	\$ 23,555
 <b>NET POSITION</b>	
Restricted:	
Amounts held for social services clients	\$ 23,555
Total net position	\$ 23,555

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

City of Galax, Virginia  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2021

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	<u>Custodial Fund</u>
<b>ADDITIONS</b>	
Gifts and donations	\$ 72,863
Total additions	<u>\$ 72,863</u>
<b>DEDUCTIONS</b>	
Special welfare payments	\$ 80,664
Total deductions	<u>\$ 80,664</u>
Net increase (decrease) in fiduciary net position	\$ (7,801)
Net position, beginning of year, as restated	<u>31,356</u>
Net position, end of year	<u><u>\$ 23,555</u></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, 2021

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

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

The Galax City Industrial Development Authority ("the IDA") encourages and provides financing for industrial development in the City. The IDA directors are appointed by the City Council. The IDA is fiscally dependent upon the City because the City provides significant 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 \$226,956 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 \$61,780 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 \$137,759 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 \$53,560 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.

**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 \$142,240. 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.

Fiduciary funds use the accrual basis of accounting described in the Governmental Fund Presentation.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and 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 principal and interest expenditures on general long-term debt as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

The government reports the following major governmental fund:

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

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

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

The government reports the following major proprietary funds:

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

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

The *Internal Service Fund* accounts for and reports the financing of goods and services provided by one department or agency to other departments or agencies of the City government. The self-insured health insurance plan is accounted for and reported in this fund.

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 custodian for individuals, private organizations, other governmental units, or other funds. The *Special Welfare* fund is a custodial fund of the City. Fiduciary funds are not included in the government-wide financial statements.

The School Board reports the following major fund:

The *School Operating Fund* is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from appropriations from the City and state and federal grants.

The School Board reports the following nonmajor fund:

The *School Activity Fund* accounts for and reports all funds received from extracurricular school activities, such as entertainment, athletic contests, club dues, fundraisers, etc., and from any and all activities of the individual schools.

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.

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

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

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 funds are charges to customers for sales and services and for insurance premiums. 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, depreciation on capital assets, and insurance claims and expenses. 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

Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

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.

**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

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.

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

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

6. Restricted Assets

Restricted assets consist of cash and cash equivalents that are legally restricted for use by enabling state legislation. In addition, restricted assets consist of cash and cash equivalents held for customer deposits.

7. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

**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

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

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

9. Property Taxes

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

10. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$194,169 at June 30, 2021. The allowance consists of delinquent taxes in the amount of \$121,470; delinquent meals tax of \$15,993; and delinquent water, sewer, and garbage bills of \$56,706.

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

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

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.

12. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

13. Pensions

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

14. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, Teacher HIC, and Political Subdivision HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

15. Long-term obligations

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

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

16. Fund balance

The following classifications of fund balance describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;

Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;

Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments general only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

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

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

16. Fund balance (Continued)

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.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

17. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable 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 included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

18. Net position flow assumption

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

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

A. Budgetary information

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

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

B. Excess of expenditures over appropriations

The City monitors appropriations by fund and for the year ending June 30, 2021, expenditures were below appropriations for all funds.

C. Deficit fund balance

At June 30, 2021, there were no funds with negative balance.

**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 that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard and Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), 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.

<b>Investment Maturities (in years)</b>		
<b>Investment Type</b>	<b>Fair Value</b>	<b>1 Year</b>
Local Government Investment Pool	\$ 1,437,844	\$ 1,437,844
Certificates of Deposit	66,456	66,456
Totals	\$ 1,504,300	\$ 1,504,300

Custodial Credit Risk

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

External Investment Pool

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2021 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	\$ 1,437,844

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

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

	Primary Government Governmental Activities	Component Unit- School Board
Due from other local government agencies	\$ -	\$ 90,868
Commonwealth of Virginia:		
Local sales tax	468,499	-
Categorical aid-State sales tax	-	189,000
Categorical aid-Shared expenses	5,186	-
Categorical aid-Other	6,228	256,000
Non-categorical aid	37,784	-
Categorical aid-Virginia Public Assistance	70,818	-
Categorical aid-Comprehensive Services Act	123,138	-
Federal Government:		
Categorical aid-Virginia Public Assistance	102,536	-
Categorical aid-Other	676,165	1,461,147
Totals	\$ 1,490,354	\$ 1,997,015

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

Primary government contributions to component units for the year ended June 30, 2021, consisted of payments to School Board of \$3,880,975 and IDA of \$210,000.

Component unit obligations at June 30, 2021, consisted of the following:

Fund	Due From	Due To
Primary Government:		
Governmental Activities	\$ -	\$ 135,179
Component Unit:		
School Board	135,169	
IDA	10	
Total	\$ 135,179	\$ 135,179

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

Interfund transfers for the year ended June 30, 2021, consisted of the following:

Fund	Transfers In	Transfers Out
Component Unit - School Board		
School Operating Fund	\$ -	\$ 19,355
School Activity Fund	19,355	-
Total	\$ 19,355	\$ 19,355

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.

Interfund balances at year end represent amounts that have been transferred between funds in a lending or borrowing capacity and are expected to be repaid by current administration. Interfund balances for the year ended June 30, 2021, consisted of the following:

Fund	Due From	Due To
Primary Government:		
General Fund	\$ 368,000	\$ -
Water and Sewer Fund	-	300,000
Internal Service Fund	-	68,000
Total	\$ 368,000	\$ 368,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**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, 2021.

	<u>Balance</u> <u>July 1, 2020</u>	<u>Increases/</u> <u>Issuances</u>	<u>Decreases/</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>
Direct borrowings and placements:				
General obligation bonds	\$ 19,291,851	\$ 21,200,719	\$ (17,320,176)	\$ 23,172,394
Capital leases	48,106	-	(23,843)	24,263
Landfill closure/postclosure liability	576,977	-	(31,763)	545,214
Compensated absences	372,073	303,703	(297,658)	378,118
Net OPEB liabilities	732,594	156,182	(102,637)	786,139
Net pension liability	<u>1,389,633</u>	<u>2,091,482</u>	<u>(847,721)</u>	<u>2,633,394</u>
 Total	 <u>\$ 22,411,234</u>	 <u>\$ 23,752,086</u>	 <u>\$ (18,623,798)</u>	 <u>\$ 27,539,522</u>

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

Primary Government - Governmental Activities Obligations: (Continued)

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

Year Ending June 30,	Direct borrowings and placements	
	Principal	Interest
2022	\$ 452,475	\$ 529,299
2023	500,646	699,890
2024	656,688	502,629
2025	672,108	486,114
2026	688,417	469,194
2027-2031	3,613,996	2,083,484
2032-2036	3,733,432	1,617,875
2037-2041	2,382,535	1,232,538
2042-2046	2,286,151	997,049
2047-2051	2,542,640	740,560
2052-2056	2,827,906	455,294
2057-2061	2,815,400	139,481
Totals	<u>\$ 23,172,394</u>	<u>\$ 9,953,407</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2021

**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
Direct borrowings and placements:						
General Obligation Bonds:						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 1,069,000	\$ 74,500
2017 A GO Bond	1.83%	June-17	2022	509,000	105,000	105,000
2017 B GO Bond	2.55%	June-17	2032	711,000	545,000	43,000
2018 C Refunding Bond	2.98%	June-17	2037	4,553,000	4,340,000	222,000
RD Loan	2.75%	February-20	2023	23,700	13,394	7,975
RD Loan	2.13%	December-20	2061	8,600,000	8,600,000	-
RD Loan	2.13%	December-20	2061	8,500,000	8,500,000	-
Total General Obligation Bonds					<u>\$ 23,172,394</u>	<u>\$ 452,475</u>
Other Obligations:						
Capital leases	n/a	n/a	n/a	n/a	\$ 24,263	\$ 24,263
Landfill closure/post-closure liability	n/a	n/a	n/a	n/a	545,214	-
Compensated absences	n/a	n/a	n/a	n/a	378,118	302,494
Net OPEB Liabilities	n/a	n/a	n/a	n/a	786,139	-
Net pension liability	n/a	n/a	n/a	n/a	2,633,394	-
Total Other Obligations					<u>\$ 4,367,128</u>	<u>\$ 326,757</u>
Total Long-term obligations					<u>\$ 27,539,522</u>	<u>\$ 779,232</u>

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

The following is a summary of long-term obligations transactions of the Enterprise Fund for the year ended June 30, 2021.

	Balance July 1, 2020	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2021
Direct borrowings and placements:				
Revenue bonds	\$ 9,761,051	\$ 665,157	\$ (575,075)	\$ 9,851,133
Compensated absences	107,279	78,479	(85,823)	99,935
Net OPEB liabilities	201,788	37,252	(39,073)	199,967
Net pension liability	382,768	527,298	(240,222)	669,844
Total	<u>\$ 10,452,886</u>	<u>\$ 1,308,186</u>	<u>\$ (940,193)</u>	<u>\$ 10,820,879</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

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

For business-type activities, compensated absences are generally liquidated in the Proprietary Fund.

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

Year Ending June 30,	Direct borrowings and placements	
	Principal	Interest
2022	\$ 575,075	\$ -
2023	575,075	-
2024	575,075	-
2025	575,075	-
2026	575,075	-
2027-2031	2,875,373	-
2032-2036	2,412,873	-
2037-2040	1,687,512	-
<b>Totals</b>	<b>\$ 9,851,133</b>	<b>\$ -</b>

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Direct borrowings and placements:						
Revenue Bonds:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 925,000	\$ 92,500
VRA Bond	0.00%	January-18	2040	9,651,492	8,926,133	482,575
Total Revenue Bonds					<u>\$ 9,851,133</u>	<u>\$ 575,075</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 99,935	\$ 79,948
Net OPEB Liabilities	n/a	n/a	n/a	n/a	199,967	-
Net Pension Liability	n/a	n/a	n/a	n/a	669,844	-
Total Other Obligations					<u>\$ 969,746</u>	<u>\$ 79,948</u>
Total Long-term obligations					<u>\$ 10,820,879</u>	<u>\$ 655,023</u>

Loans from the Virginia Resources Authority (VRA) are governed by rate covenants. The City failed to meet the 115% bond coverage ration of the VRA bonds for fiscal year ending June 30, 2021. Revenue bonds and locality compensation payments are secured by the City's revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

If an event of default occurs with VRA or RD bonds, the principal of the bond(s) may be declared immediately due and payable to the registered owner of the bond(s) by written notice to the City.

**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, 2021.

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Net OPEB liabilities	\$ 2,558,742	\$ 447,560	\$ (436,980)	\$ 2,569,322
Compensated absences	161,946	198,522	(129,557)	230,911
Net pension liability	11,955,208	4,492,640	(3,886,455)	12,561,393
<b>Total</b>	<b>\$ 14,675,896</b>	<b>\$ 5,138,722</b>	<b>\$ (4,452,992)</b>	<b>\$ 15,361,626</b>

**Details of long-term obligations:**

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<b>Other Obligations:</b>						
Net OPEB Liabilities	n/a	n/a	n/a	n/a	\$ 2,569,322	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	230,911	184,729
Net Pension Liability	n/a	n/a	n/a	n/a	12,561,393	-
<b>Total long-term obligations</b>					<b>\$ 15,361,626</b>	<b>\$ 184,729</b>

**Discretely Presented Component Unit - IDA Obligations:**

At June 30, 2021, the IDA had no long-term obligations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 9-Capital Lease:**

The City has entered into a capital lease for the purchase of a garbage truck. The lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the inception date.

Total capital assets acquired through the capital lease are as follows:

Garbage truck	\$ 140,725
Accumulated Depreciation	<u>(63,326)</u>
Net Book Value of Capital Asset	<u>\$ 77,399</u>

Present value of future minimum lease payments:

Year Ending June 30,	Capital Lease
2022	\$ 24,687
Total minimum lease payments	\$ 24,687
Less: amount representing interest	<u>(424)</u>
Present value of future minimum lease payments	<u>\$ 24,263</u>

**Note 10-Pension Plans:**

***Plan Description***

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

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

**Note 10-Pension Plans: (Continued)**

***Benefit Structures***

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

**Note 10-Pension Plans: (Continued)**

***Average Final Compensation and Service Retirement Multiplier***

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

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

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

***Contributions***

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

The City's contractually required employer contribution rate for the year ended June 30, 2021 was 8.24% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 \$433,317 and \$381,657 for the years ended June 30, 2021 and June 30, 2020, respectively.

**Note 10-Pension Plans: (Continued)**

***Net Pension Liability***

At June 30, 2021, the City reported a liability of \$3,303,238 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. 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, 2020 and 2019 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2020 and 2019, the City's proportion was 81.46% and 81.74%, respectively.

***Actuarial Assumptions - General Employees***

The total pension liability for General Employees in the City of Galax Retirement Plan and the Component Unit Schools Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

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

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

\* Administrative expenses as a percent of the fair 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**Mortality rates:**

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Note 10-Pension Plans: (Continued)**

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits**

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City of Galax Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

\* Administrative expenses as a percent of the fair 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**Note 10-Pension Plans: (Continued)**

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60.00% to 45.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

**Note 10-Pension Plans: (Continued)**

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
 Total	 <u>100.00%</u>		 <u>4.64%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.14%</u>

\* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

**Note 10-Pension Plans: (Continued)**

***Discount Rate***

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (Nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. Through the fiscal year ending June 30, 2020, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the City’s Proportionate Share 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>Rate</b>		
	<b>1% Decrease (5.75%)</b>	<b>Discount (6.75%)</b>	<b>1% Increase (7.75%)</b>
City's proportionate share of the City Retirement Plan Net Pension Liability	\$ 6,439,871	\$ 3,303,238	\$ 681,332

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 10-Pension Plans: (Continued)**

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

For the year ended June 30, 2021, the City recognized pension expense of \$706,057. 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, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 292,019	\$ 57,445
Change in assumptions	272,105	-
Change in proportionate share	19,893	14,397
Net difference between projected and actual earnings on pension plan investments	686,970	-
Employer contributions subsequent to the measurement date	<u>433,317</u>	<u>-</u>
Total	<u>\$ 1,704,304</u>	<u>\$ 71,842</u>

\$433,317 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2022	\$ 307,312
2023	408,852
2024	263,135
2025	219,846
Thereafter	-

**Note 10-Pension Plans: (Continued)**

*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**Component Unit School Board (Nonprofessional)**

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

***Employees Covered by Benefit Terms***

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b><u>Component Unit School Board Nonprofessional</u></b>
Inactive members or their beneficiaries currently receiving benefits	21
Inactive members:	
Vested inactive members	3
Non-vested inactive members	8
Inactive members active elsewhere in VRS	<u>8</u>
Total inactive members	19
Active members	<u>23</u>
Total covered employees	<u><u>63</u></u>

*Remainder of page left blank intentionally.*

**Note 10-Pension Plans: (Continued)**

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

***Contributions***

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2021 was 4.85% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 \$24,062 and \$39,805 for the years ended June 30, 2021 and June 30, 2020, respectively.

