

# **CITY OF GALAX, VIRGINIA**

## **FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2011**





# CITY OF GALAX, VIRGINIA

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# INTRODUCTORY SECTION

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**CITY OF GALAX, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2011**

**CITY COUNCIL**

Clarence M. Mitchell, Jr., Mayor  
Willie T. Greene, Sr., Vice-Mayor  
William T. Webb  
John U. Garner  
Sharon Plichta  
Robert L. Lazo  
Margo Crouse

**CITY SCHOOL BOARD**

Raymond E. Kohl, Chairman  
Stewart Merdian  
James G. Adams, Jr.  
Helen Kyle  
Donna Garland

**CITY SOCIAL SERVICES BOARD**

Keith Barker, Chairman  
Dr. Thomas Whartenby  
Dr. Robert Pryor  
Sharon Plichta  
Rita Reeves  
Liza Sutherland

**OTHER OFFICIALS**

City Manager  
Director of Finance  
Commissioner of Revenue  
Director of Social Services  
Superintendent of Schools  
City Attorney  
Chief of Police

Keith Barker  
Judy Taylor-Gallimore  
David Hankley  
Susan Clark  
Bill Sturgill  
James Cornwell  
Rick Clark

## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 and 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* and *Specifications for Audits of Authorities, Boards, and Commissions* 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of June 30, 2011, and the respective changes in financial position, where applicable, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The City has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In addition, accounting principles generally accepted in the United States of America require that the schedule of funding progress for the defined benefit pension plan and other post-employment benefits and budgetary comparison information as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining fund statement and schedules listed in the table of contents as other supplementary information, and the other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the City's basic financial statements. The combining fund financial statement 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other information sections 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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 29, 2011



## **BASIC FINANCIAL STATEMENTS**

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## CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS  
June 30, 2011

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
<b>ASSETS</b>						
Cash and cash equivalents (Note 2)	\$ 2,366,255	\$ -	\$ 2,366,255	\$ 2,048,771	\$ 51,999	\$ 4,467,025
Receivables, net (Note 3)	510,300	641,034	1,151,334	-	-	1,151,334
Due from other governments (Note 4)	762,939	20,308	783,247	743,457	-	1,526,704
Due from primary government	-	-	-	750,882	-	750,882
Prepaid items	20,928	-	20,928	187,745	-	208,673
Inventories	-	-	-	27,566	-	27,566
Bond issue costs, net	29,707	7,492	37,199	-	-	37,199
Note receivable	-	-	-	-	614,473	614,473
Interest receivable	-	-	-	-	3,690	3,690
Restricted assets:						
Cash and cash equivalents (Note 2)	500,035	-	500,035	-	-	500,035
Capital assets: (Note 6)						
Nondepreciable	2,000,345	199,667	2,200,012	148,960	-	2,348,972
Depreciable, net	17,776,321	5,818,295	23,594,616	1,504,822	-	25,099,438
Total assets	23,966,830	6,686,796	30,653,626	5,412,203	670,162	36,735,991
<b>LIABILITIES</b>						
Accounts payable	214,607	52,901	267,508	47,634	-	315,142
Accrued payroll and related liabilities	241,774	45,218	286,992	830,066	-	1,117,058
Accrued interest payable	101,655	5,948	107,603	-	-	107,603
Due to other governments (Note 4)	706,642	-	706,642	-	-	706,642
Due to component unit	750,882	-	750,882	-	-	750,882
Customer security deposits	-	51,752	51,752	-	-	51,752
Unearned revenue (Note 3)	13,161	-	13,161	-	-	13,161
Long-term liabilities: (Note 7)						
Due within one year	864,828	255,953	1,120,781	143,369	-	1,264,150
Due in more than one year	8,367,669	1,953,032	10,320,701	137,227	-	10,457,928
Total liabilities	11,261,218	2,364,804	13,626,022	1,158,296	-	14,784,318
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	11,794,610	3,920,553	15,715,163	1,653,782	-	17,368,945
Restricted:						
Anthem Stock proceeds	303,586	-	303,586	-	-	303,586
Police expenses	76,700	-	76,700	-	-	76,700
Museum	48,344	-	48,344	-	-	48,344
Veterans Memorial	38,705	-	38,705	-	-	38,705
Other purposes	32,700	-	32,700	-	-	32,700
Unrestricted	410,967	401,439	812,406	2,600,125	670,162	4,082,693
Total net assets	\$ 12,705,612	\$ 4,321,992	\$ 17,027,604	\$ 4,253,907	\$ 670,162	\$ 21,951,673

## CITY OF GALAX, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

					Net (Expense) Revenue and Changes in Net Assets					
Program Revenues					Primary Government			Component Units		
Function	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
<b>Primary Government:</b>										
Governmental activities:										
General government administration	\$ 1,403,607	\$ 63,251	\$ 82,700	\$ -	\$ (1,257,656)	\$ -	\$ (1,257,656)			\$ (1,257,656)
Judicial administration	525,130	-	-	-	(525,130)	-	(525,130)			(525,130)
Public safety	2,764,659	131,314	872,439	135,194	(1,625,712)	-	(1,625,712)			(1,625,712)
Public works	2,142,439	622,394	1,574,557	-	54,512	-	54,512			54,512
Health and welfare	1,601,606	-	1,185,988	-	(415,618)	-	(415,618)			(415,618)
Education	3,395,746	-	-	-	(3,395,746)	-	(3,395,746)			(3,395,746)
Parks, recreational, and cultural	1,537,985	397,289	240,300	260,969	(639,427)	-	(639,427)			(639,427)
Community development	648,415	-	-	-	(648,415)	-	(648,415)			(648,415)
Interest on long-term debt	249,393	-	-	-	(249,393)	-	(249,393)			(249,393)
Total primary government	14,268,980	1,214,248	3,955,984	396,163	(8,702,585)	-	(8,702,585)			
Business-type activities:										
Water and sewer	2,423,328	3,032,140	-	-	-	608,812	608,812			608,812
Total business-type activities	2,423,328	3,032,140	-	-	-	608,812	608,812			608,812
Total primary government	\$ 16,692,308	\$ 4,246,388	\$ 3,955,984	\$ 396,163	(8,702,585)	608,812	(8,093,773)			(8,093,773)
<b>Component Units:</b>										
School Board	\$ 12,924,907	\$ 822,355	\$ 8,602,150	\$ -				\$ (3,500,402)		(3,500,402)
Industrial Development Authority	237,650	-	-	-					\$ (237,650)	(237,650)
Total component units	\$ 13,162,557	\$ 822,355	\$ 8,602,150	\$ -				(3,500,402)	(237,650)	(3,738,052)
General revenues:										
Property taxes					3,870,781	-	3,870,781	-	-	3,870,781
Local sales and use taxes					1,937,709	-	1,937,709	-	-	1,937,709
Consumer utility taxes					185,721	-	185,721	-	-	185,721
Business license tax					876,226	-	876,226	-	-	876,226
Meals tax					1,187,350	-	1,187,350	-	-	1,187,350
Other local taxes					465,941	-	465,941	-	-	465,941
Intergovernmental revenue, unrestricted					472,432	-	472,432	-	-	472,432
Interest and investment income, unrestricted					25,654	-	25,654	101,536	44,659	171,849
Other					22,744	-	22,744	51,680	-	74,424
Contributions from primary government					-	-	-	2,936,811	-	2,936,811
Transfers (Note 5)					351,424	(351,424)	-	-	-	-
Total general revenues					9,395,982	(351,424)	9,044,558	3,090,027	44,659	12,179,244
Change in net assets					693,397	257,388	950,785	(410,375)	(192,991)	347,419
Net assets beginning, as restated (Note 20)					12,012,215	4,064,604	16,076,819	4,664,282	863,153	21,604,254
Net assets ending					\$ 12,705,612	\$ 4,321,992	\$ 17,027,604	\$ 4,253,907	\$ 670,162	\$ 21,951,673