***Net Pension Liability***

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 10-Pension Plans: (Continued)**

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

**Changes in Net Pension Liability**

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2019	\$ 2,462,354	\$ 2,209,524	\$ 252,830
Changes for the year:			
Service cost	\$ 45,582	\$ -	\$ 45,582
Interest	162,270	-	162,270
Differences between expected and actual experience	(239,670)	-	(239,670)
Contributions - employer	-	39,805	(39,805)
Contributions - employee	-	24,676	(24,676)
Net investment income	-	42,041	(42,041)
Benefit payments	(116,694)	(116,694)	-
Administrative expenses	-	(1,447)	1,447
Other changes	-	(50)	50
Net changes	\$ (148,512)	\$ (11,669)	\$ (136,843)
Balances at June 30, 2020	\$ 2,313,842	\$ 2,197,855	\$ 115,987

**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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Discount (6.75%)	1% Increase (7.75%)
Component Unit School Board (nonprofessional) Net Pension Liability	\$ 354,818	\$ 115,987	\$ (88,272)

**Note 10-Pension Plans: (Continued)**

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

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

For the year ended June 30, 2021, the Component Unit School Board (Nonprofessional) recognized pension expense of \$(7,673). At June 30, 2021, the Component Unit School Board (Nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Component Unit School Board (nonprofessional)</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 419	\$ 136,364
Change in assumptions	13,313	-
Net difference between projected and actual earnings on pension plan investments	65,496	-
Employer contributions subsequent to the measurement date	24,062	-
Total	<u>\$ 103,290</u>	<u>\$ 136,364</u>

\$24,062 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<b><u>Year ended June 30</u></b>	<b>Component Unit School Board (nonprofessional)</b>
2022	\$ (88,337)
2023	(12,356)
2024	22,500
2025	21,057
Thereafter	-

**Note 10-Pension Plans: (Continued)**

**Component Unit School Board (Professional)**

***Plan Description***

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). Additional information regarding the plan description is included in the first section of this note.

***Contributions***

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2021 was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were \$1,205,724 and \$1,133,659 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the school division reported a liability of \$12,445,406 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2020 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. 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, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the school division's proportion was 0.08550% as compared to 0.08892% at June 30, 2019.

For the year ended June 30, 2021, the school division recognized pension expense of \$1,242,102. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

**Note 10-Pension Plans: (Continued)**

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

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

At June 30, 2021, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Component Unit School Board (professional)</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 729,493
Change in assumptions	849,555	-
Net difference between projected and actual earnings on pension plan investments	946,611	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	516,129
Employer contributions subsequent to the measurement date	<u>1,205,724</u>	<u>-</u>
Total	<u>\$ 3,001,890</u>	<u>\$ 1,245,622</u>

\$1,205,724 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<b><u>Year ended June 30</u></b>	<b><u>Component Unit School Board (professional)</u></b>
2022	\$ (148,520)
2023	185,147
2024	311,185
2025	235,942
Thereafter	(33,210)

**Note 10-Pension Plans: (Continued)**

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

***Actuarial Assumptions***

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

\* Administrative expenses as a percent of the fair 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**Mortality rates:**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

**Note 10-Pension Plans: (Continued)**

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

***Actuarial Assumptions (Continued)***

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased rate from 7.00% to 6.75%

***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, 2020, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		<b>Teacher Employee Retirement Plan</b>
Total Pension Liability	\$	51,001,855
Plan Fiduciary Net Position		<u>36,449,229</u>
Employers' Net Pension Liability (Asset)	\$	<u><u>14,552,626</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		71.47%

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.

**Note 10-Pension Plans: (Continued)**

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

**Net Pension Liability (Continued)**

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

**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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	(5.75%)	(6.75%)	(7.75%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 18,260,206	\$ 12,445,406	\$ 7,635,832

**Pension Plan Fiduciary Net Position**

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Aggregate Pension Information**

The following is a summary of deferred outflows, deferred inflows, net pension liabilities (assets), and pension expense for the year ended June 30, 2021.

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
VRS Pension Plans:								
Primary Government	\$ 1,704,304	\$ 71,842	\$ 3,303,238	\$ 706,057	\$ -	\$ -	\$ -	\$ -
School Board Nonprofessional	-	-	-	-	103,290	136,364	115,987	(7,673)
School Board Professional	-	-	-	-	3,001,890	1,245,622	12,445,406	1,242,102
Totals	<u>\$ 1,704,304</u>	<u>\$ 71,842</u>	<u>\$ 3,303,238</u>	<u>\$ 706,057</u>	<u>\$ 3,105,180</u>	<u>\$ 1,381,986</u>	<u>\$ 12,561,393</u>	<u>\$ 1,234,429</u>

**Note 11-Other Postemployment Benefits - City Health Insurance:**

***Plan Description***

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

***Benefits Provided***

Postemployment benefits are provided to eligible retirees consisting of medical insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. An eligible City retiree may receive this benefit until the retiree is eligible to receive Medicare. To be eligible for this benefit a retiree must have 10 years of service with the City and the employee must be eligible to retire from the City under the Virginia Retirement System. The benefits, employee contributions and the employer contributions are governed by the City Council and can be amended through Council action.

***Contributions***

The Council does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2021 was \$18,496.

***Total OPEB Liability***

At June 30, 2021, the City reported a liability of \$550,137 for its proportionate share of the total OPEB liability. The City's total OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. At June 30, 2020, the City's proportionate share of total OPEB liability was 81.4596% as compared to 81.7411% at June 30, 2019.

***Actuarial Assumptions***

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	Based on the most recently disclosed assumptions for the pension plan in which the employee participates.
Discount Rate	2.45%

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

**Actuarial Assumptions (Continued)**

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

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

**Discount Rate**

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

**Sensitivity of the City’s Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate**

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.45%) or one percentage point higher (3.45%) than the current discount rate:

Rate		
1% Decrease (1.45%)	Current Discount Rate (2.45%)	1% Increase (3.45%)
\$ 600,101	\$ 550,137	\$ 504,053

**Sensitivity of the City’s Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.40% decreasing to an ultimate rate of 3.00%) or one percentage point higher (7.40% decreasing to an ultimate rate of 5.00%) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.40% decreasing to 3.00%)	Healthcare Cost Trend (6.40% decreasing to 4.00%)	1% Increase (7.40% decreasing to 5.00%)
\$ 480,600	\$ 550,137	\$ 633,412

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

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

For the year ended June 30, 2021, the City recognized OPEB expense in the amount of \$58,407. At June 30, 2021 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,605
Changes in assumptions	87,625	10,336
Employer contributions subsequent to the measurement date	18,496	-
Total	<u>\$ 106,121</u>	<u>\$ 11,941</u>

\$18,496 reported as deferred outflows of resources related to OPEB resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2021	\$ 14,725
2022	14,725
2023	15,211
2024	17,990
2025	11,694
Thereafter	1,339

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

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

***Plan Description***

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

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

***Benefits Provided***

Postemployment benefits are provided to eligible retirees include Medical insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. An eligible School Board retiree may receive this benefit until the retiree is eligible to receive Medicare. To be eligible for this benefit a retiree must have 10 years of service with the School Board and the employee must be eligible to retire from the School Board under the Virginia Retirement System. The benefits, employee contributions and the employer contributions are governed by the School Board and can be amended through School Board action. The plan is closed to new entrants.

***Plan Membership***

At June 30, 2020 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	163
Total active employees without coverage	26
Total retirees with coverage	11
Total	200

***Contributions***

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School Board for OPEB as the benefits came due during the year ended June 30, 2021 was \$49,914.

***Total OPEB Liability***

The School Board’s total OPEB liability was measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019.

***Actuarial Assumptions***

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Healthcare cost trend rate	6.4% for FY2020, gradually decreasing over several decades to an ultimate rate of 4.0% in FY2076 and later years.
Discount Rate	2.45%

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



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

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

The following presents the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.40% decreasing to an ultimate rate of 3.00%) or one percentage point higher (7.40% decreasing to an ultimate rate of 5.00%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (5.40% decreasing to 3.00%)	Trend (6.40% decreasing to 4.00%)	1% Increase (7.40% decreasing to 5.00%)
\$ 680,758	\$ 779,763	\$ 898,634

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

For the year ended June 30, 2021, the School Board recognized OPEB expense in the amount of \$109,635. At June 30, 2021, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 97,528	\$ -
Changes in assumptions	162,802	10,318
Employer contributions subsequent to the measurement date	49,914	-
Total	<u>\$ 310,244</u>	<u>\$ 10,318</u>

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

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

\$49,914 reported as deferred outflows of resources related to OPEB resulting from the School Board’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2022	\$ 39,415
2023	39,415
2024	39,415
2025	39,955
2026	41,907
Thereafter	49,905

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

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

***Plan Description***

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

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

***Eligible Employees***

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

***Benefit Amounts***

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. It will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.

***Contributions***

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the Group Life Insurance Plan from the City were \$29,910 and \$29,203 for the years ended June 30, 2021 and June 30, 2020, respectively.

Contributions to the Group Life Insurance Plan from the Component Unit School Board (Nonprofessional) were \$3,225 and \$3,007 for the years ended June 30, 2021 and June 30, 2020, respectively.

Contributions to the Group Life Insurance Plan from the Component Unit School Board (Professional) were \$40,652 and \$38,565 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB***

*Primary Government Group Life Insurance Plan*

At June 30, 2021, the entity reported a liability of \$435,969 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was 0.0261% as compared to 0.0270% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$13,737. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

*Component Unit School Board (Nonprofessional) Group Life Insurance Plan*

At June 30, 2021 the entity reported a liability of \$43,223 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was 0.0026% as compared to 0.0027% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$1,523. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

*Component Unit School Board (Professional) Group Life Insurance Plan*

At June 30, 2021, the entity reported a liability of \$601,282 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was 0.0360% as compared to 0.0377% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$15,734. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

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

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

At June 30, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)		Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,964	\$ 3,916	\$ 2,772	\$ 387	\$ 38,567	\$ 5,401
Net difference between projected and actual earnings on GLI OPEB program investments	13,097	-	1,298	-	18,062	-
Change in assumptions	21,803	9,103	2,162	903	30,071	12,555
Changes in proportionate share	3,118	14,616	217	1,148	1,950	34,085
Employer contributions subsequent to the measurement date	29,910	-	3,225	-	40,652	-
Total	\$ 95,892	\$ 27,635	\$ 9,674	\$ 2,438	\$ 129,302	\$ 52,041

\$29,910, \$3,225, and \$40,652 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>Primary Government</u>	<u>Component Unit School Board (nonprofessional)</u>	<u>Component Unit School Board (professional)</u>
2022	\$ 3,678	\$ 526	\$ 1,861
2023	7,376	893	6,962
2024	10,752	1,227	12,483
2025	12,499	1,242	15,010
2026	3,658	145	891
Thereafter	384	(22)	(598)

*Remainder of page left blank intentionally.*

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

**Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

Inflation	2.50%
Salary increases, including inflation:	
Teachers	3.50%-5.95%
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation*

\*Administrative expenses as a percent of the fair 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of OPEB liabilities.

**Mortality Rates - Teachers**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

**Actuarial Assumptions: (Continued)**

**Mortality Rates - Teachers (Continued)**

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased rate from 7.00% to 6.75%

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

**Actuarial Assumptions: (Continued)**

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

**Actuarial Assumptions: (Continued)**

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60.00% to 45.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

**NET GLI OPEB Liability**

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2020, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

	<b>GLI OPEB Plan</b>
Total GLI OPEB Liability	\$ 3,523,937
Plan Fiduciary Net Position	1,855,102
GLI Net OPEB Liability (Asset)	<u>\$ 1,668,835</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%

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

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

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.14%</u>

\*The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

**Note 13-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)*****Discount Rate***

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>Rate</b>		
	<b>1% Decrease</b>	<b>Current Discount</b>	<b>1% Increase</b>
	<b>(5.75%)</b>	<b>(6.75%)</b>	<b>(7.75%)</b>
City's proportionate share of the GLI Plan Net OPEB Liability	\$ 575,558	\$ 435,969	\$ 324,594
Component Unit School Board's (nonprofessional) proportionate share of the GLI Plan Net OPEB Liability	\$ 56,820	\$ 43,223	\$ 32,181
Component Unit School Board's (professional) proportionate share of the GLI Plan Net OPEB Liability	\$ 790,431	\$ 601,282	\$ 447,675

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

***Group Life Insurance Plan Fiduciary Net Position***

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

***Plan Description***

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC Plan. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher HIC OPEB, including eligibility, coverage, and benefits is described below:

***Eligible Employees***

The Teacher Employee Retiree HIC Plan was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

***Benefit Amounts***

The Teacher Employee HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: \$4.00 per month, multiplied by twice the amount of service credit, or \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

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

***HIC Plan Notes***

The monthly HIC benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

***Contributions***

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2021 was 1.21% of covered employee compensation for employees in the VRS Teacher Employee HIC Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee HIC Plan were \$90,337 and \$88,831 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the school division reported a liability of \$1,101,534 for its proportionate share of the VRS Teacher Employee HIC Net OPEB Liability. The Net VRS Teacher Employee HIC Program OPEB Liability was measured as of June 30, 2020 and the total VRS Teacher HIC OPEB liability used to calculate the Net VRS Teacher Employee HIC OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. The school division's proportion of the Net VRS Teacher Employee HIC OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC OPEB plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the school division's proportion of the VRS Teacher Employee HIC was 0.0844% as compared to 0.0879% at June 30, 2019.

For the year ended June 30, 2021, the school division recognized VRS Teacher Employee HIC OPEB expense of \$78,067. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Net OPEB expense was related to deferred amounts from changes in proportion.

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

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

At June 30, 2021, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 14,712
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	4,882	-
Change in assumptions	21,776	6,018
Change in proportionate share	-	66,864
Employer contributions subsequent to the measurement date	<u>90,337</u>	<u>-</u>
Total	<u>\$ 116,995</u>	<u>\$ 87,594</u>

\$90,337 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2022	\$ (12,141)
2023	(11,657)
2024	(11,819)
2025	(10,039)
2026	(6,442)
Thereafter	(8,838)

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

***Actuarial Assumptions***

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee HIC Plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation	3.50%-5.95%
Investment rate of return	6.75%, net of investment expenses, including inflation*

\*Administrative expenses as a percent of the fair 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of OPEB liabilities.