The Notes to Financial Statements are an integral part of this statement.

## CITY OF GALAX, VIRGINIA

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2011

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,366,255
Cash and cash equivalents, restricted	500,035
Receivables, net (Note 3)	510,300
Prepaid expenses	20,928
Due from other governments (Note 4)	762,939
Total assets	<u>\$ 4,160,457</u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 214,607
Accrued wages	241,774
Deferred revenue (Note 3)	245,374
Due to other governments (Note 4)	706,642
Due to component unit	750,882
Total liabilities	<u>2,159,279</u>
Fund balance: (Note 10)	
Nonspendable	20,928
Restricted	500,035
Committed	80,632
Unassigned	1,399,583
Total fund balance	<u>2,001,178</u>
Total liabilities and fund balance	<u>\$ 4,160,457</u>
<b>Reconciliation to the Statement of Net Assets</b>	
<b>Total fund balance</b>	\$ 2,001,178
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	19,776,666
Receivables on the statement of net assets that do not provide current financial resources are reported as deferred revenue in the funds.	232,213
Bond issuance costs are reported as expenditures in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets.	29,707
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds:	
Accrued interest	\$ (101,655)
General obligation bonds and literary fund loans	(7,873,915)
Bond discount	9,740
Notes payable	(137,848)
Landfill closure/postclosure	(752,707)
Other postemployment benefits	(69,206)
Compensated absences	(408,561)
	<u>(9,334,152)</u>
<b>Net assets of governmental activities</b>	<u>\$ 12,705,612</u>

## CITY OF GALAX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**Year Ended June 30, 2011**

	<u><b>General Fund</b></u>
<b>REVENUES</b>	
General property taxes (Note 3)	\$ 3,870,688
Other local taxes	4,675,312
Permits, privilege fees, and regulatory licenses	16,353
Fines and forfeitures	114,770
Revenue from use of money and property	25,654
Charges for services	1,381,206
Other	118,897
Intergovernmental	4,476,440
	<hr/>
Total revenues	14,679,320
	<hr/>
<b>EXPENDITURES</b>	
Current:	
General government administration	1,362,204
Judicial administration	521,213
Public safety	2,839,033
Public works	2,170,537
Health and welfare	1,575,688
Education	3,047,777
Parks, recreation, and cultural	1,483,293
Community development	648,415
Debt service:	
Principal	517,681
Interest and other fiscal charges	250,369
	<hr/>
Total expenditures	14,416,210
	<hr/>
Excess of revenues over expenditures	263,110
	<hr/>
<b>OTHER FINANCING SOURCES</b>	
Transfers in (Note 5)	351,424
	<hr/>
Net change in fund balance	614,534
	<hr/>
<b>FUND BALANCE AT JULY 1, as restated (Note 20)</b>	1,386,644
	<hr/>
<b>FUND BALANCE AT JUNE 30</b>	<u><u>\$ 2,001,178</u></u>

(Continued)

## CITY OF GALAX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**Year Ended June 30, 2011**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of the Governmental Fund to the Statement of Activities:**

<b>Net change in fund balance – governmental fund</b>		\$ 614,534
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	577,814	
Depreciation expense	<u>(875,023)</u>	
		(297,209)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, disposals) is to increase net assets.		83,954
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(168,937)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt (\$517,681) consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.		517,681
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:		
Decrease in landfill liability	30,293	
Increase in compensated absences	(64,134)	
Increase in other post-employment benefits	(23,759)	
Decrease in accrued interest payable	8,814	
Amortization of bond issue costs and other deferred costs	<u>(7,840)</u>	
		(56,626)
<b>Change in net assets of governmental activities</b>		<u><u>\$ 693,397</u></u>



## CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS  
PROPRIETARY FUND

June 30, 2011

	Business-type Activities
	Enterprise Fund
	Water and Sewer
<b>ASSETS</b>	
Current assets:	
Receivables, net	\$ 641,034
Due from other governments	20,308
Total current assets	661,342
Noncurrent assets:	
Bond issue costs, net	7,492
Capital assets:	
Nondepreciable	199,667
Depreciable, net	5,818,295
Total noncurrent assets	6,025,454
Total assets	6,686,796
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued expenses	52,901
Accrued payroll and related liabilities	45,218
Accrued interest payable	5,948
Customer security deposits	51,752
Current portion of noncurrent liabilities	255,953
Total current liabilities	411,772
Noncurrent liabilities:	
Due in more than one year	1,953,032
Total liabilities	2,364,804
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,920,553
Unrestricted	401,439
Total net assets	\$ 4,321,992

## CITY OF GALAX, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**

**For the Year Ended June 30, 2011**

	<b>Business-type Activities</b>
	<b>Enterprise Fund</b>
	<b>Water and Sewer</b>
<b>OPERATING REVENUES</b>	
Water revenues	\$ 1,217,264
Sewer revenues	1,735,016
Connection fees	13,000
Penalty and interest	14,759
Other revenues	52,101
Total operating revenues	<u>3,032,140</u>
<b>OPERATING EXPENSES</b>	
Salaries, wages, and benefits	1,158,638
Utilities	227,364
Repairs and maintenance	145,306
Materials and supplies	210,478
Other expenses	21,389
Depreciation	617,028
Amortization	1,499
Total operating expenses	<u>2,381,702</u>
Operating income	<u>650,438</u>
<b>NON-OPERATING EXPENSES</b>	
Interest expense	(24,187)
Loss on disposal of capital assets	(17,439)
Non-operating expenses	<u>(41,626)</u>
Income before transfers	608,812
<b>TRANSFERS OUT</b>	<u>(351,424)</u>
Change in net assets	257,388
<b>NET ASSETS JULY 1, as restated (Note 20)</b>	<u>4,064,604</u>
<b>NET ASSETS JUNE 30</b>	<u><u>\$ 4,321,992</u></u>

**CITY OF GALAX, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2011**

	<b>Business-type Activities</b> <b>Enterprise Fund</b> <b>Water and Sewer</b>
<b>OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,166,705
Payments to suppliers	(671,603)
Payments to employees	(1,133,660)
Other receipts	52,101
Net cash provided by operating activities	1,413,543
<b>NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(351,424)
Net cash used in noncapital financing activities	(351,424)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital debt	1,173,194
Acquisition and construction of capital assets	(1,830,281)
Principal payments on debt	(350,657)
Interest payments on debt	(34,375)
Net cash used in capital and related financing activities	(1,042,119)
Net change in cash and cash equivalents	-
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning at July 1	-
Ending at June 30	\$ -
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>	
Operating income	\$ 650,438
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	618,527
Decrease in accounts receivable	156,341
Decrease in prepaids	4,449
Decrease in accounts payable	(71,514)
Increase in accrued payroll and related liabilities	4,185
Increase in compensated absences and other postemployment benefits	20,792
Increase in customer security deposits	10,325
Net cash provided by operating activities	\$ 1,393,543
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital asset purchases financed by accounts payable	\$ 25,238

## CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS – FIDUCIARY FUND  
June 30, 2011

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$          96,285</u>
<b>LIABILITIES</b>	
Amounts held for others	<u>\$          96,285</u>

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The City of Galax, Virginia (the “City”) is a political subdivision of the Commonwealth of Virginia governed by an elected seven-member City Council. The City engages in a comprehensive range of municipal services, including general government administration, judicial administration, public safety, public works, health and welfare, education, recreation and cultural activities, community development, and water and sewer services.

**Discretely Presented Component Units:** Discretely presented component units are entities that are legally separate from the City, but for which the City is financially accountable, or whose relationship with the City is such that exclusion would cause the City’s financial statements to be misleading or incomplete. They are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

**Galax City School Board**

The Galax City School Board (the “School Board”) is responsible for elementary and secondary education within the City’s jurisdiction. The Board is comprised of five members appointed by City Council. The School Board is fiscally dependent upon the City because City Council approves the School Board budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of debt. The School Board does not issue separate financial statements.

**Galax City Industrial Development Authority**

The Galax City Industrial Development Authority (the “IDA”) was created to encourage and provide financing for industrial development in the City. The IDA’s directors are appointed by City Council, and the City is financially accountable for the IDA in that it provides local funding for the IDA’s activities. It 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 a proprietary fund type and does not issue separate financial statements.

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

**Galax–Carroll Regional Library**

The Galax-Carroll Regional Library was created by the City and County of Carroll. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$223,436 to the Library for the current year. The City acts as fiscal agent for this organization.

**Twin County E-911 Commission**

The City, in conjunction with the counties of Carroll and Grayson, participates in supporting 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 \$108,284 to the Commission for the current year. The City acts as fiscal agent for this organization.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**A. Financial Reporting Entity (Continued)**

**Galax-Grayson Ambulance Service**

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. The City acts as fiscal agent for this organization.

**Carroll – Grayson – Galax Regional Industrial Facilities Authority**

The City and the Counties of Carroll and Grayson participate in the Regional Industrial Facilities 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 facilities that provide for the comfort, convenience, and welfare of the participating localities' citizens. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate industrial development.

**Carroll – Grayson – Galax Regional Solid Waste Authority**

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. All Waste Authority operations are financed by tipping fees and the individual jurisdictions are required to fund any annual deficit incurred by the Waste Authority. The City paid \$243,629 in tipping fees during the current year.

**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 acts as fiscal agent for this organization.

**B. Government-wide and Fund Financial Statements**

Government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities that report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

**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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, report only assets and liabilities; therefore, they do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize assets and liabilities.

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available. Accordingly, real and personal property taxes are recorded as deferred revenue and receivables when levied, net of allowances for uncollectible amounts. Real and personal property taxes recorded at June 30 and received within the first 60 days after year end are included in tax revenues. Sales and utility taxes are recognized as revenues and amounts receivable when the underlying exchange transaction occurs. 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 specific funding are recognized when earned or at the time of the specific reimbursable expenditure. Revenues from general-purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences, other postemployment benefits, landfill postclosure, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental fund:

**General Fund** – This is the government’s primary operating fund. It accounts for all financial resources of the general government not required to be accounted for in other funds.

Proprietary Funds are used to account for the reporting entity’s ongoing organizations and activities similar to those often found in the private sector. The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund category:

**Fiduciary Funds** – Fiduciary funds are used to account for assets held by the City in a purely custodial capacity. The Special Welfare Fund and Galax Futures are reported as agency funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government’s proprietary funds 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 charges to customers or applicants for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. *General revenues* include all taxes, grants and contributions not restricted to specific programs, and other revenues not meeting the definition of program revenues.



**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Operating revenues and expenses in the proprietary fund result from providing goods and services in connection with their principal ongoing operations. The principal operating revenues of the City's proprietary fund are charges for services. The proprietary fund 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 the enterprise fund include the cost of sales and services, purchases, administrative expenses, contractual services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Assets, Liabilities, and Net Assets or Equity**

**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.

**Receivables**

All account and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts is calculated using historical collection data, specific account analysis, and management's judgment.

**Inventories**

Inventories consist of commodities received from the U.S. Department of Agriculture, which are valued at market in the school operating fund. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Capital Assets**

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as items with an initial individual cost of more than \$5,000 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 estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives 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.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Capital Assets (Continued)**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

**Compensated Absences**

City and School Board employees are granted a specified number of days of leave with pay each year. The accumulated vacation and sick leave pay is accounted for as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds when the amounts have become due and payable.

**Deferred Revenues**

Deferred revenue consists primarily of property taxes not collected within 60 days of year end and property taxes collected that are not yet due.