**Mortality Rates - Teachers**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

*Remainder of page left blank intentionally.*

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

**Actuarial Assumptions: (Continued)**

**Mortality Rates - Teachers: (Continued)**

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased rate from 7.00% to 6.75%

**Net Teacher Employee HIC OPEB Liability**

The net OPEB liability (NOL) for the Teacher Employee HIC Plan represents the Plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the VRS Teacher Employee HIC Plan is as follows (amounts expressed in thousands):

	<b>Teacher Employee HIC OPEB Plan</b>
Total Teacher Employee HIC OPEB Liability	\$ 1,448,676
Plan Fiduciary Net Position	144,160
Teacher Employee Net HIC OPEB Liability (Asset)	<u>\$ 1,304,516</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability	9.95%

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

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

***Long-Term Expected Rate of Return***

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	<u>100.00%</u>		<u>4.64%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>7.14%</u>

\*The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

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

***Discount Rate***

The discount rate used to measure the total Teacher Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2020, the rate contributed by each school division for the VRS Teacher Employee HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

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

The following presents the school division’s proportionate share of the VRS Teacher Employee HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the school division’s proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 1,233,052	\$ 1,101,534	\$ 989,753

***Teacher Employee HIC OPEB Fiduciary Net Position***

Detailed information about the VRS Teacher Employee HIC Plan’s Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan):**

***Plan Description***

The Political Subdivision Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Plan OPEB, including eligibility, coverage and benefits is described below:

***Eligible Employees***

The Political Subdivision Retiree HIC Plan was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

***Benefit Amounts***

The Political Subdivision Retiree HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

***HIC Plan Notes***

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Active members	23
Total covered employees	<u>23</u>

**Contributions**

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The school division’s contractually required employer contribution rate for the year ended June 30, 2021 was .79% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the HIC Plan were \$4,717 and \$0 for the year ended June 30, 2021.

**Net HIC OPEB Liability**

The school division’s net HIC OPEB liability was measured as of June 30, 2020. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2019, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

*Remainder of page left blank intentionally.*

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

*Actuarial Assumptions*

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation*

\*Administrative expenses as a percent of the fair 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

*Actuarial Assumptions: (Continued)*

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

*Remainder of page left blank intentionally.*

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Long-Term Expected Rate of Return***

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

Asset Class (Strategy)	Long-term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
Total	100.00%		4.64%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.14%

\*The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Discount Rate***

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2020, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

***Changes in Net HIC OPEB Liability***

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2019	\$ -	\$ -	\$ -
Changes for the year:			
Benefit changes	\$ 43,520	\$ -	\$ 43,520
Net changes	\$ 43,520	\$ -	\$ 43,520
Balances at June 30, 2020	\$ 43,520	\$ -	\$ 43,520

*Remainder of page left blank intentionally.*

**Note 15-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)**

***Sensitivity of the School Division's HIC Net OPEB Liability to Changes in the Discount Rate***

The following presents the school division's HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the school division's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School Division's			
Net HIC OPEB Liability	\$ 47,959	\$ 43,520	\$ 39,673

***HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB***

For the year ended June 30, 2021, the school division recognized HIC Plan OPEB expense of \$43,520. At June 30, 2021, the school division reported deferred outflows of resources and deferred inflows of resources related to the school division's HIC Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions subsequent to the measurement date	\$ 4,717	\$ -
Total	\$ 4,717	\$ -

\$4,717 reported as deferred outflows of resources related to the HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2022.

***HIC Plan Data***

Information about the VRS Political Subdivision HIC Plan is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 16-Aggregate OPEB Information:**

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
City Stand-Alone Plan	\$ 106,121	\$ 11,941	\$ 550,137	\$ 58,407	\$ -	\$ -	\$ -	\$ -
School Stand-Alone Plan	-	-	-	-	310,244	10,318	779,763	109,635
VRS OPEB Plans:								
Group Life Insurance Plan:								
City	95,892	27,635	435,969	13,737	-	-	-	-
School Board Nonprofessional	-	-	-	-	9,674	2,438	43,223	1,523
School Board Professional	-	-	-	-	129,302	52,041	601,282	15,734
Political Subdivision Retiree HIC								
Plan (School Board nonprofessional)	-	-	-	-	4,717	-	43,520	-
Teacher Health Insurance Credit Plan	-	-	-	-	116,995	87,594	1,101,534	78,067
Totals	\$ 202,013	\$ 39,576	\$ 986,106	\$ 72,144	\$ 570,932	\$ 152,391	\$ 2,569,322	\$ 204,959

**Note 17-Line of Duty Act (LODA) (OPEB Benefits):**

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

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

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The City’s LODA coverage is fully covered or “insured” through VRSA Insurance Programs. This is built into the LODA coverage cost presented in the annual renewals. The City’s LODA premium for the year ended June 30, 2021 was \$29,484.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 18-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.

	<u>Government-wide Statements</u>	<u>Balance Sheet</u>
	<u>Governmental Activities</u>	<u>Governmental Funds</u>
Deferred/Unavailable revenue:		
Unavailable property tax revenue representing uncollected property tax billings are not available for the funding of current expenditures	\$ -	\$ 407,874
Prepaid property taxes due after June 30 but paid in advance by taxpayers	18,729	18,729
Unavailable meals tax revenue representing uncollected meals tax not available for the funding of current expenditures	-	24,123
Unearned revenue:		
Unspent American Rescue Plan Act (ARPA) funds received during the current fiscal year	3,292,559	3,292,559
	<u>\$ 3,311,288</u>	<u>\$ 3,743,285</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 19-Capital Assets:**

Capital asset activity for the year ended June 30, 2021 was as follows:

## Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,940,649	\$ -	\$ -	\$ 2,940,649
Construction in progress	15,688,705	4,520,821	(361,233)	19,848,293
Total capital assets not being depreciated	<u>\$ 18,629,354</u>	<u>\$ 4,520,821</u>	<u>\$ (361,233)</u>	<u>\$ 22,788,942</u>
Capital assets, being depreciated:				
Infrastructure	\$ 4,177,471	\$ 361,233	\$ -	\$ 4,538,704
Buildings and improvements	19,409,031	51,700	-	19,460,731
Machinery and equipment	6,141,323	318,086	(102,555)	6,356,854
Total capital assets being depreciated	<u>\$ 29,727,825</u>	<u>\$ 731,019</u>	<u>\$ (102,555)</u>	<u>\$ 30,356,289</u>
Accumulated depreciation:				
Infrastructure	\$ (1,163,420)	\$ (126,420)	\$ -	\$ (1,289,840)
Buildings and improvements	(7,909,864)	(507,362)	-	(8,417,226)
Machinery and equipment	(4,163,508)	(344,598)	102,534	(4,405,572)
Total accumulated depreciation	<u>\$ (13,236,792)</u>	<u>\$ (978,380)</u>	<u>\$ 102,534</u>	<u>\$ (14,112,638)</u>
Total capital assets being depreciated, net	<u>\$ 16,491,033</u>	<u>\$ (247,361)</u>	<u>\$ (21)</u>	<u>\$ 16,243,651</u>
Governmental activities capital assets, net	<u>\$ 35,120,387</u>	<u>\$ 4,273,460</u>	<u>\$ (361,254)</u>	<u>\$ 39,032,593</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 19-Capital Assets: (Continued)**

Primary Government: (Continued)

	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 149,374	\$ -	\$ -	\$ 149,374
Construction in progress	11,276,327	392,407	(11,600,857)	67,877
Total capital assets not being depreciated	<u>\$ 11,425,701</u>	<u>\$ 392,407</u>	<u>\$ (11,600,857)</u>	<u>\$ 217,251</u>
Capital assets, being depreciated:				
Infrastructure	\$ 18,400,366	\$ 11,640,164	\$ (26,600)	\$ 30,013,930
Building and improvements	1,823,395	-	-	1,823,395
Machinery and equipment	572,156	69,325	(15,000)	626,481
Total capital assets being depreciated	<u>\$ 20,795,917</u>	<u>\$ 11,709,489</u>	<u>\$ (41,600)</u>	<u>\$ 32,463,806</u>
Accumulated depreciation:				
Infrastructure	\$ (16,013,886)	\$ (240,649)	\$ 2,305	\$ (16,252,230)
Building and improvements	(866,381)	(90,810)	-	(957,191)
Machinery and equipment	(457,580)	(18,470)	15,000	(461,050)
Total accumulated depreciation	<u>\$ (17,337,847)</u>	<u>\$ (349,929)</u>	<u>\$ 17,305</u>	<u>\$ (17,670,471)</u>
Total capital assets being depreciated, net	<u>\$ 3,458,070</u>	<u>\$ 11,359,560</u>	<u>\$ (24,295)</u>	<u>\$ 14,793,335</u>
Business-type activities capital assets, net	<u>\$ 14,883,771</u>	<u>\$ 11,751,967</u>	<u>\$ (11,625,152)</u>	<u>\$ 15,010,586</u>

Construction payables at year end were \$18,000 in the current year and \$430,289 in the prior fiscal year, as restated.

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**Note 19-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	279,858
Public works	229,730
Health and welfare	6,574
Education	186,103
Parks, recreation, and cultural	260,758

Total depreciation expense-governmental activities \$ 978,380

Business-type activities:

Water and sewer	\$ 334,735
Stormwater	15,194

Total depreciation expense-business type activities \$ 349,929

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 19-Capital Assets: (Continued)**

Capital asset activity for the School Board for the year ended June 30, 2021 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance, As Restated	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 192,021	\$ -	\$ -	\$ 192,021
Construction in progress	244,462	73,313	-	317,775
Total capital assets not being depreciated	<u>\$ 436,483</u>	<u>\$ 73,313</u>	<u>\$ -</u>	<u>\$ 509,796</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 10,535,160	\$ 36,830	\$ -	\$ 10,571,990
Machinery and equipment	2,326,640	101,033	-	2,427,673
Total capital assets being depreciated	<u>\$ 12,861,800</u>	<u>\$ 137,863</u>	<u>\$ -</u>	<u>\$ 12,999,663</u>
Accumulated depreciation:				
Buildings and improvements	\$ (6,707,957)	\$ (222,675)	\$ -	\$ (6,930,632)
Machinery and equipment	(1,576,665)	(114,089)	-	(1,690,754)
Total accumulated depreciation	<u>\$ (8,284,622)</u>	<u>\$ (336,764)</u>	<u>\$ -</u>	<u>\$ (8,621,386)</u>
Total capital assets being depreciated, net	<u>\$ 4,577,178</u>	<u>\$ (198,901)</u>	<u>\$ -</u>	<u>\$ 4,378,277</u>
School Board capital assets, net	<u>\$ 5,013,661</u>	<u>\$ (125,588)</u>	<u>\$ -</u>	<u>\$ 4,888,073</u>

**Note 20-Inventory Held for Resale:**

The IDA had land and a building that was shown as inventory held for resale at June 30, 2021 in the amount of \$773,025. This inventory is valued at cost.

**Note 21-Risk Management:**

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

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

**Note 21-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 22-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 23-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 \$545,214. 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, 2021

**Note 23-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 24-Self Health Insurance:**

The City established a limited risk management program for health insurance in fiscal year 2020. Premiums are paid into the health plan fund from the City and are available to pay claims, and administrative costs of the program. During the fiscal year 2021, a total of \$1,717,201 was paid in benefits and administrative costs. The risk assumed by the City is based on the number of participants in the program. The risk varies by the number of participants and their specific plan type. Incurred but not reported claims of \$88,421 have been accrued as a liability based primarily on actual cost incurred prior to June 30 but paid after year-end. Interfund premiums are based primarily upon the insured funds' claims experience and are reported as quasi-external interfund transactions. Changes in the claims liability for the current fiscal year are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2020-21	\$ 132,869	\$ 1,672,753	\$ (1,717,201)	\$ 88,421
2019-20	-	1,725,925	(1,593,056)	132,869

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 25-Commitments and Contingencies:**

Construction Commitments

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

<u>Project</u>	<u>Contract Amount</u>	<u>Contract Amount Outstanding at June 30, 2021</u>
VDOT Construction Cranberry Road	\$ 1,958,580	\$ 40,839
Animal Shelter	457,190	57,670
Recreation Center Pool HVAC	149,500	120,000
VDOT McArthur Road	132,345	51,406
DHCD Housing Rehab Study	45,000	16,000
Main Street Pedestrian Improvements	96,021	51,871
VDEM SHSP Radio	60,000	13,803
Bottom Areas Revitalization	40,100	7,350
Bottom Area Phase III	86,200	43,100
WTP Boiler Replacement	24,900	6,900
Swanson Street Water/Sewer Design	128,300	119,550
	<u>\$ 3,178,136</u>	<u>\$ 528,489</u>
Totals		

Shared Service Fees

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

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**Note 26-Restricted and Committed Funds and Restricted Net Position:**

	General Government	Component Unit School Fund
Governmental Activities:		
Restricted:		
Blue Ridge Post book fund	\$ 14,584	\$ -
Small business loans program	25,771	-
Fire department funds	38,584	-
Cafeteria funds	-	537,221
School activity funds	-	197,661
Total restricted balances	<u>\$ 78,939</u>	<u>\$ 734,882</u>
 Governmental Funds:		
Restricted:		
Blue Ridge Post book fund	\$ 14,584	\$ -
Restricted cash in loan programs	21,257	-
Fire department funds	38,584	-
Cafeteria funds	-	537,221
School activity funds	-	197,661
Total restricted balances	<u>\$ 74,425</u>	<u>\$ 734,882</u>
 Committed funds:		
Police narcotics	\$ 27,002	\$ -
Total committed funds	<u>\$ 27,002</u>	<u>\$ -</u>

**Note 27-COVID-19 Pandemic Subsequent Event Note Disclosure:**

The COVID-19 pandemic and its impact on operations continues to evolve. Specific to the City, COVID-19 impacted various parts of its 2021 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Federal relief has been received through various programs. Management believes the City is taking appropriate actions to mitigate the negative impact. The extent to which COVID-19 may impact operations in subsequent years remains uncertain, and management is unable to estimate the effects on future results of operations, financial condition, or liquidity for fiscal year 2022.

**Note 27-COVID-19 Pandemic Subsequent Event Note Disclosure: (Continued)**

**ARPA Funding**

On March 11, 2021, the American Rescue Plan (ARPA) Act of 2021 was passed by the federal government. A primary component of the ARPA was the establishment of the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). Local governments are to receive funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.