**Long-term Obligations**

In the government-wide financial statements (and proprietary fund types in the fund financial statements), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or bonds outstanding 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. Repayments and issuance costs are reported as debt service expenditures.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2011 total \$80,632 in the general fund.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Estimates**

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

**Fund Equity**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, such as prepaid expenditures and inventory. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by City Council, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body or by the City Manager who has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by 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).

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Pass Through Financing Leases and Installment Sales in IDA**

The principal activities of the IDA represent pass through leases or installment sales. These agreements provide for periodic payments in amounts which are equal to the principal and interest payments due to project bond holders. The IDA has assigned all rights to such payments to the trustees, agents, or the holders of the bonds, and the lessees or purchasers have assumed responsibility for all operating costs such as utilities, repairs, and property taxes. In such cases, the IDA neither receives nor disburses funds. Although title to these properties may rest with the IDA, bargain purchase options or other provisions eliminate any equity interest that would otherwise be retained in the lease transactions. Deeds of trust secure outstanding bond obligations, and title will pass to the lessee or purchaser at such time as the bonds are fully paid. Although the IDA provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the IDA does not recognize associated assets, liabilities, rental income, or interest expense in its financial statements.

**Note 2. 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**

Investment Policy:

In accordance with the *Code* and other applicable law, including regulations, the City's investment policy (Policy) permits investments in obligations of the United States or agencies thereof, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker's acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 2. Deposits and Investments**

**Investments (Continued)**

Investment Policy: (Continued)

Pursuant to Sec. 2.1-234.7 of the *Code*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share).

The Policy limits investment maturities to five years maximum maturity for any negotiable certificate of deposit or any sovereign government obligation excluding those of the United States, to 15 years for any single corporate security, and five years for any single asset-backed security.

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard and Poor’s, and Fitch Investor’s Service, provided that the issuing corporation has a net worth of at least \$50 million and its long-term debt is rated “A” or better by Moody’s and Standard and Poor’s. Banker’s acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard and Poor’s and “P-1” by Moody’s Investor Service.

As of June 30, 100% of the portfolio was invested in “AAAm” rated obligations. Credit ratings presented in this paragraph are Standard and Poor’s credit ratings.

Concentration of credit risk:

The City has not adopted an investment policy for credit risk, which places limits on the amount that they may invest in any one issuer.

Interest rate risk:

The carrying values and weighted average maturity of investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
LGIP	\$ 89,252	100%

Concentration of Credit Risk:

The City has not adopted an investment policy for credit risk, which places limits on the amount it may invest in any one issuer.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 2. Deposits and Investments (Continued)**

**Investments (Continued)**

Custodial credit risk: (Continued)

The above items are reflected in the financial statements as follows:

		<b>Component Units</b>	
	<b>Primary Government</b>	<b>School Board</b>	<b>IDA</b>
Deposits and investments:			
Cash on hand	\$ 1,150	\$ 2,000	\$ -
Deposits	2,872,173	2,046,771	51,999
Investments	89,252	-	-
	<u>\$ 2,962,575</u>	<u>\$ 2,048,771</u>	<u>\$ 51,999</u>
Statements of net assets:			
Cash and cash equivalents	\$ 2,366,255	\$ 2,048,771	\$ 51,999
Cash and cash equivalents, restricted	500,035	-	-
Fiduciary fund cash and cash equivalents	96,285	-	-
	<u>\$ 2,962,575</u>	<u>\$ 2,048,771</u>	<u>\$ 51,999</u>

Restricted amounts:

Restricted cash and cash equivalents at the Primary Government consist of accounts for Museum \$3,385, Bicentennial Committee \$2,499, Recreation Center Bus \$15,697, Blue Ridge Post 145 Book \$14,504, Veterans Memorial \$38,705, Police Narcotics \$25,148, DARE \$7,280, Anthem Stock \$303,586, Twin County Task Force \$16,491, Police Seizure \$27,781, and Jeff Matthews Museum \$44,959. The Anthem Stock relates to amounts that are restricted by state legislation for specified purposes.

**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 3. Receivables, Deferred Revenue, and Property Taxes**

Receivables are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Receivables		
Taxes	\$ 923,130	\$ -
Accounts	174,485	680,981
	<hr/> 1,097,615	<hr/> 680,981
Gross receivables		
Less:		
Allowance for uncollectible taxes	(582,294)	-
Allowance for uncollectible accounts	(5,021)	(39,947)
	<hr/> (587,315)	<hr/> (39,947)
Total allowance		
Receivables, net	<u><u>\$ 510,300</u></u>	<u><u>\$ 641,034</u></u>

Deferred revenue is as follows:

Property taxes receivable – unavailable	\$ 87,057
Meals taxes receivable – unavailable	112,019
Advance collection of 2011-2012 property taxes – unearned	13,161
EMS advance – unavailable	10,420
Library advance – unavailable	<hr/> 22,717
Total deferred revenue – governmental fund	245,374
Less deferrals for taxes receivable earned	<hr/> (232,213)
Unearned revenue – statement of net assets	<u><u>\$ 13,161</u></u>

Property taxes:

The City levies real estate taxes on all real property within its boundaries, except that exempted by statute, at a rate enacted by City Council on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue. Public utility property is assessed by the Commonwealth. All real property is assessed at 100 percent of fair market value and reassessed every four years as of January 1. The Commissioner of Revenue, by authority of City ordinance, prorates billings for property incomplete as of January 1, but completed during the year.

Real estate taxes are billed in annual installments due December 5. Property taxes attach an enforceable lien on property as of January 1. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The real estate tax rate was \$0.57 per \$100 of assessed value.

Personal property tax assessments on all motor vehicles is \$1.68 per \$100 assessed value. Personal property tax on business machinery and tools is \$1.42 per \$100 of assessed value. Personal property taxes for the calendar year are due on December 5. Personal property taxes do not create a lien of property.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 4. Due from/Due to Other Governments**

Amounts due from other governments consist of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Component Unit – School Board</b>
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 328,383	\$ -	\$ -
State sales tax	-	-	163,563
Categorical aid	74,705	-	-
Non-categorical aid	51,828	-	-
Categorical aid – schools	-	-	17,477
<u>Federal Government:</u>			
Categorical aid	99,966	-	-
Categorical aid – schools	-	-	562,417
<u>Local Boards, Authorities, Commissions and Other Local Governments:</u>			
Mt. Rogers PDC	-	20,308	-
Galax – Grayson Ambulance Service	103,854	-	-
Galax – Carroll Regional Library	42,376	-	-
Wired Road Authority	35,196	-	-
Twin County E-911 Commission	925	-	-
Crossroads	8,024	-	-
Carroll County	8,841	-	-
Grayson County	8,841	-	-
	<u>\$ 762,939</u>	<u>\$ 20,308</u>	<u>\$ 743,457</u>

Amounts due to other governments consist of the following:

	<b>Governmental Activities</b>
Due to Carroll and Grayson Counties	\$ 704,443
Other	<u>2,199</u>
	<u>\$ 706,642</u>



**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 5. Interfund Activity**

During the year, the waste and sewer fund transferred \$351,424 to the general fund. This transfer represented a return of funds previously transferred by the general fund.

**Note 6. Capital Assets**

Capital asset activity for the year was as follows:

**Primary Government**

<b>Governmental Activities</b>	<b>Beginning Balance*</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, nondepreciable:				
Land	\$ 1,796,337	\$ 18,660	\$ -	\$ 1,814,997
Construction-in-progress	632,050	242,124	688,825	185,348
Capital assets, nondepreciable	2,428,387	260,784	688,825	2,000,345
Capital assets, depreciable:				
Infrastructure	1,059,933	163,679	-	1,223,612
Buildings and improvements	18,631,146	643,026	33,000	19,241,171
Machinery and equipment	4,208,467	299,719	60,121	4,448,065
Capital assets, depreciable	23,899,546	1,106,424	93,121	24,912,848
Less accumulated depreciation for:				
Infrastructure	(296,075)	(44,530)	-	(340,605)
Buildings and improvements	(3,325,715)	(567,911)	(16,382)	(3,877,244)
Machinery and equipment	(2,716,219)	(262,580)	(60,121)	(2,918,678)
Total accumulated depreciation	(6,338,009)	(875,021)	(76,503)	(7,136,527)
Capital assets, depreciable, net	17,561,537	231,402	16,618	17,776,321
Governmental activities capital assets, net	<u>\$ 19,989,923</u>	<u>\$ 492,186</u>	<u>\$ 705,443</u>	<u>\$ 19,776,666</u>

\*Beginning balances were restated, see Note 20.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 6. Capital Assets (Continued)**

**Primary Government (Continued)**

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, nondepreciable:				
Construction in progress	\$ 1,558,120	\$ 1,163,920	\$ (2,660,065)	\$ 61,975
Land	137,692	-	-	137,692
Capital assets, nondepreciable	<u>1,695,812</u>	<u>1,163,920</u>	<u>(2,660,065)</u>	<u>199,667</u>
Capital assets, depreciable:				
Infrastructure	15,844,405	2,656,026	-	18,500,431
Machinery and equipment	441,074	21,790	-	462,864
Capital assets, depreciable	<u>16,285,479</u>	<u>2,677,816</u>	<u>-</u>	<u>18,963,295</u>
Less accumulated depreciation for:				
Infrastructure	(12,280,875)	(588,085)	-	(12,868,960)
Machinery and equipment	(247,097)	(28,943)	-	(276,040)
Total accumulated depreciation	<u>(12,527,972)</u>	<u>(617,028)</u>	<u>-</u>	<u>(13,145,000)</u>
Capital assets, depreciable, net	<u>3,757,507</u>	<u>2,060,788</u>	<u>-</u>	<u>5,818,295</u>
Business-type activities capital assets, net	<u>\$ 5,453,319</u>	<u>\$ 3,224,708</u>	<u>\$ (2,660,065)</u>	<u>\$ 6,017,962</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 18,436
Public safety	196,359
Public works	127,869
Health and welfare	4,786
Education	347,969
Parks, recreation, and cultural	179,602
	<u>875,021</u>
Business-type activities:	
Water and sewer	<u>617,028</u>
Total depreciation expense – primary government	<u>\$ 1,492,049</u>

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 6. Capital Assets (Continued)**

**Construction Commitments**

As of June 30, the City has active commitments with contractors as listed below:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Farmer's Market Building	\$ 59,542	\$ 18,019

**Discretely Presented Component Unit – School Board**

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:				
Land	\$ 148,960	\$ -	\$ -	\$ 148,960
Capital assets, nondepreciable	<u>148,960</u>	<u>-</u>	<u>-</u>	<u>148,960</u>
Capital assets, depreciable:				
Buildings and improvements	4,662,166	-	-	4,662,166
Machinery and equipment	1,501,309	83,030	24,291	1,560,048
Capital assets, depreciable	<u>6,163,475</u>	<u>83,030</u>	<u>24,291</u>	<u>6,222,214</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,666,749)	(81,077)	-	(3,747,826)
Machinery and equipment	(862,578)	(131,279)	(24,291)	(969,566)
Total accumulated depreciation	<u>(4,529,327)</u>	<u>(212,356)</u>	<u>(24,291)</u>	<u>(4,717,392)</u>
Capital assets, depreciable, net	<u>1,634,148</u>	<u>(129,326)</u>	<u>-</u>	<u>1,504,822</u>
Governmental activities capital assets, net	<u>\$ 1,783,108</u>	<u>\$ (129,326)</u>	<u>\$ -</u>	<u>\$ 1,653,782</u>

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 7. Long-term Liabilities**

The following is a summary of changes in long-term liabilities:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
<b>Primary Government</b>					
<b>Governmental Activities:</b>					
General obligation bonds	\$ 2,279,660	\$ -	\$ 85,669	\$ 2,193,991	\$ 90,315
Notes payable	168,181	-	30,333	137,848	31,963
Literary fund loans	6,068,445	-	388,521	5,679,924	381,101
Total bonds and loans payable	8,516,286	-	504,523	8,011,763	503,379
Landfill postclosure	783,000	-	30,293	752,707	34,600
Compensated absences	344,427	339,675	275,541	408,561	326,849
Capital lease payable	13,158	-	13,158	-	-
Other post-employment benefits	45,447	23,759	-	69,206	-
Governmental activities long-term liabilities	<u>\$ 9,702,318</u>	<u>\$ 363,434</u>	<u>\$ 823,515</u>	<u>\$ 9,242,237</u>	<u>\$ 864,828</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 1,277,064	\$ 1,173,194	\$ 350,657	\$ 2,099,601	\$ 182,500
Compensated absences	74,890	76,838	59,913	91,815	73,453
Other post-employment benefits	8,402	3,867	-	12,269	-
Business-type activities long-term liabilities	<u>\$ 1,360,356</u>	<u>\$ 1,253,899</u>	<u>\$ 410,570</u>	<u>\$ 2,203,685</u>	<u>\$ 255,953</u>
<b>Component Unit – School Board:</b>					
Compensated absences	\$ 173,167	\$ 129,580	\$ 138,536	\$ 164,211	\$ 131,369
Other post-employment benefits	66,911	25,474	-	92,385	-
Early retirement liability	36,000	-	12,000	24,000	12,000
	<u>\$ 276,078</u>	<u>\$ 155,054</u>	<u>\$ 150,536</u>	<u>\$ 280,596</u>	<u>\$ 143,369</u>