On June 30, 2021, the City received its share of the first half of the CSLFRF funds. As a condition of receiving CSLFRF funds, any funds unobligated by December 31, 2024, and unexpended by December 31, 2026, will be returned to the federal government. Unspent funds in the amount of \$3,292,559 from the initial allocation are reported as unearned revenue as of June 30.

**ESF Funding**

The CARES Act also established the Education Stabilization Fund (ESF) and allocated \$30.75 billion to the U.S. Department of Education. The ESF is composed of three primary emergency relief funds: (1) a Governor's Emergency Education Relief (GEER) Fund, (2) an Elementary and Secondary School Emergency Relief (ESSER) Fund, and (3) a Higher Education Emergency Relief (HEER) Fund. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act) was signed into law on December 27, 2020 and added \$81.9 billion to the ESF. In March 2021, the American Rescue Plan Act (ARP Act), in support of ongoing state and institutional COVID-19 recovery efforts, added more than \$170 billion to the ESF. The School Board is receiving this funding from the Virginia Department of Education on a reimbursement basis.

**Note 28-Adoption of Accounting Principle:**

The City implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities during the fiscal year ended June 30, 2021. This Statement establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purpose and how those activities should be reported. The implementation of this Statement resulted in the restatement in Note 29.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2021

**Note 29-Restatement of Beginning Balances:**

The financial statements have been restated to correct construction in progress and retainage payable in the water and sewer fund. In fiscal year 2020, construction in progress and retainage payable were overstated by \$237,758. The correction had no impact on net position.

The Component Unit-School Board and Custodial Funds were restated as noted below:

	Component Unit-School Board		Custodial Funds
	School Activity		Net Position
	Fund Balance	Net Position	
July 1, 2020, as previously stated	\$ -	\$ (5,417,649)	\$ -
Addition of previously expensed assets		244,462	-
GASB 84 implementation	197,989	197,989	31,356
July 1, 2020, as previously restated	\$ 197,989	\$ (4,975,198)	\$ 31,356

**Note 30-Upcoming Pronouncements:**

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

**Note 30-Upcoming Pronouncements: (Continued)**

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement. No 32*, (1) increases consistency and comparability related to reporting of fiduciary component units in certain circumstances; (2) mitigates costs associated with the reporting of certain plans as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans. The effective dates differ based on the requirements of the Statement, ranging from June 2020 to reporting periods beginning after June 15, 2021.

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, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 6,658,500	\$ 6,658,500	\$ 6,520,563	\$ (137,937)
Other local taxes	5,187,500	5,187,500	6,903,229	1,715,729
Permits, privilege fees, and regulatory licenses	15,800	15,800	20,104	4,304
Fines and forfeitures	111,000	111,000	110,403	(597)
Revenue from the use of money and property	61,300	61,300	45,990	(15,310)
Charges for services	817,500	817,500	638,454	(179,046)
Miscellaneous	119,800	215,650	246,710	31,060
Recovered costs	291,100	291,100	179,111	(111,989)
Intergovernmental	6,969,816	7,946,775	9,658,588	1,711,813
Total revenues	\$ 20,232,316	\$ 21,305,125	\$ 24,323,152	\$ 3,018,027
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,661,446	\$ 1,730,231	\$ 1,562,805	\$ 167,426
Judicial administration	608,350	608,350	601,626	6,724
Public safety	3,300,372	4,619,476	4,092,785	526,691
Public works	4,087,097	4,138,534	4,779,631	(641,097)
Health and welfare	3,067,648	3,067,648	3,819,920	(752,272)
Education	3,998,971	3,998,971	3,893,123	105,848
Parks, recreation, and cultural	1,947,247	1,836,632	1,572,926	263,706
Community development	677,814	940,699	930,161	10,538
Nondepartmental	267,213	117,213	80,135	37,078
Capital projects	3,879,800	4,259,631	2,497,636	1,761,995
Debt service:				
Principal retirement	714,343	719,344	513,602	205,742
Interest and other fiscal charges	577,019	577,568	546,110	31,458
Total expenditures	\$ 24,787,320	\$ 26,614,297	\$ 24,890,460	\$ 1,723,837
Excess (deficiency) of revenues over (under) expenditures	\$ (4,555,004)	\$ (5,309,172)	\$ (567,308)	\$ 4,741,864
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 30,000	\$ 30,000	\$ -	\$ (30,000)
Proceeds of refunding bonds	17,000,000	17,100,000	17,100,000	-
Issuance of general obligation bonds	4,000,000	3,942,000	4,100,719	158,719
Debt service - current refunding - principal	(16,850,000)	(16,850,000)	(16,830,417)	19,583
Total other financing sources (uses)	\$ 4,180,000	\$ 4,222,000	\$ 4,370,302	\$ 148,302
Net change in fund balances	\$ (375,004)	\$ (1,087,172)	\$ 3,802,994	\$ 4,890,166
Fund balances - beginning	375,004	1,087,172	3,750,381	2,663,209
Fund balances - ending	\$ -	\$ -	\$ 7,553,375	\$ 7,553,375

Note 1: GAAP serves as the budgetary basis of accounting

**City of Galax, Virginia**  
**Schedule of Employer's Proportionate Share of Net Pension Liability**  
**For the Measurement Dates of June 30, 2014 through June 30, 2020**

Actuarial Valuation Date	Proportion of the Net Pension Liability (NPL)	Proportionate Share of the NPL	Covered Payroll	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
(1)	(2)	(3)	(4)	(5)	(6)
<b>Primary Government - City Retirement Plan</b>					
2020	81.46%	\$ 3,303,238	\$ 5,614,023	58.84%	87.42%
2019	81.74%	1,772,401	5,091,184	34.81%	92.91%
2018	80.03%	991,692	4,920,951	20.15%	95.67%
2017	80.15%	1,438,898	4,979,689	28.90%	93.53%
2016	79.48%	2,944,744	4,820,666	61.09%	86.35%
2015	78.62%	2,588,972	4,692,751	55.17%	87.59%
2014	78.62%	2,321,645	4,588,421	50.60%	88.34%
<b>Component Unit School Board (professional)</b>					
2020	0.08550%	\$ 12,445,406	\$ 7,538,331	165.09%	71.47%
2019	0.08892%	11,702,378	7,374,541	158.69%	73.51%
2018	0.08914%	10,483,000	7,131,435	147.00%	74.81%
2017	0.09051%	11,130,000	7,089,186	157.00%	72.92%
2016	0.09189%	12,877,000	7,006,311	183.79%	68.28%
2015	0.09218%	11,602,000	6,853,703	169.28%	70.68%
2014	0.09215%	11,136,000	6,740,206	165.22%	70.88%

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

City of Galax, Virginia  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
 Component Unit School Board (nonprofessional)  
 For the Measurement Dates of June 30, 2014 through June 30, 2020

	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>							
Service cost	\$ 45,582	\$ 46,560	\$ 39,712	\$ 46,631	\$ 54,408	\$ 52,788	\$ 59,100
Interest	162,270	158,824	151,220	152,273	147,275	146,030	138,221
Differences between expected and actual experience	(239,670)	1,887	55,259	(78,673)	(38,600)	(92,264)	-
Changes of assumptions	-	60,027	-	(20,700)	-	-	-
Benefit payments	(116,694)	(147,720)	(127,402)	(101,759)	(81,606)	(95,913)	(75,607)
<b>Net change in total pension liability</b>	<b>\$(148,512)</b>	<b>\$119,578</b>	<b>\$118,789</b>	<b>\$(2,228)</b>	<b>\$81,477</b>	<b>\$10,641</b>	<b>\$121,714</b>
Total pension liability - beginning	2,462,354	2,342,776	2,223,987	2,226,215	2,144,738	2,134,097	2,012,383
<b>Total pension liability - ending (a)</b>	<b>\$2,313,842</b>	<b>\$2,462,354</b>	<b>\$2,342,776</b>	<b>\$2,223,987</b>	<b>\$2,226,215</b>	<b>\$2,144,738</b>	<b>\$2,134,097</b>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 39,805	\$ 41,072	\$ 43,597	\$ 42,353	\$ 51,508	\$ 56,560	\$ 58,635
Contributions - employee	24,676	25,081	24,186	23,533	24,595	27,173	27,537
Net investment income	42,041	140,528	151,195	227,065	32,761	81,921	242,426
Benefit payments	(116,694)	(147,720)	(127,402)	(101,759)	(81,606)	(95,913)	(75,607)
Administrator charges	(1,447)	(1,447)	(1,329)	(1,321)	(1,140)	(1,116)	(1,285)
Other	(50)	(88)	(134)	(202)	(14)	(16)	13
<b>Net change in plan fiduciary net position</b>	<b>\$(11,669)</b>	<b>\$57,426</b>	<b>\$90,113</b>	<b>\$189,669</b>	<b>\$26,104</b>	<b>\$68,609</b>	<b>\$251,719</b>
Plan fiduciary net position - beginning	2,209,524	2,152,098	2,061,985	1,872,316	1,846,212	1,777,603	1,525,884
<b>Plan fiduciary net position - ending (b)</b>	<b>\$2,197,855</b>	<b>\$2,209,524</b>	<b>\$2,152,098</b>	<b>\$2,061,985</b>	<b>\$1,872,316</b>	<b>\$1,846,212</b>	<b>\$1,777,603</b>
<b>School Division's net pension liability - ending (a) - (b)</b>	<b>\$115,987</b>	<b>\$252,830</b>	<b>\$190,678</b>	<b>\$162,002</b>	<b>\$353,899</b>	<b>\$298,526</b>	<b>\$356,494</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	94.99%	89.73%	91.86%	92.72%	84.10%	86.08%	83.30%
<b>Covered payroll</b>	\$ 574,858	\$ 525,085	\$ 505,946	\$ 491,690	\$ 507,791	\$ 554,534	\$ 552,382
<b>School Division's net pension liability as a percentage of covered payroll</b>	20.18%	48.15%	37.69%	32.95%	69.69%	53.83%	64.54%

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

City of Galax, Virginia  
 Schedule of Employer Contributions-Pension  
 For the Years Ended June 30, 2012 through June 30, 2021

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2021	\$ 433,317	\$ 433,317	\$ -	\$ 5,532,121	7.83%
2020	381,657	381,657	-	5,614,023	6.80%
2019	349,729	349,729	-	5,091,184	6.87%
2018	412,124	412,124	-	4,920,951	8.37%
2017	419,962	419,962	-	4,979,689	8.43%
2016	550,450	550,450	-	4,820,666	11.42%
<b>Component Unit School Board (nonprofessional)</b>					
2021	\$ 24,062	\$ 24,062	\$ -	\$ 597,092	4.03%
2020	39,805	39,805	-	574,858	6.92%
2019	41,072	41,072	-	525,085	7.82%
2018	37,389	43,597	(6,208)	505,946	8.62%
2017	36,336	42,353	(6,017)	491,690	8.61%
2016	51,508	51,508	-	507,791	10.14%
2015	56,560	56,560	-	554,534	10.20%
2014	58,635	58,635	-	552,382	10.61%
2013	59,223	59,223	-	557,134	10.63%
2012	46,062	46,062	-	518,711	8.88%
<b>Component Unit School Board (professional)</b>					
2021	\$ 1,205,724	\$ 1,205,724	\$ -	\$ 7,470,332	16.14%
2020	1,133,659	1,133,659	-	7,538,331	15.04%
2019	1,138,767	1,138,767	-	7,374,541	15.44%
2018	1,152,247	1,152,247	-	7,131,435	16.16%
2017	1,032,736	1,032,736	-	7,089,186	14.57%
2016	977,000	977,000	-	7,006,311	13.94%
2015	991,404	991,404	-	6,853,703	14.47%
2014	785,908	785,908	-	6,740,206	11.66%
2013	762,537	762,537	-	6,539,768	11.66%

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

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

**City of Galax, Virginia**  
**Notes to Required Supplementary Information-Pension**  
**For the Year Ended June 30, 2021**

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

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2019, valuations were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60.00% to 45.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased rate from 7.00% to 6.75%

**City of Galax, Virginia**  
**Schedule of City's Proportionate Share of the Total Health Insurance OPEB Liability**  
**For the Measurement Dates of June 30, 2017 through June 30, 2020**

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Date (1)	Proportion of the Total OPEB Liability (Asset) (TOLA) (2)	Proportionate Share of the TOLA (3)	Covered Payroll (4)	Proportionate Share of the TOLA as a Percentage of Covered Payroll (3)/(4) (5)
2020	81.4596%	\$ 550,137	\$ 5,729,054	9.60%
2019	81.7411%	511,794	5,507,715	9.29%
2018	80.0315%	382,207	6,312,885	6.05%
2017	80.0315%	378,065	6,242,457	6.06%

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

City of Galax, Virginia  
 Schedule of Changes in Total Health Insurance OPEB Liability (Asset) and Related Ratios  
 Component Unit - School Board  
 For the Measurement Dates of June 30, 2017 through June 30, 2020

	2020	2019	2018	2017
<b>Total OPEB liability</b>				
Service cost	\$ 46,068	\$ 23,801	\$ 22,967	\$ 24,478
Interest	24,152	15,438	15,659	13,358
Changes in assumptions	8,926	205,286	(1,788)	(18,980)
Differences between expected and actual experience	-	129,194	-	-
Benefit payments	(49,914)	(51,702)	(50,454)	(19,443)
<b>Net change in total OPEB liability</b>	<u>\$ 29,232</u>	<u>\$ 322,017</u>	<u>\$ (13,616)</u>	<u>\$ (587)</u>
<b>Total OPEB liability - beginning</b>	<u>750,531</u>	<u>428,514</u>	<u>442,130</u>	<u>442,717</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 779,763</u></u>	<u><u>\$ 750,531</u></u>	<u><u>\$ 428,514</u></u>	<u><u>\$ 442,130</u></u>
<b>Covered payroll</b>	\$ 8,200,000	\$ 8,507,940	\$ 8,458,000	\$ 8,226,508
<b>School's total OPEB liability (asset) as a percentage of covered payroll</b>	9.51%	8.82%	5.07%	5.37%

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

City of Galax, Virginia  
Notes to Required Supplementary Information  
City and Component Unit School Board Health Insurance OPEB  
For the Year Ended June 30, 2021

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**Primary Government**

Valuation Date: 6/30/2019  
Measurement Date: 6/30/2020

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

*Methods and assumptions used to determine OPEB liability:*

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	2.45%
Inflation	2.50%
Healthcare Trend Rate	6.40% for FY2020, gradually decreasing over several decades to an ultimate rate of 4.00% in FY2076 and later years.
Salary Increase Rates	Based on the most recently disclosed assumptions for the pension plan in which the employee participates.
Retirement Age	The average age at retirement is 62
Mortality Rates	Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements on scale MP-2015, and other adjustments.