Debt service requirements of general obligation bonds, literary fund loans, capital leases, compensated absences, other post-employment benefits, and landfill postclosure for Governmental Activities are paid by the General Fund.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 7. Long-term Liabilities (Continued)**

The primary government's annual debt service requirements to maturity are as follows:

Year Ended June 30	Governmental Activities						Business-type Activities	
	General Obligation		Notes Payable		Literary Fund Loan		General Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 90,315	\$ 97,633	\$ 31,963	\$ 6,888	\$ 381,101	\$ 125,398	\$ 182,500	\$ 23,792
2013	97,765	93,746	33,561	5,290	381,101	116,465	182,500	19,428
2014	100,333	89,562	35,239	3,612	381,101	107,532	187,500	15,062
2015	103,030	85,237	37,085	1,850	381,101	98,599	192,500	10,456
2016	109,856	80,679	-	-	381,101	89,666	197,500	5,356
2017-2021	590,101	326,220	-	-	1,774,419	314,331	462,500	-
2022-2026	340,000	222,710	-	-	1,250,000	150,000	462,500	-
2027-2031	440,000	130,447	-	-	750,000	75,000	232,101	-
2031-2034	322,591	23,611	-	-	-	-	-	-
	<u>\$ 2,193,991</u>	<u>\$ 1,149,845</u>	<u>\$ 137,848</u>	<u>\$ 17,640</u>	<u>\$ 5,679,924</u>	<u>\$ 1,076,991</u>	<u>\$ 2,099,601</u>	<u>\$ 74,094</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
<u>General Obligation Bonds:</u>						
Rural Development	4.76%	02-2000	02-2020	\$ 1,000,000	\$ 598,991	\$ -
2003 Series A	2.02-4.77	12-2003	08-2033	1,840,000	1,595,000	-
Virginia Resources Authority	4.87	01-1991	01-2011	3,432,752	-	-
Virginia Resources Authority	4.10-5.10	06-2001	04-2016	1,125,000	-	480,000
Virginia Resources Authority	0	12-2009	04-2031	1,850,000	-	1,619,601
					2,193,991	2,099,601
				Plus: bond premium	-	5,300
				Less: bond discount	(9,740)	-
					<u>\$ 2,184,251</u>	<u>\$ 2,104,901</u>
<u>Other Long-term Debt:</u>						
State Literary Loan	3.00%	04-1998	12-2019	\$ 2,622,035	\$ 1,179,924	\$ -
State Literary Loan	2.00	05-2008	10-2028	5,000,000	4,500,000	-
Fire Truck Loan	5.00	05-2005	05-2015	300,000	137,848	-
					<u>\$ 5,817,772</u>	<u>\$ -</u>

**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 8. Short-term Debt**

The City issued a tax anticipation note in advance of property tax collections. This note was used to fund operations until the collection of property taxes. The note was obtained in the amount of \$500,000 at an interest rate of 2.5% and was repaid during the current year.

**Note 9. Landfill Closure and Postclosure Care Costs**

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 from the closed landfill 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 \$753,000. This amount is included in the long-term liabilities in the primary government.

The City's current plan of remediation on the site consists of monitored natural attenuation. This remedy consists of monitoring wells on the site for what is expected to be approximately thirty years. It is the City and its external engineer's belief that during the 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 at this site.

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

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 10. Fund Balance/Net Assets**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**Non Spendable: (General Fund)**

Prepays	\$ 20,928
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**Restricted: (General Fund)**

Purpose restrictions – Museum	\$ 48,344
Purpose restrictions – Anthem Stock proceeds	303,586
Purpose restrictions - Veteran’s Memorial fund	38,705
Purpose restrictions – Blue Ridge Post 145 Book fund	14,504
Purpose restrictions – Rec. Center Bus fund	15,697
Purpose restrictions – Bicentennial Committee	2,499
Purpose restrictions – Police Narcotics, DARE, Twin County Task Force, and Police Seizure	76,700
	<u>\$ 500,035</u>

**Committed: (General Fund)**

Encumbrances (Community Development)	\$ 80,632
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**Non Spendable: (Component Unit – School Board)**

Inventories	\$ 27,566
Prepays	187,745
	<u>\$ 215,311</u>

**Committed: (Component Unit – School Board)**

Band Uniform	\$ 64,232
Textbook Fund	388,461
School Nutrition	252,182
	<u>\$ 704,875</u>

**Assigned: (Component Unit – School Board)**

Operating costs of schools	\$ 1,960,535
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**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 11. Significant Transactions of the City and Component Unit – School Board**

Certain transactions between the City and School Board are explained here in detail to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The School Board can neither levy taxes nor incur debt under Virginia law. Therefore, the City issues debt “on behalf” of the School Board. The debt obligation is recorded as a liability of the City. The proceeds from the debt issued “on behalf” of the School Board are recorded in the City’s General Fund. This fund then accounts for capital expenditures relating to major school construction projects.
2. Debt service payments for school bonded debt are reported as part of the City in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund.
3. Local governments in Virginia have a “tenancy in common” with the School Board whenever the locality incurs a financial obligation for school property which is payable over more than one year. In order to match the capital assets with the related debt, the legislation permits the primary government to report the portion of the school property related to the financial obligation as “jointly owned” assets. When the debt related to a particular capital asset is completely retired, the related capital asset, net of accumulated depreciation, is removed from the City’s financial statements and reported in the School Board’s financial statements. The School Board retains authority and responsibility over the operation and control of this property.
4. If all economic resources associated with school activities were reported with the School Board, its total expenditures would be as follows:

Expenditures of School Board – Component Unit (Exhibit B-2)	\$ 12,791,062
Principal and other debt service expenses included in primary government (Exhibit 4)	<u>388,521</u>
Total expenditures for school activities	<u><u>\$ 13,179,583</u></u>

**Note 12. Significant Transactions of the City and Component Unit – Industrial Development Authority**

The City provides personnel and office space to the IDA at no charge.