**Component Unit School Board**

Valuation Date: 6/30/2019  
Measurement Date: 6/30/2020

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

*Methods and assumptions used to determine OPEB liability:*

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	2.45%
Inflation	2.50%
Healthcare Trend Rate	6.40% for FY2020, gradually decreasing over several decades to an ultimate rate of 4.00% in FY2076 and later years.
Salary Increase Rates	Based on the most recently disclosed assumptions for the pension plan in which the employee participates.
Retirement Age	The average age at retirement is 62
Mortality Rates	Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements on scale MP-2015, and other adjustments.

City of Galax, Virginia  
 Schedule of Employer's Share of Net OPEB Liability  
 Group Life Insurance (GLI) Plan  
 For the Measurement Dates of June 30, 2017 through June 30, 2020

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
<b>Primary Government</b>					
2020	0.0261%	\$ 435,969	\$ 5,616,028	7.76%	52.64%
2019	0.0270%	422,588	5,091,178	8.30%	52.00%
2018	0.0260%	394,555	4,920,951	8.02%	51.22%
2017	0.0270%	405,544	4,979,689	8.14%	48.86%
<b>Component Unit School Board (nonprofessional)</b>					
2020	0.0026%	\$ 43,223	\$ 578,194	7.48%	52.64%
2019	0.0027%	43,610	525,085	8.31%	52.00%
2018	0.0027%	41,000	505,946	8.10%	51.22%
2017	0.0027%	40,000	491,690	8.14%	48.86%
<b>Component Unit School Board (professional)</b>					
2020	0.0360%	\$ 601,282	\$ 7,415,683	8.11%	52.64%
2019	0.0377%	613,642	7,392,714	8.30%	52.00%
2018	0.0375%	569,000	7,131,435	7.98%	51.22%
2017	0.0385%	580,000	7,089,186	8.18%	48.86%

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

City of Galax, Virginia  
 Schedule of Employer Contributions  
 Group Life Insurance (GLI) Plan  
 For the Years Ended June 30, 2012 through June 30, 2021

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2021	\$ 29,910	\$ 29,910	\$ -	\$ 5,545,933	0.54%
2020	29,203	29,203	-	5,616,028	0.52%
2019	26,473	26,473	-	5,091,178	0.52%
2018	25,670	25,670	-	4,920,951	0.52%
2017	25,871	25,871	-	4,979,689	0.52%
2016	29,152	29,152	-	4,820,666	0.60%
2015	28,651	28,651	-	4,692,751	0.61%
<b>Component Unit School Board (nonprofessional)</b>					
2021	\$ 3,225	\$ 3,225	\$ -	\$ 602,146	0.54%
2020	3,007	3,007	-	578,194	0.52%
2019	2,730	2,730	-	525,085	0.52%
2018	2,556	2,556	-	505,946	0.51%
2017	2,557	2,557	-	491,690	0.52%
2016	2,438	2,438	-	507,791	0.48%
2015	2,662	2,662	-	554,534	0.48%
2014	2,662	2,662	-	552,382	0.48%
2013	2,674	2,674	-	557,134	0.48%
2012	1,458	1,458	-	518,711	0.28%
<b>Component Unit School Board (professional)</b>					
2021	\$ 40,652	\$ 40,652	\$ -	\$ 7,532,449	0.54%
2020	38,565	38,565	-	7,415,683	0.52%
2019	38,442	38,442	-	7,392,714	0.52%
2018	37,106	37,106	-	7,131,435	0.52%
2017	36,931	36,931	-	7,089,186	0.52%
2016	33,666	33,666	-	7,006,311	0.48%
2015	32,904	32,904	-	6,853,703	0.48%
2014	32,423	32,423	-	6,740,206	0.48%
2013	31,391	31,391	-	6,539,768	0.48%
2012	17,442	17,442	-	6,229,433	0.28%

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

**City of Galax, Virginia**  
**Notes to Required Supplementary Information**  
**Group Life Insurance (GLI) Plan**  
**For the Year Ended June 30, 2021**

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

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**Teachers**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased rate from 7.00% to 6.75%

**Non-Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

**Non-Largest Ten Locality Employers - Hazardous Duty Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60.00% to 45.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

City of Galax, Virginia  
 Schedule of Component Unit School Board's Share of Net OPEB Liability  
 Teacher Employee Health Insurance Credit (HIC) Plan  
 For the Measurement Dates of June 30, 2017 through June 30, 2020

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2020	0.0844%	\$ 1,101,534	\$ 7,538,331	14.61%	9.95%
2019	0.0879%	1,150,959	7,374,541	15.61%	8.97%
2018	0.0882%	1,120,000	7,131,435	15.71%	8.08%
2017	0.0899%	1,141,000	7,089,186	16.09%	7.04%

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

City of Galax, Virginia  
 Schedule of Employer Contributions  
 Teacher Employee Health Insurance Credit (HIC) Plan  
 For the Years Ended June 30, 2012 through June 30, 2021

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Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2021	\$ 90,337	\$ 90,337	\$ -	\$ 7,470,332	1.21%
2020	88,831	88,831	-	7,538,331	1.18%
2019	88,495	88,495	-	7,374,541	1.20%
2018	87,717	87,717	-	7,131,435	1.23%
2017	78,738	78,738	-	7,089,186	1.11%
2016	74,267	74,267	-	7,006,311	1.06%
2015	72,649	72,649	-	6,853,703	1.06%
2014	74,805	74,805	-	6,740,206	1.11%
2013	72,592	72,592	-	6,539,768	1.11%
2012	37,242	37,242	-	6,229,433	0.60%

City of Galax, Virginia  
Notes to Required Supplementary Information  
Teacher Employee Health Insurance Credit (HIC) Plan  
For the Year Ended June 30, 2021

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

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decreased rate from 7.00% to 6.75%

**City of Galax, Virginia**  
**Schedule of Changes in the School Division's Net OPEB Liability and Related Ratios**  
**Health Insurance Credit (HIC) Plan - Component Unit School Board Non Professional**  
**For the Measurement Date of June 30, 2020**

	<u>2020</u>
<b>Total HIC OPEB Liability</b>	
Changes in benefit terms	\$ 43,520
<b>Net change in total HIC OPEB liability</b>	<u>\$ 43,520</u>
<b>Total HIC OPEB Liability - beginning</b>	<u>-</u>
<b>Total HIC OPEB Liability - ending (a)</b>	<u><u>\$ 43,520</u></u>
<b>School division's net HIC OPEB liability - ending (a) - (b)</b>	\$ 43,520
<b>Plan fiduciary net position as a percentage of the total HIC OPEB liability</b>	-
<b>Covered payroll</b>	\$ -
<b>School Board's net HIC OPEB liability as a percentage of covered payroll</b>	0.00%

**City of Galax, Virginia**  
**Schedule of Employer Contributions**  
**Health Insurance Credit (HIC) Plan - Component Unit School Board Non Professional**  
**For the Measurement Date of June 30, 2020**

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
2021	\$ 4,717	\$ 4,717	-	\$ 597,092	0.79%

Schedule is intended to show information for 10 years. FY21 was the first year of the Teacher Non-Professional Health Insurance Credit (HIC) Plan.

City of Galax, Virginia  
Notes to Required Supplementary Information  
Health Insurance Credit (HIC) Plan - Component Unit School Board Non Professional  
For the Year Ended June 30, 2021

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

**Changes of assumptions** - The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

**Non-Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

## **Other Supplementary Information**

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD**

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**MAJOR GOVERNMENTAL FUND**

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

**NON-MAJOR GOVERNMENTAL FUND**

School Activity Fund - The School Activity Fund accounts for and reports the operations of the individual schools.

City of Galax, Virginia  
Combining Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2021

	School Operating Fund	School Activity Fund*	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,126,256	\$ 189,447	\$ 3,315,703
Investments	66,456	-	66,456
Receivables (net of allowance for uncollectibles):			
Accounts receivable	-	8,214	8,214
Due from primary government	135,169	-	135,169
Due from other governmental units	1,997,015	-	1,997,015
Inventories	46,899	-	46,899
Prepaid items	171,606	-	171,606
Total assets	<u>\$ 5,543,401</u>	<u>\$ 197,661</u>	<u>\$ 5,741,062</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 359,349	\$ -	\$ 359,349
Salaries payable	1,184,173	-	1,184,173
Total liabilities	<u>\$ 1,543,522</u>	<u>\$ -</u>	<u>\$ 1,543,522</u>
<b>FUND BALANCES</b>			
Nonspendable			
Prepaid and inventory	\$ 218,505	\$ -	\$ 218,505
Restricted			
School cafeterias	537,221	-	537,221
School activity funds	-	197,661	197,661
Unassigned	3,244,153	-	3,244,153
Total fund balances	<u>\$ 3,999,879</u>	<u>\$ 197,661</u>	<u>\$ 4,197,540</u>
Total liabilities and fund balances	<u>\$ 5,543,401</u>	<u>\$ 197,661</u>	<u>\$ 5,741,062</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Total fund balances per above			\$ 4,197,540
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land		\$ 192,021	
Buildings and improvements		3,641,358	
Machinery and equipment		736,919	
Construction in progress		<u>317,775</u>	4,888,073
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			
Pension related items		\$ 3,105,180	
OPEB related items		<u>570,932</u>	3,676,112
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		\$ (230,911)	
Net OPEB liabilities		(2,569,322)	
Net pension liability		<u>(12,561,393)</u>	(15,361,626)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.			
Pension related items		\$ (1,381,986)	
OPEB related items		<u>(152,391)</u>	(1,534,377)
Net position of governmental activities			<u>\$ (4,134,278)</u>

\*The School Activity Fund does not require a legally adopted budget.

City of Galax, Virginia  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds - Discretely Presented Component Unit - School Board  
 For the Year Ended June 30, 2021

	<u>School Operating Fund</u>	<u>School Activity Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Revenue from the use of money and property	\$ 336	\$ -	\$ 336
Charges for services	319,388	83,164	402,552
Miscellaneous	107,324	-	107,324
Recovered costs	1,740	-	1,740
Intergovernmental	17,549,259	-	17,549,259
Total revenues	<u>\$ 17,978,047</u>	<u>\$ 83,164</u>	<u>\$ 18,061,211</u>
<b>EXPENDITURES</b>			
Current:			
Education	\$ 16,858,769	\$ 102,847	\$ 16,961,616
Total expenditures	<u>\$ 16,858,769</u>	<u>\$ 102,847</u>	<u>\$ 16,961,616</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,119,278</u>	<u>\$ (19,683)</u>	<u>\$ 1,099,595</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	\$ -	\$ 19,355	\$ 19,355
Transfers out	(19,355)	-	(19,355)
Sale of capital assets	3,791	-	3,791
Total other financing sources and uses	<u>\$ (15,564)</u>	<u>\$ 19,355</u>	<u>\$ 3,791</u>
Net change in fund balances	<u>\$ 1,103,714</u>	<u>\$ (328)</u>	<u>\$ 1,103,386</u>
Fund balances - beginning, as restated	2,896,165	197,989	3,094,154
Fund balances - ending	<u>\$ 3,999,879</u>	<u>\$ 197,661</u>	<u>\$ 4,197,540</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			\$ 1,103,386
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded capital outlays in the current period.			
Capital outlays		\$ 194,773	
Depreciation expense		<u>(336,764)</u>	(141,991)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.			
Transfer of assets (net) from primary government			16,403
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		\$ (68,965)	
Change in OPEB related items		(61,567)	
Change in pension related items		<u>(6,346)</u>	(136,878)
Change in net position of governmental activities			<u>\$ 840,920</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, 2021

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ -	\$ 500	\$ 336	\$ (164)
Charges for services	269,559	254,880	319,388	64,508
Miscellaneous	71,397	71,397	107,324	35,927
Recovered costs	1,500	1,500	1,740	240
Intergovernmental	15,809,949	16,550,915	17,549,259	998,344
Total revenues	<u>\$ 16,152,405</u>	<u>\$ 16,879,192</u>	<u>\$ 17,978,047</u>	<u>\$ 1,098,855</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 16,153,405	\$ 16,883,483	\$ 16,858,769	\$ 24,714
Total expenditures	<u>\$ 16,153,405</u>	<u>\$ 16,883,483</u>	<u>\$ 16,858,769</u>	<u>\$ 24,714</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (1,000)	\$ (4,291)	\$ 1,119,278	\$ 1,123,569
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	\$ -	\$ -	\$ (19,355)	\$ (19,355)
Sale of capital assets	1,000	4,291	3,791	(500)
Total other financing sources (uses)	<u>\$ 1,000</u>	<u>\$ 4,291</u>	<u>\$ (15,564)</u>	<u>\$ (19,855)</u>
Net change in fund balances	\$ -	\$ -	\$ 1,103,714	\$ 1,103,714
Fund balances - beginning	-	-	2,896,165	2,896,165
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,999,879</u>	<u>\$ 3,999,879</u>

**DISCRETELY PRESENTED COMPONENT UNIT - INDUSTRIAL  
DEVELOPMENT AUTHORITY**

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**MAJOR ENTERPRISE FUND**

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

**City of Galax, Virginia**  
**Discretely Presented Component Unit**  
**City of Galax, Virginia - Industrial Development Authority**  
**Statement of Net Position - Proprietary Fund**  
**June 30, 2021**

	<b>Enterprise Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 43,394
Due from City	10
Total current assets	\$ 43,404
Noncurrent assets:	
Inventory held for resale	\$ 773,025
Total noncurrent assets	\$ 773,025
Total assets	\$ 816,429
 <b>NET POSITION</b>	
Unrestricted	\$ 816,429
Total net position	\$ 816,429

**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, 2021**

	<b>Enterprise Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services:	
Rental income	\$ 10
Total operating revenues	\$ 10
<b>OPERATING EXPENSES</b>	
Miscellaneous	\$ 9
Total operating expenses	\$ 9
Operating income (loss)	\$ 1
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	\$ 32
Contribution from primary government	210,000
Total nonoperating revenues (expenses)	\$ 210,032
Change in net position	\$ 210,033
Net position - beginning	606,396
Net position - ending	\$ 816,429

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, 2021

	Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to suppliers	\$ (9)
Purchase of inventory held for resale	(260,000)
Net cash provided by (used for) operating activities	\$ (260,009)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Contribution from the City of Galax	\$ 210,000
Net cash provided by (used for) noncapital financing activities	\$ 210,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	\$ 32
Net cash provided by (used for) investing activities	\$ 32
Net increase (decrease) in cash and cash equivalents	\$ (49,977)
Cash and cash equivalents - beginning	93,371
Cash and cash equivalents - ending	\$ 43,394
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ 1
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in inventory held for resale	(260,000)
(Increase) decrease in intergovernmental receivables	(10)
Total adjustments	\$ (260,010)
Net cash provided by (used for) operating activities	\$ (260,009)

City of Galax, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2021

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>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 4,357,500	\$ 4,357,500	\$ 4,251,192	\$ (106,308)
Real and personal public service corporation taxes	125,000	125,000	133,339	8,339
Personal property taxes	680,000	680,000	818,945	138,945
Furniture and fixtures	415,000	415,000	478,358	63,358
Machinery and tools taxes	960,000	960,000	707,163	(252,837)
Delinquent administrative fee	3,000	3,000	16,365	13,365
Penalties	48,000	48,000	72,803	24,803
Interest	70,000	70,000	42,398	(27,602)
Total general property taxes	\$ 6,658,500	\$ 6,658,500	\$ 6,520,563	\$ (137,937)
Other local taxes:				
Local sales and use taxes	\$ 2,115,000	\$ 2,115,000	\$ 2,782,205	\$ 667,205
Consumers' utility taxes	180,000	180,000	180,240	240
Local consumption tax	45,000	45,000	36,215	(8,785)
Local admissions tax	14,000	14,000	-	(14,000)
Business license taxes	816,000	816,000	1,045,935	229,935
Motor vehicle licenses	115,000	115,000	151,345	36,345
Bank stock taxes	200,000	200,000	233,369	33,369
Hotel and motel room taxes	82,500	82,500	161,167	78,667
Restaurant food taxes	1,620,000	1,620,000	2,312,753	692,753
Total other local taxes	\$ 5,187,500	\$ 5,187,500	\$ 6,903,229	\$ 1,715,729
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,000	\$ 3,000	\$ 2,516	\$ (484)
Building permits and other licenses	12,800	12,800	17,588	4,788
Total permits, privilege fees, and regulatory licenses	\$ 15,800	\$ 15,800	\$ 20,104	\$ 4,304
Fines and forfeitures:				
Court fines and forfeitures	\$ 110,000	\$ 110,000	\$ 109,147	\$ (853)
Parking fines	1,000	1,000	1,256	256
Total fines and forfeitures	\$ 111,000	\$ 111,000	\$ 110,403	\$ (597)
Revenue from use of money and property:				
Revenue from use of money	\$ 18,000	\$ 18,000	\$ 1,818	\$ (16,182)
Revenue from use of property	43,300	43,300	44,172	872
Total revenue from use of money and property	\$ 61,300	\$ 61,300	\$ 45,990	\$ (15,310)
Charges for services:				
Charges for animal adoptions	\$ 7,000	\$ 7,000	\$ 8,714	\$ 1,714
Charges for courthouse maintenance	4,000	4,000	2,368	(1,632)
Charges for courtroom security	17,000	17,000	9,806	(7,194)
Charges for sanitation and waste removal	428,500	428,500	423,242	(5,258)
Charges for parks and recreation	349,000	349,000	194,289	(154,711)
Other charges for services	12,000	12,000	35	(11,965)
Total charges for services	\$ 817,500	\$ 817,500	\$ 638,454	\$ (179,046)

City of Galax, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2021

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Miscellaneous:				
Miscellaneous	\$ 51,800	\$ 51,800	\$ 15,960	\$ (35,840)
Sale of surplus	5,000	5,000	162	(4,838)
Sale of cemetery lots	15,000	15,000	27,675	12,675
Donations and contributions	48,000	93,850	85,575	(8,275)
Animal shelter contributions	-	50,000	117,338	67,338
Total miscellaneous	<u>\$ 119,800</u>	<u>\$ 215,650</u>	<u>\$ 246,710</u>	<u>\$ 31,060</u>
Recovered costs:				
Juvenile probation	\$ 25,000	\$ 25,000	\$ 22,872	\$ (2,128)
Animal Shelter	68,000	68,000	69,844	1,844
Sanitation recovered costs	2,500	2,500	-	(2,500)
Police recovered costs	62,000	62,000	57,379	(4,621)
Bottom Area project	-	-	22,900	22,900
Other recovered costs	133,600	133,600	6,116	(127,484)
Total recovered costs	<u>\$ 291,100</u>	<u>\$ 291,100</u>	<u>\$ 179,111</u>	<u>\$ (111,989)</u>
Total revenue from local sources	<u>\$ 13,262,500</u>	<u>\$ 13,358,350</u>	<u>\$ 14,664,564</u>	<u>\$ 1,306,214</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications sales and use taxes	\$ 200,000	\$ 200,000	\$ 171,996	\$ (28,004)
Recordation tax	9,000	9,000	-	(9,000)
Motor vehicle carriers' tax	32,000	32,000	44,032	12,032
Mobile home titling tax	1,500	1,500	2,851	1,351
Rolling stock tax	-	-	19	19
Personal property tax relief funds	230,000	230,000	230,012	12
Games of skill tax	-	-	15,552	15,552
Total noncategorical aid	<u>\$ 472,500</u>	<u>\$ 472,500</u>	<u>\$ 464,462</u>	<u>\$ (8,038)</u>
Categorical aid:				
Shared expenses:				
Commissioner of the revenue	\$ 65,000	\$ 65,000	\$ 61,950	\$ (3,050)
Registrar/electoral board	35,000	35,000	37,219	2,219
Total shared expenses	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 99,169</u>	<u>\$ (831)</u>
Other categorical aid:				
599 Funds (Police funding)	\$ 348,656	\$ 364,794	\$ 364,794	\$ -
Comprehensive services act	560,207	560,207	707,670	147,463
Street and highway funds	1,979,000	1,979,000	2,017,630	38,630
Litter control	6,000	6,000	5,620	(380)
Virginia Commission for the Arts	4,500	4,500	4,500	-
Public assistance and welfare administration	683,521	683,521	814,530	131,009
Department of Fire Programs	23,000	23,000	30,000	7,000
EMS 4 for Life Funding	6,000	6,000	-	(6,000)

City of Galax, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2021

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid: (Continued)				
Asset forfeiture funds	\$ -	\$ -	\$ 11,296	\$ 11,296
School resource officer grant	26,750	26,750	22,771	(3,979)
Other categorical aid	-	10,000	23,897	13,897
Total other categorical aid	<u>\$ 3,637,634</u>	<u>\$ 3,663,772</u>	<u>\$ 4,002,708</u>	<u>\$ 338,936</u>
Total categorical aid	<u>\$ 3,737,634</u>	<u>\$ 3,763,772</u>	<u>\$ 4,101,877</u>	<u>\$ 338,105</u>
Total revenue from the Commonwealth	<u>\$ 4,210,134</u>	<u>\$ 4,236,272</u>	<u>\$ 4,566,339</u>	<u>\$ 330,067</u>
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ 1,069,097	\$ 1,069,097	\$ 1,419,362	\$ 350,265
Community development block grants	300,000	355,000	371,882	16,882
Public safety grants	37,500	37,500	15,131	(22,369)
Highway planning and construction grants	1,353,085	1,408,085	2,045,993	637,908
High intensity drug trafficking grant	-	-	2,382	2,382
Coronavirus relief act funds	-	605,336	1,069,907	464,571
DCJS - Coronavirus emergency supplemental funding	-	44,485	28,655	(15,830)
SHSP Homeland security grant	-	141,000	88,937	(52,063)
USDA grant	-	50,000	50,000	-
Total categorical aid	<u>\$ 2,759,682</u>	<u>\$ 3,710,503</u>	<u>\$ 5,092,249</u>	<u>\$ 1,381,746</u>
Total revenue from the federal government	<u>\$ 2,759,682</u>	<u>\$ 3,710,503</u>	<u>\$ 5,092,249</u>	<u>\$ 1,381,746</u>
Total General Fund	<u>\$ 20,232,316</u>	<u>\$ 21,305,125</u>	<u>\$ 24,323,152</u>	<u>\$ 3,018,027</u>
Total Primary Government	<u>\$ 20,232,316</u>	<u>\$ 21,305,125</u>	<u>\$ 24,323,152</u>	<u>\$ 3,018,027</u>
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 336	\$ 336
Revenue from the use of property	-	500	-	(500)
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 336</u>	<u>\$ (164)</u>
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 10,661	\$ 10,661
Payments from other divisions	268,859	254,180	308,727	54,547
Tuition and payments from other divisions	700	700	-	(700)
Total charges for services	<u>\$ 269,559</u>	<u>\$ 254,880</u>	<u>\$ 319,388</u>	<u>\$ 64,508</u>

City of Galax, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2021

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Discretely Presented Component Unit - School Board: (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Miscellaneous:				
Donations	\$ -	\$ -	\$ 25	\$ 25
Medicaid payments	65,000	65,000	91,596	26,596
Other miscellaneous	6,397	6,397	15,703	9,306
Total miscellaneous	<u>\$ 71,397</u>	<u>\$ 71,397</u>	<u>\$ 107,324</u>	<u>\$ 35,927</u>
Recovered costs:				
Other recovered costs	\$ 1,500	\$ 1,500	\$ 1,740	\$ 240
Total recovered costs	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,740</u>	<u>\$ 240</u>
Total revenue from local sources	<u>\$ 342,456</u>	<u>\$ 328,277</u>	<u>\$ 428,788</u>	<u>\$ 100,511</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from the City of Galax, Virginia	\$ 3,986,291	\$ 3,986,291	\$ 3,880,975	\$ (105,316)
Total revenues from local governments	<u>\$ 3,986,291</u>	<u>\$ 3,986,291</u>	<u>\$ 3,880,975</u>	<u>\$ (105,316)</u>
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 1,200,000	\$ 960,000	\$ 1,414,486	\$ 454,486
Basic school aid	4,618,465	4,672,005	4,607,550	(64,455)
Remedial summer education	48,433	239,408	239,408	-
Regular foster care	26,810	30,641	17,143	(13,498)
Adult secondary education	8,386	8,386	8,387	1
Gifted and talented	47,338	47,338	47,263	(75)
Remedial education	220,305	220,305	219,953	(352)
Virginia preschool initiative	301,673	164,539	125,782	(38,757)
Textbook payment	97,835	97,835	97,679	(156)
Vocational programs	195,125	192,302	175,291	(17,011)
Lottery payments	346,158	352,526	379,026	26,500
Social security fringe benefits	279,477	278,567	278,123	(444)
Retirement fringe benefits	651,811	648,169	647,135	(1,034)
Group life insurance benefits	20,028	20,028	19,996	(32)
Early reading intervention	33,390	30,822	30,822	-
Homebound education	8,621	4,226	4,226	-
Special education	395,092	395,092	394,462	(630)
Regional program tuition	63,605	63,605	5,544	(58,061)
Special education - foster children	-	-	13,526	13,526
At risk payments	599,537	517,943	517,265	(678)
Mentor teacher program	1,053	2,026	2,026	-
Primary class size	338,942	316,495	316,495	-
Technology	128,000	128,000	128,000	-
Standards of Learning algebra readiness	31,016	33,789	33,789	-
School Food	10,896	11,614	7,480	(4,134)

City of Galax, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2021

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Discretely Presented Component Unit - School Board: (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
English as a second language	\$ 175,755	\$ 194,938	\$ 194,938	\$ -
Compensation supplement	122,165	-	-	-
Learning loss PPA	-	-	86,635	86,635
No loss funding	-	332,943	307,370	(25,573)
Other state funds	21,356	22,134	23,933	1,799
Total categorical aid	<u>\$ 9,991,272</u>	<u>\$ 9,985,676</u>	<u>\$ 10,343,733</u>	<u>\$ 358,057</u>
Total revenue from the Commonwealth	<u>\$ 9,991,272</u>	<u>\$ 9,985,676</u>	<u>\$ 10,343,733</u>	<u>\$ 358,057</u>
Revenue from the federal government:				
Categorical aid:				
School breakfast program	\$ -	\$ -	\$ 351,548	\$ 351,548
School lunch program	585,450	618,020	575,409	(42,611)
Summer feeding	21,000	21,000	32,248	11,248
Title I	566,305	566,305	670,569	104,264
Title VI-B, Special education flow-through	281,577	281,577	261,999	(19,578)
Vocational education	34,025	34,025	34,079	54
Title VI-B, Special education pre-school	13,482	13,482	13,519	37
Rural and low income schools	28,257	28,257	-	(28,257)
English language acquisition grant	19,092	19,092	20,983	1,891
Improving teacher quality	67,520	67,520	69,765	2,245
Child and adult care food program	175,000	175,000	527,281	352,281
Title IV	40,678	40,678	30,626	(10,052)
Coronavirus Relief Funds	-	224,910	224,910	-
Education Stabilization Fund	-	489,082	472,858	(16,224)
Temporary assistance for needy families	-	-	38,757	38,757
Total categorical aid	<u>\$ 1,832,386</u>	<u>\$ 2,578,948</u>	<u>\$ 3,324,551</u>	<u>\$ 745,603</u>
Total revenue from the federal government	<u>\$ 1,832,386</u>	<u>\$ 2,578,948</u>	<u>\$ 3,324,551</u>	<u>\$ 745,603</u>
Total School Operating Fund	<u>\$ 16,152,405</u>	<u>\$ 16,879,192</u>	<u>\$ 17,978,047</u>	<u>\$ 1,098,855</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2021

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
General government administration:				
Legislative:				
Mayor and Council	\$ 46,286	\$ 71,286	\$ 59,075	\$ 12,211
Total legislative	<u>\$ 46,286</u>	<u>\$ 71,286</u>	<u>\$ 59,075</u>	<u>\$ 12,211</u>
General and financial administration:				
City Manager	\$ 555,055	\$ 547,255	\$ 542,212	\$ 5,043
City Attorney	63,000	63,000	72,908	(9,908)
Marketing	166,540	166,540	128,810	37,730
Commissioner of revenue	196,097	196,097	178,700	17,397
Finance department	506,917	506,917	458,058	48,859
Total general and financial administration	<u>\$ 1,487,609</u>	<u>\$ 1,479,809</u>	<u>\$ 1,380,688</u>	<u>\$ 99,121</u>
Board of elections:				
Electoral Board	\$ 45,454	\$ 50,454	\$ 42,637	\$ 7,817
Registrar	82,097	128,682	80,405	48,277
Total board of elections	<u>\$ 127,551</u>	<u>\$ 179,136</u>	<u>\$ 123,042</u>	<u>\$ 56,094</u>
Total general government administration	<u>\$ 1,661,446</u>	<u>\$ 1,730,231</u>	<u>\$ 1,562,805</u>	<u>\$ 167,426</u>
Judicial administration:				
Courts:				
General district court	\$ 47,150	\$ 47,150	\$ 40,925	\$ 6,225
Magistrate	1,200	1,200	701	499
Shared services	560,000	560,000	560,000	-
Total courts	<u>\$ 608,350</u>	<u>\$ 608,350</u>	<u>\$ 601,626</u>	<u>\$ 6,724</u>
Total judicial administration	<u>\$ 608,350</u>	<u>\$ 608,350</u>	<u>\$ 601,626</u>	<u>\$ 6,724</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,024,964	\$ 2,216,936	\$ 1,899,001	\$ 317,935
Narcotics	3,000	3,000	1,298	1,702
Community policing	2,500	2,500	2,831	(331)
Total law enforcement and traffic control	<u>\$ 2,030,464</u>	<u>\$ 2,222,436</u>	<u>\$ 1,903,130</u>	<u>\$ 319,306</u>
Fire and rescue services:				
Fire programs	\$ 329,350	\$ 421,350	\$ 399,095	\$ 22,255
E911 programs	99,602	101,486	96,469	5,017
Ambulance and rescue services	239,953	239,953	132,224	107,729
Total fire and rescue services	<u>\$ 668,905</u>	<u>\$ 762,789</u>	<u>\$ 627,788</u>	<u>\$ 135,001</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2021