**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 13. Defined Benefit Pension Plan**

**Plan Description**

The City and School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent (professional) employees of public school divisions and participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 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. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 13. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is -0-%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The City may and has assumed this 5% member contribution. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for 2011 was 11.92% of annual covered payroll. The School Board's contribution rates for 2011 were 8.93% for professional employees and 13.88% for non-professional employees.

For the three years ended June 30, 2011, 2010, and 2009, total employer contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$568,397, \$782,520, and \$904,079, respectively, and represented 8.27%, 11.83%, and 13.81% of annual covered payroll, respectively, and 100% of the required contributions for 2011, 2010, and 2009, respectively.

**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 13. Defined Benefit Pension Plan (Continued)**

**Annual Pension Cost**

For 2011, the City's and School Board's annual pension costs, including the employee share assumed by the City, of \$675,244 and \$70,046, respectively, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City and School Board assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

**Three-Year Trend Information for City of Galax**

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC</b>	<b>Net Pension Obligation</b>
June 30, 2011	\$ 675,244	100%	\$ -
June 30, 2010	\$ 628,378	100%	\$ -
June 30, 2009	\$ 641,551	100%	\$ -

**Three-Year Trend Information for the City of Galax School Board – Non-Professional**

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC</b>	<b>Net Pension Obligation</b>
June 30, 2011	\$ 70,046	100%	\$ -
June 30, 2010	\$ 68,195	100%	\$ -
June 30, 2009	\$ 66,299	100%	\$ -

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 13. Defined Benefit Pension Plan (Continued)**

**Funded Status and Funding Progress**

As of June 30, 2010, the most recent actuarial valuation date, the plan was 82.11% funded for the City and 79.47% funded for the School Board. The actuarial accrued liability for benefits was \$21,551,874 for the City and \$1,633,129 for the School Board and the actuarial value of assets was \$17,695,419 for the City and \$1,298,181 for the School Board, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,856,455 for the City and \$334,948 for the School Board. The covered payroll (annual payroll of active employees covered by the plan) was \$5,052,761 for the City and \$504,435 for the School Board, and the ratio of the UAAL to the covered payroll was 76.32% for the City and 66.40% for the School Board.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Note 14. Other Post-employment Benefits**

**Plan Description**

The City and School Board provide post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of City Council and the School Board, which may also amend the plan as deemed appropriate.

Participants in the City's and School Board's OPEB plans must have attained 15 years and 10 years of full-time consecutive service, respectively, to be eligible and may remain on the policy until the participant is eligible for Medicare benefits or becomes employed by another employer.

Health benefits include medical insurance. Participating retirees pay 100% of monthly premiums to continue with the insurance plans.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 14. Other Post-employment Benefits (Continued)**

**Plan Description (Continued)**

The number of participants at July 1, 2010, date of valuation, was as follows:

	<u>City</u>	<u>School Board</u>
Retirees currently receiving benefits	4	18
Active employees	142	177
Total	<u>146</u>	<u>195</u>

**Funding Policy**

The City and School Board currently fund post-employment health care benefits on a pay-as-you-go basis.

**Annual Other Post-employment Benefit Cost and Net OPEB Obligation**

For 2011, the City and School Board's OPEB costs were equal to the Annual Required Contribution (ARC).

	<u>City</u>	<u>School Board</u>
Annual required contribution	\$ 33,527	\$ 51,169
Interest on net OPEB obligation	2,154	2,676
Adjustment to annual required contribution	<u>(2,198)</u>	<u>(2,731)</u>
Annual OPEB cost	33,483	51,114
Contributions made	<u>(5,857)</u>	<u>(25,640)</u>
Increase in net OPEB obligation	27,626	25,474
Net OPEB obligation – beginning of year	<u>53,849</u>	<u>66,911</u>
Net OPEB obligation – end of year	<u>\$ 81,475</u>	<u>\$ 92,385</u>

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 14. Other Post-employment Benefits (Continued)**

**Annual Other Post-employment Benefit Cost and Net OPEB Obligation (Continued)**

The City and School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows.

**City:**

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2011	\$ 33,527	41.15%	\$ 81,475
June 30, 2010	\$ 30,415	10.58%	\$ 53,849
June 30, 2009	\$ 29,577	9.89%	\$ 26,652

**Schools:**

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2011	\$ 51,169	55.39%	\$ 92,385
June 30, 2010	\$ 58,040	44.40%	\$ 66,911
June 30, 2009	\$ 58,068	59.66%	\$ 34,641

**Funding Status and Funding Progress**

The funding status of the plan as of July 1, 2010 was as follows:

	<b>City</b>	<b>School Board</b>
Actuarial Accrued Liability (AAL)	\$ 295,788	\$ 486,866
Actuarial Value of Plan Assets	5.22%	7.09%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 295,788	\$ 486,866
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	\$ 4,713,716	\$ 6,219,691
UAAL as a Percentage of Covered Payroll	6.28%	7.82%

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

**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 14. Other Post-employment Benefits (Continued)**

**Actuarial Methods and Assumptions**

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

In the July 1, 2010, actuarial valuation, the projected unit credit actuarial cost method, was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4% discount rate and a medical trend rate of 6.5%. The unfunded accrued liability is being amortized over 30 years, commencing with the 2010 liability.

**Note 15. Risk Management**

**General liability and other insurance:**

The City and its component units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; workers' compensation claims and natural disasters.

The City participates with other localities in a public entity risk pool for their coverage of workers compensation, excess liability, and public official's liability insurance with the Virginia Municipal Liability Pool. Each member of the risk pool jointly and severally agrees to assume, pay, and discharge any liability. The City pays contributions and assessments based upon classification and defined rates into a designated cash reserve fund held by the Virginia Municipal Group. Claims, awards, and expenses of the pool are paid from this reserve fund. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of 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 risks of loss. The property coverage is for specific amounts based on values assigned to the insured properties. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Unemployment insurance:**

The City and School Board are fully self-insured for unemployment claims. The Virginia Employment Commission bills the City and School Board for all unemployment claims.

**Healthcare insurance:**

The City and School Board provide coverage for employees through policies with Anthem. The City and School Board contribute 85% and 100%, respectively of the required premium amount for single coverage for each employee. Dependents of employee are also covered by the policy provided they pay the additional premium to the City and School Board. Total premiums for 2011 paid by the City and School Board (including employee contributions) were approximately \$1,074,446 and \$975,256, respectively.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 16. Commitments and Contingencies**

**Primary Government**

Special purpose grants:

Special purpose grants are subject to audit to determine compliance with their requirements. City officials believe that if any refunds are required they will be immaterial.