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Correction and detention:				
Juvenile probation	\$ 139,850	\$ 79,850	\$ 27,709	\$ 52,141
Correction and probation	2,400	2,400	3,957	(1,557)
Total correction and detention	<u>\$ 142,250</u>	<u>\$ 82,250</u>	<u>\$ 31,666</u>	<u>\$ 50,584</u>
Other protection:				
Animal control	\$ 59,495	\$ 79,495	\$ 53,894	\$ 25,601
Medical examiner	2,500	2,500	120	2,380
Animal shelter	141,354	141,354	144,737	(3,383)
Safe routes to schools	16,356	16,356	17,473	(1,117)
School resource officer	34,766	34,766	30,663	4,103
CARES act	-	1,063,102	1,063,373	(271)
Communications	204,282	214,428	219,941	(5,513)
Total other protection	<u>\$ 458,753</u>	<u>\$ 1,552,001</u>	<u>\$ 1,530,201</u>	<u>\$ 21,800</u>
Total public safety	<u>\$ 3,300,372</u>	<u>\$ 4,619,476</u>	<u>\$ 4,092,785</u>	<u>\$ 526,691</u>
Public works:				
Engineering:				
Engineering	\$ 192,679	\$ 182,679	\$ 236,549	\$ (53,870)
Total engineering	<u>\$ 192,679</u>	<u>\$ 182,679</u>	<u>\$ 236,549</u>	<u>\$ (53,870)</u>
Maintenance of highways, streets and bridges:				
Highways, streets, bridges and sidewalks	\$ 2,749,466	\$ 2,793,966	\$ 3,681,383	\$ (887,417)
Street lighting	274,175	274,175	76,979	197,196
Traffic signals	34,500	34,500	33,425	1,075
Total maintenance of highways, streets and bridges	<u>\$ 3,058,141</u>	<u>\$ 3,102,641</u>	<u>\$ 3,791,787</u>	<u>\$ (689,146)</u>
Sanitation and waste removal:				
Refuse collection and disposal	\$ 294,513	\$ 294,600	\$ 281,327	\$ 13,273
Landfill	40,000	40,000	23,063	16,937
Total sanitation and waste removal	<u>\$ 334,513</u>	<u>\$ 334,600</u>	<u>\$ 304,390</u>	<u>\$ 30,210</u>
Maintenance of general buildings and grounds:				
Building maintenance	\$ 282,153	\$ 299,003	\$ 297,154	\$ 1,849
Property maintenance	219,611	219,611	149,751	69,860
Total maintenance of general buildings and grounds	<u>\$ 501,764</u>	<u>\$ 518,614</u>	<u>\$ 446,905</u>	<u>\$ 71,709</u>
Total public works	<u>\$ 4,087,097</u>	<u>\$ 4,138,534</u>	<u>\$ 4,779,631</u>	<u>\$ (641,097)</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 124,432	\$ 124,432	\$ 124,432	\$ -
Total health	<u>\$ 124,432</u>	<u>\$ 124,432</u>	<u>\$ 124,432</u>	<u>\$ -</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2021

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Health and welfare: (Continued)				
Mental health and mental retardation:				
Mental health contribution	\$ 39,500	\$ 39,500	\$ 39,500	\$ -
Total mental health and mental retardation	<u>\$ 39,500</u>	<u>\$ 39,500</u>	<u>\$ 39,500</u>	<u>\$ -</u>
Welfare:				
Welfare administration and programs	\$ 2,856,242	\$ 2,856,242	\$ 3,611,379	\$ (755,137)
Contributions to welfare agencies	47,474	47,474	44,609	2,865
Total welfare	<u>\$ 2,903,716</u>	<u>\$ 2,903,716</u>	<u>\$ 3,655,988</u>	<u>\$ (752,272)</u>
Total health and welfare	<u>\$ 3,067,648</u>	<u>\$ 3,067,648</u>	<u>\$ 3,819,920</u>	<u>\$ (752,272)</u>
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 12,148	\$ 12,148	\$ 12,148	\$ -
Contribution to the City School Board	3,986,823	3,986,823	3,880,975	105,848
Total instructional costs	<u>\$ 3,998,971</u>	<u>\$ 3,998,971</u>	<u>\$ 3,893,123</u>	<u>\$ 105,848</u>
Total education	<u>\$ 3,998,971</u>	<u>\$ 3,998,971</u>	<u>\$ 3,893,123</u>	<u>\$ 105,848</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks	\$ 60,000	\$ 84,300	\$ 63,697	\$ 20,603
Recreation	1,256,432	1,104,752	883,745	221,007
Rosewald Felts	3,000	3,000	1,424	1,576
Rex Theater	23,500	23,500	15,723	7,777
Golf Course	214,839	231,604	222,481	9,123
Farmer's Market	2,550	2,550	2,228	322
Total parks and recreation	<u>\$ 1,560,321</u>	<u>\$ 1,449,706</u>	<u>\$ 1,189,298</u>	<u>\$ 260,408</u>
Cultural enrichment:				
Museum	\$ 33,460	\$ 33,460	\$ 31,391	\$ 2,069
Chestnut Creek School of the Arts	115,250	115,250	115,051	199
Art programs and contributions	3,000	3,000	2,500	500
Total cultural enrichment	<u>\$ 151,710</u>	<u>\$ 151,710</u>	<u>\$ 148,942</u>	<u>\$ 2,768</u>
Library:				
Regional library	\$ 235,216	\$ 235,216	\$ 234,686	\$ 530
Total library	<u>\$ 235,216</u>	<u>\$ 235,216</u>	<u>\$ 234,686</u>	<u>\$ 530</u>
Total parks, recreation, and cultural	<u>\$ 1,947,247</u>	<u>\$ 1,836,632</u>	<u>\$ 1,572,926</u>	<u>\$ 263,706</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2021

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Community development:				
Planning and community development:				
Planning and development	\$ 152,814	\$ 170,699	\$ 153,299	\$ 17,400
Bottom area project	300,000	385,000	406,213	(21,213)
BRCEDA	140,000	140,000	142,240	(2,240)
Economic incentives	85,000	35,000	18,409	16,591
Contributions to IDA	-	210,000	210,000	-
Total planning and community development	<u>\$ 677,814</u>	<u>\$ 940,699</u>	<u>\$ 930,161</u>	<u>\$ 10,538</u>
Total community development	<u>\$ 677,814</u>	<u>\$ 940,699</u>	<u>\$ 930,161</u>	<u>\$ 10,538</u>
Nondepartmental:				
Nondepartmental	\$ 267,213	\$ 117,213	\$ 80,135	\$ 37,078
Total nondepartmental	<u>\$ 267,213</u>	<u>\$ 117,213</u>	<u>\$ 80,135</u>	<u>\$ 37,078</u>
Capital projects:				
Capital projects	\$ 3,879,800	\$ 4,259,631	\$ 2,497,636	\$ 1,761,995
Total capital projects	<u>\$ 3,879,800</u>	<u>\$ 4,259,631</u>	<u>\$ 2,497,636</u>	<u>\$ 1,761,995</u>
Debt service:				
Principal retirement	\$ 714,343	\$ 719,344	\$ 513,602	\$ 205,742
Interest and other fiscal charges	577,019	577,568	546,110	31,458
Total debt service	<u>\$ 1,291,362</u>	<u>\$ 1,296,912</u>	<u>\$ 1,059,712</u>	<u>\$ 237,200</u>
Total General Fund	<u>\$ 24,787,320</u>	<u>\$ 26,614,297</u>	<u>\$ 24,890,460</u>	<u>\$ 1,723,837</u>
Total Primary Government	<u>\$ 24,787,320</u>	<u>\$ 26,614,297</u>	<u>\$ 24,890,460</u>	<u>\$ 1,723,837</u>
<b>Discretely Presented Component Unit - School Board</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Administration and health services	\$ 878,558	\$ 846,087	\$ 939,764	\$ (93,677)
Total administration of schools	<u>\$ 878,558</u>	<u>\$ 846,087</u>	<u>\$ 939,764</u>	<u>\$ (93,677)</u>
Instruction costs:				
Instructional costs	\$ 11,575,677	\$ 11,951,152	\$ 11,487,289	\$ 463,863
Total instruction costs	<u>\$ 11,575,677</u>	<u>\$ 11,951,152</u>	<u>\$ 11,487,289</u>	<u>\$ 463,863</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2021

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Discretely Presented Component Unit - School Board (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Education: (Continued)				
Operating costs:				
Pupil transportation	\$ 570,956	\$ 637,266	\$ 592,517	\$ 44,749
Operation and maintenance of school plant	1,407,681	1,548,399	1,631,994	(83,595)
School food service	793,020	827,212	1,387,606	(560,394)
Facilities	-	-	65,610	(65,610)
Technology	804,671	950,525	753,989	196,536
Total operating costs	<u>\$ 3,576,328</u>	<u>\$ 3,963,402</u>	<u>\$ 4,431,716</u>	<u>\$ (468,314)</u>
Debt service:				
Debt service	\$ 122,842	\$ 122,842	\$ -	\$ 122,842
Total debt service	<u>\$ 122,842</u>	<u>\$ 122,842</u>	<u>\$ -</u>	<u>\$ 122,842</u>
Total School Operating Fund	<u>\$ 16,153,405</u>	<u>\$ 16,883,483</u>	<u>\$ 16,858,769</u>	<u>\$ 24,714</u>

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

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## STATISTICAL INFORMATION

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Table 1

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

Fiscal Year	General										Total	
	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
2020-21	\$ 1,673,437	\$ 597,852	\$ 4,553,484	\$ 2,601,743	\$ 3,894,635	\$ 3,838,187	\$ 1,799,188	\$ 913,010	\$ 632,166	\$ 2,808,539	51,474	\$ 23,363,715
2019-20	1,680,936	602,262	3,257,521	3,220,447	4,077,039	3,915,849	1,968,757	1,468,371	552,991	2,653,724	36,770	23,434,667
2018-19	1,443,129	601,352	3,020,982	2,530,908	3,149,532	4,036,734	1,990,183	480,407	309,463	2,560,863	79,497	20,203,050
2017-18	1,480,900	602,234	2,926,174	2,839,475	2,175,163	4,042,549	2,053,054	357,353	408,069	2,480,848	33,743	19,399,562
2016-17	1,654,893	637,709	2,806,546	3,438,660	1,770,223	4,243,256	2,122,046	544,237	267,120	2,590,357	24,152	20,099,199
2015-16	1,593,969	550,420	2,968,540	2,498,899	1,621,459	4,027,300	2,084,825	558,833	177,870	2,511,724	-	18,593,839
2014-15	1,574,606	665,677	2,796,916	2,441,402	1,425,069	3,928,234	2,023,767	560,934	198,755	2,562,104	-	18,177,464
2013-14	1,552,436	601,213	2,990,921	2,594,079	1,423,738	3,879,492	2,016,590	728,676	157,580	2,949,673	-	18,894,398
2012-13	1,543,098	394,278	2,790,642	2,556,297	1,508,926	4,269,959	2,040,066	399,464	230,446	2,725,663	-	18,458,839
2011-12	1,496,085	618,300	2,803,284	2,084,134	1,664,552	3,700,277	1,749,789	2,004,859	235,567	2,572,434	-	18,929,281

Note: Presentation on the full-accrual basis of accounting

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES							Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs			
2020-21	\$ 4,180,626	\$ 6,637,314	\$ 2,626,722	\$ 6,522,881	\$ 6,883,963	\$ 48,132	\$ 246,710	\$ 464,462	\$ 27,610,810			
2019-20	3,678,687	5,874,952	2,559,715	5,988,982	6,345,025	68,375	483,073	471,764	25,470,573			
2018-19	3,925,691	5,190,990	519,804	5,689,662	6,250,609	62,778	399,998	476,982	22,516,514			
2017-18	3,922,883	4,274,797	1,646,929	5,552,609	6,071,397	44,108	104,353	478,658	22,095,734			
2016-17	3,590,458	3,861,800	1,174,823	5,320,011	6,016,025	39,160	114,616	500,048	20,616,941			
2015-16	3,447,108	3,828,543	2,052,758	5,185,806	5,940,149	29,315	222,549	505,191	21,211,419			
2014-15	3,426,178	3,637,090	2,085,511	5,008,653	5,802,799	38,320	190,713	504,695	20,693,959			
2013-14	3,411,297	3,935,728	694,719	4,890,742	5,571,854	39,350	93,493	505,750	19,142,933			
2012-13	3,288,734	3,766,099	151,082	4,725,836	5,564,801	43,230	131,054	516,143	18,186,979			
2011-12	3,786,646	4,881,858	269,036	4,107,727	4,737,461	118	127,348	465,184	18,375,378			

Note: Presentation on the full-accrual basis of accounting

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), (3)	Parks, Recreation & Cultural	Community Development	Non-Departmental	Debt Service	Capital Projects	Totals
2020-21	\$ 1,562,805	\$ 601,626	\$ 4,092,785	\$ 4,779,631	\$ 3,819,920	#REF!	\$ 1,572,926	\$ 930,161	\$ 80,135	\$ 1,059,712	\$ 2,497,636	#REF!
2019-20	1,588,592	598,663	3,175,479	3,516,971	4,039,988	15,753,096	1,689,453	1,468,048	76,691	949,594	8,458,457	41,315,032
2018-19	1,441,367	601,352	3,147,204	2,441,263	3,222,801	15,605,433	1,842,219	510,011	81,253	742,584	6,003,051	35,638,538
2017-18	1,468,439	602,234	2,981,497	2,848,899	2,238,392	16,226,613	1,871,870	357,239	77,179	837,126	1,020,007	30,529,495
2016-17	1,434,109	637,709	3,024,857	2,485,242	1,782,364	15,011,725	1,868,942	556,537	98,195	891,714	960,284	28,751,678
2015-16	1,503,411	550,420	3,031,605	2,380,453	1,663,352	14,285,430	1,914,822	552,197	114,271	740,409	1,929,535	28,665,905
2014-15	1,365,936	665,677	2,926,728	2,485,768	1,455,978	14,457,429	1,856,206	437,928	373,928	786,543	2,327,615	29,139,736
2013-14	1,379,004	601,213	2,985,642	2,562,375	1,418,426	13,536,865	1,884,408	616,302	253,793	775,335	676,722	26,690,085
2012-13	1,303,062	537,064	2,762,814	2,788,217	1,512,532	13,631,180	1,851,395	369,643	276,414	785,988	322,753	26,141,062
2011-12	1,456,338	615,081	2,849,754	2,050,229	1,654,794	16,316,471	1,796,614	2,004,859	-	757,000	-	29,501,140

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
2020-21	\$ 6,520,563	\$ 6,903,229	\$ 20,104	\$ 110,403	\$ 46,326	\$ 1,041,006	\$ 354,034	\$ 180,851	\$ 23,326,872	\$ 38,503,388
2019-20	6,023,068	6,344,544	9,513	120,173	59,585	1,070,755	671,457	161,795	19,376,028	33,836,918
2018-19	5,610,024	6,246,495	14,588	118,187	61,224	1,142,323	503,927	186,568	17,213,590	31,096,926
2017-18	5,615,048	6,074,177	24,815	135,173	44,283	1,114,993	247,946	143,263	16,067,397	29,467,095
2016-17	5,099,456	6,010,288	18,839	124,835	39,260	1,094,387	167,449	164,651	16,159,406	28,878,571
2015-16	5,243,024	5,964,380	30,007	135,077	29,885	1,235,544	251,626	177,454	15,425,698	28,492,695
2014-15	5,068,041	5,785,608	21,470	119,843	39,017	1,232,726	236,417	226,067	16,351,303	29,080,492
2013-14	4,817,729	5,574,405	18,839	112,962	39,800	1,130,665	130,179	217,555	14,381,023	26,423,157
2012-13	4,641,973	5,570,787	26,096	142,786	43,230	1,194,579	385,226	182,339	13,547,049	25,734,065
2011-12	4,087,009	4,798,066	19,390	104,879	112,220	1,768,475	144,811	942	14,296,633	25,332,425

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

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

Table 5

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

Fiscal Year	Current Tax Levy	Collected within the Year of Levy		Collections in Subsequent Years		Total Collections to Date	
		Amount	Percent of Levy	Years	Amount	Percent of Levy	
2020-21	\$ 6,546,683	\$ 6,256,272	95.56%	-	\$ 6,256,272	95.56%	
2019-20	5,929,487	5,700,878	96.14%	-	5,700,878	96.14%	
2018-19	5,631,123	5,357,951	95.15%	11,006	5,368,957	95.34%	
2017-18	5,583,203	5,422,365	97.12%	131,426	5,553,791	99.47%	
2016-17	5,244,627	5,012,946	95.58%	251,016	5,263,962	100.37%	
2015-16	5,117,544	5,012,946	97.96%	82,858	5,095,804	99.58%	
2014-15	4,909,132	4,758,955	96.94%	141,529	4,900,484	99.82%	
2013-14	4,849,276	4,654,991	95.99%	168,561	4,823,552	99.47%	
2012-13	4,643,429	4,428,347	95.37%	182,450	4,610,797	99.30%	
2011-12	3,999,533	3,831,544	95.80%	137,152	3,968,696	99.23%	

Collections are inclusive 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
2020-21	\$ 470,460,350	\$ 125,427,710	\$ 15,987,318	\$ 611,875,378
2019-20	444,892,350	130,775,919	15,615,523	591,283,792
2018-19	445,708,250	125,888,713	15,045,922	586,642,885
2017-18	445,191,650	124,340,945	14,453,538	583,986,133
2016-17	443,176,050	118,189,339	14,114,928	575,480,317
2015-16	458,384,400	111,389,059	14,751,447	584,524,906
2014-15	457,205,000	110,616,317	15,688,304	583,509,621
2013-14	452,108,700	108,178,991	14,644,537	574,932,228
2012-13	449,458,875	102,868,300	13,364,028	565,691,203
2011-12	443,963,100	99,871,993	14,483,951	558,319,044

(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
2020-21	\$ 0.920	\$ 0.920	\$ 2.25	\$ 1.60
2019-20	0.845	0.845	2.25	1.50
2018-19	0.800	0.800	2.25	1.50
2017-18	0.800	0.800	2.25	1.50
2016-17	0.755	0.755	2.25	1.50
2015-16	0.730	0.730	2.25	1.50
2014-15	0.690	0.690	2.25	1.50
2013-14	0.690	0.690	2.25	1.50
2012-13	0.670	0.670	2.25	1.50
2011-12	0.620	0.620	1.68	1.42

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2020-21	6,720	4,704,604	\$ 23,172,394	\$ 23,172,394	4.93%	3,448
2019-20	6,437	4,448,924	19,291,851	19,291,851	4.34%	2,997
2018-19	6,423	4,457,083	12,697,189	12,697,189	2.85%	1,977
2017-18	7,042	4,451,917	8,264,293	8,264,293	1.86%	1,174
2016-17	6,775	4,431,761	7,792,068	7,792,068	1.76%	1,150
2015-16	7,034	4,583,844	6,946,669	6,946,669	1.52%	988
2014-15	7,034	4,572,050	7,509,306	7,509,306	1.64%	1,068
2013-14	7,035	4,521,087	6,690,956	6,690,956	1.48%	951
2012-13	6,928	4,494,589	7,275,989	7,275,989	1.62%	1,050
2011-12	6,877	4,439,631	7,402,698	7,402,698	1.67%	1,076

(1) Source: United States Census Bureau

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

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

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

Table 9

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

Fiscal Year	Principal	Interest and other Fiscal Charges	Total Debt Service	Total General Governmental Expenditures (Excluding Capital)	Ratio of Debt Service to General Governmental Expenditures
2020-21	\$ 513,602	\$ 546,110	\$ 1,059,712	#REF!	#REF!
2019-20	463,009	486,585	949,594	32,856,575	2.89%
2018-19	469,172	273,412	742,584	29,635,487	2.51%
2017-18	477,317	359,809	837,126	29,509,488	2.84%
2016-17	560,123	331,591	891,714	27,791,394	3.21%
2015-16	562,637	177,772	740,409	26,736,370	2.77%
2014-15	595,650	190,893	786,543	26,812,121	2.93%
2013-14	607,493	167,842	775,335	26,013,363	2.98%
2012-13	555,677	230,311	785,988	25,818,309	3.04%
2011-12	526,929	230,071	757,000	29,501,140	2.57%

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

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## COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia as of and for the year ended June 30, 2021, 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 23, 2021.

**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) as a basis for designing 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying scheduled of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

## Compliance and Other Matters

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

### City of Galax, Virginia Response to Findings

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

### Purpose of this Report

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

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia  
November 23, 2021



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

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Galax, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Galax, Virginia's major federal programs for the year ended June 30, 2021. 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, 2021.

## Report on Internal Control over Compliance

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

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

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

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

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia  
November 23, 2021

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<b>DEPARTMENT OF AGRICULTURE:</b>				
Direct payments:				
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766	Not applicable	\$ 17,150,000	
Pass through payments from:				
<i>Department of Social Services:</i>				
SNAP Cluster:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010120/0010121/ 0040120/0040121		233,598
Child Nutrition Cluster:				
<i>Department of Education:</i>				
School Breakfast Program	10.553	40253	\$ 321,258	
COVID-19 - School Breakfast Program	10.553	40263	30,290	\$ 351,548
National School Lunch Program	10.555	40254	\$ 466,919	
COVID-19 - National School Lunch Program	10.555	40264	48,755	
<i>State Department of Agriculture:</i>				
Food Distribution-Schools (Note C)	10.555	Unknown	59,735	575,409
COVID-19 - Summer Food Service Program for Children	10.559	60175/60176		32,248
Total Child Nutrition Cluster				959,205
Child and Adult Care Food Program	10.558	70027/70028	\$ 476,421	
COVID-19 - Child and Adult Care Food Program	10.558	70035	50,860	527,281
Total Department of Agriculture				\$ 18,870,084
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>				
Pass through payments from:				
<i>Department of Education:</i>				
Temporary Assistance for Needy Families	93.558	40274	\$ 38,757	
<i>Department of Social Services:</i>				
Temporary Assistance for Needy Families	93.558	0400120/0400121	130,504	\$ 169,261
Promoting Safe and Stable Families Program	93.556	0950119/0950120		1,102
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	0500120/0500121		313
Low Income Home Energy Assistance	93.568	0600420/0600421		22,147
Social Services Block Grant	93.667	1000120/1000121		207,989
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	9150119/9150120		2,645
Children's Health Insurance Program	93.767	0540120/0540121		1,996
Medicaid Cluster:				
Medical Assistance Program	93.778	1200120/1200121		171,311
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900120/0900121		74
CCDF Cluster:				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760120/0760121		27,533
Foster Care - Title IV E	93.658	1100120/1100121		315,955
Adoption Assistance	93.659	1120120/1120121		300,477
Adoption and Legal Guardianship Incentive Payments	93.603	1130117/1130118		3,718
Total Department of Health and Human Services				\$ 1,224,521
<b>DEPARTMENT OF JUSTICE:</b>				
Pass through payments from:				
<i>Bureau of Justice Assistance</i>				
COVID-19 Coronavirus Emergency Supplemental Funding Program	16.034	20VDBX0141	\$ 28,655	
Total Department of Justice			\$ 28,655	
<b>DEPARTMENT OF HOMELAND SECURITY:</b>				
Pass through payments from:				
<i>Department of Emergency Management:</i>				
Emergency Management Performance Grants	97.042	EMP-2020-EP-00005	\$ 7,500	
State Homeland Security Grant Program	97.073	EMW-2020-SS-00096		88,937
Total Department of Homeland Security			\$ 96,437	

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<b>DEPARTMENT OF TRANSPORTATION:</b>				
Pass through payments from:				
<i>Department of Motor Vehicles:</i>				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	111311/113354/ 116128/108898/113319	\$ 2,045,993	
<i>National Highway Traffic Safety Administration</i>				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	FSC-2020/FSC-2021/ FOP-2020/FOP-2021	\$ 6,577	
National Priority Safety Programs	20.616	FM6OT-2021/M6OT-2021	1,054	
Total Highway Safety Cluster			<u>7,631</u>	
Total Department of Transportation			<u>\$ 2,053,624</u>	
<b>DEPARTMENT OF TREASURY:</b>				
Pass through payments from:				
<i>Virginia Department of Accounts:</i>				
COVID-19 Coronavirus Relief Fund	21.019	SLT0022	\$ 1,069,907	\$ 211,753
<i>Department of Education:</i>				
COVID-19 Coronavirus Relief Fund	21.019	70056	224,910	
Total Department of Treasury			<u>\$ 1,294,817</u>	<u>\$ 211,753</u>
<b>EXECUTIVE OFFICE OF THE PRESIDENT:</b>				
Direct payments:				
High Intensity Drug Trafficking Areas Program	95.001	Not applicable	\$ 2,382	
Total Executive Office of the President			<u>\$ 2,382</u>	
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>				
Pass through payments from:				
<i>Department of Housing and Community Development:</i>				
Community Development Block Grants/				
State's Program and Non-Entitlement Grants in Hawaii	14.228	117610/HCD50790	\$ 371,882	
Total Department of Housing and Urban Development			<u>\$ 371,882</u>	
<b>DEPARTMENT OF EDUCATION:</b>				
Pass through payments from:				
<i>Department of Education:</i>				
Career and Technical Education -- Basic Grants to States	84.048	60031/610951003	\$ 34,079	
Supporting Effective Instruction State Grants	84.367	61480	69,765	
Rural Education	84.358	43481	20,983	
Title I Grants to Local Educational Agencies	84.010	42901	670,569	
Student Support and Academic Enrichment Program	84.424	60281	30,626	
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	43071	\$ 261,999	
Special Education - Preschool Grants	84.173	62521	13,519	275,518
Education Stabilization Fund:				
COVID-19 Governor's Emergency Education Relief Fund	84.425C	70037	\$ 435,036	
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D	60173/60177	37,822	
Total Education Stabilization Fund			<u>472,858</u>	
Total Department of Education			<u>\$ 1,574,398</u>	
Total Expenditures of Federal Awards			<u>\$ 25,516,800</u>	<u>\$ 211,753</u>

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2021

## Notes to Schedule of Expenditures of Federal Awards:

## Note A--Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Galax, Virginia under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budgets Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the City of Galax, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Galax, Virginia.

## Note B--Summary of Significant Accounting Policies

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

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

(3) The City did not elect the 10% de 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--Loan Balances

The City has received federal funding through loans. At June 30, 2021, the outstanding balances of these loans were:

\$ 17,100,000

## 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	\$ 9,658,588
Less: Revenue from the Commonwealth	(4,566,339)
Debt proceeds	17,100,000

## Component Unit School Board:

School Operating Fund-Intergovernmental	17,549,259
Less: Revenue from Local Governments	(3,880,975)
Less: Revenue from the Commonwealth	<u>(10,343,733)</u>

## Component Unit School Board:

Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 25,516,800</u>
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City of Galax, Virginia

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2021

Section I - Summary of Auditors' Results

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified? Yes  
 Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified? No  
 Significant deficiency(ies) identified? None reported

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

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

Identification of major programs:

Assistance Listing #	Name of Federal Program or Cluster
10.553/10.555/10.559	Child Nutrition Cluster
10.766	Community Facilities Loans and Grants Cluster
20.205	Highway Planning and Construction Cluster
21.019	COVID-19 Coronavirus Relief Fund

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

Auditee qualified as low-risk auditee? No

City of Galax, Virginia

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2021 (Continued)

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Section II - Financial Statement Findings

2021-001

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

Section III - Federal Award Findings and Questioned Costs

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

Section IV - Status of Prior Audit Findings

Prior year finding, 2020-001, is recurring as 2021-001.

City of Galax, Virginia

Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2021

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**2020-001 - Material Weakness**

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Prior year finding, 2020-001, is recurring as 2021-001.