Consent order:

During 2003, a final consent decree was ordered against the City which requires an implementation of measures to eliminate sources of inflow and infiltration and overflows from its sanitary sewer collection system. The City began to implement these measures in 2003 to correct the issues at an estimated cost of approximately \$2.0 million. The City has been awarded grant funding and has issued revenue and general obligation debt during the current year through the Virginia Resources Authority in the amount of \$1.85 million for the project.

Wired Road Authority:

During 2009, the Wired Road Authority entered a lease agreement and received a loan in the amount of \$260,000 to complete the broadband infrastructure project. The Authority is responsible for the debt service on the loan. The City has a non-binding commitment to make the debt service payments for the Authority.

Blue Ridge Crossroads

During 2011, the City entered into an agreement with Blue Ridge Crossroads Economic Development Authority (BRCEDA) and is morally obligated for debt obtained for the BRCEDA Wildwood Park Project. The City's portion of the obligation is \$5.3 million and the contributions to BRCEDA during the current year was \$9,907. It is the hope of BRCEDA that this park project will be a catalyst for economic development in the region.

**Note 17. Subsequent Events**

Exchange of Land:

During July 2011 the City exchanged land for the purpose of constructing and operating a pump station and related public water facilities. The physical exchange of land will not take place until December 2011.

Twin County Airport Commission:

The City has entered into an agreement with The Twin County Airport Commission to be responsible for a one-third share of the debt service for hanger construction. The anticipated commitment is \$20,000 per year for the next 25 years. This commitment could be reduced based on potential revenue from rental revenues. The contributions are not anticipated to occur until 2013.



**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 18. Contribution Agreement**

In 2010, the City contributed approximately \$194,000 to the IDA, which the IDA loaned to Galax Partners, LP ("LP") for the rehabilitation. The City may, from time to time, demand any loan repayments received by the IDA be contributed back to the City. At June 30, 2011, \$614,473 was outstanding on this note receivable along with \$3,691 in accrued interest.

The IDA is leasing the rehabilitated facility from the City for a nominal annual rent for a term of 40 years, and sublease the facility to the LP under similar terms.

**Note 19. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the "substantively the same governing body" criterion, it additionally requires that a financial benefit or financial burden relationship exist or management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

**CITY OF GALAX, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 19. New Accounting Standards (Continued)**

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

Management has not yet evaluated the effects, if any, of adopting these standards.

**CITY OF GALAX, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 20. Prior Period Adjustments**

The following is a summary of the restatement to fund balances/net assets at June 30, 2010:

	<b>Primary Government</b>		
	<b>General Fund</b>	<b>Water and Sewer Fund</b>	<b>Governmental Activities</b>
Fund balance/net assets, June 30, 2010, as previously stated	\$ 1,428,782	\$ 4,033,007	\$ 11,994,909
To remove Galax Future funds from general fund	(38,380)	-	(38,380)
To remove Junior Appalachian Musicians (JAM) funds from Chestnut Creek School of the Arts (CCSA) fund	(3,758)	-	(3,758)
To accrue prior period revenue from Carrol County	-	31,597	-
Capitalize capital assets that had been previously expensed	-	-	59,444
Net change in fund balance/net assets	(42,138)	31,597	17,306
Fund balance/net assets June 30, 2010, as restated	<u>\$ 1,386,644</u>	<u>\$ 4,064,604</u>	<u>\$ 12,012,215</u>

Galax Future is a separate legal entity with its own cash accounts and a separate set of books. The City manages the entity's cash. The City set up a separate cash and a due to account to treat the funds as agency/fiduciary funds.

JAM is an organization that teamed up with CCSA in 2010. JAM wanted the City to handle their money for them so the City began handling their funds just as they do for CCSA. At the end of 2011, JAM decided they wanted to handle their own money again and did not want the funds going through the City; therefore, the City wrote JAM a check for the balance they had at year end, part of which included funds collected in 2010. These funds were written-off against fund balance and current year funds were zeroed out through current year activity.

The City has an agreement with Carroll County to provide sewer services for the Gladeville/Cranberry project. This adjustment is to accrue accounts receivable for a billing invoice that spanned April 15, 2010 to July 15, 2010.

The capital assets were due to the Finance Director continuing a strict review of capital assets that was started during the prior year, and noted an amount that was previously expensed.



## **REQUIRED SUPPLEMENTARY INFORMATION**

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## CITY OF GALAX, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
General property taxes	\$ 3,505,974	\$ 3,505,974	\$ 3,870,688	\$ 364,714
Other local taxes	4,425,800	4,425,800	4,675,312	249,512
Permits, privilege fees, and regulatory licenses	20,100	20,100	16,353	(3,747)
Fines and forfeitures	102,600	102,600	114,770	12,170
Revenue from use of money and property	43,800	43,800	25,654	(18,146)
Charges for services	1,056,150	1,419,254	1,381,206	(38,048)
Other	179,485	142,085	118,897	(23,188)
Intergovernmental	2,580,683	4,432,828	4,476,440	43,612
Total revenues	11,914,592	14,092,441	14,679,320	586,879
<b>EXPENDITURES</b>				
Current:				
General government administration	1,343,761	1,370,581	1,362,204	8,377
Judicial administration	355,000	523,000	521,213	1,787
Public safety	2,129,381	2,784,380	2,839,033	(54,653)
Public works	2,299,406	2,299,406	2,170,537	128,869
Health and welfare	472,072	1,745,291	1,575,688	169,603
Education	4,070,852	4,170,852	3,047,777	1,123,075
Parks, recreation, and cultural	1,549,719	1,561,225	1,483,293	77,932
Community development	557,854	625,922	648,415	(22,493)
Capital Projects	70,000	-	-	-
Debt service:				
Principal	151,848	653,655	517,681	135,974
Interest and other fiscal charges	124,026	136,706	250,369	(113,663)
Total expenditures	13,123,919	15,871,018	14,416,210	1,454,808
Excess of expenditures over revenues	(1,209,327)	(1,778,577)	263,110	2,041,687
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from debt issuance	-	500,000	-	(500,000)
Transfers in	1,179,327	1,179,327	351,424	(827,903)
Total other financing sources (uses)	1,179,327	1,679,327	351,424	(1,327,903)
Net change in fund balance	\$ (30,000)	\$ (99,250)	\$ 614,534	\$ 713,784

## CITY OF GALAX, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN**  
**AND OTHER POST-EMPLOYMENT BENEFITS**  
**As of June 30, 2011**

**DEFINED BENEFIT PENSION PLAN**

				(Overfunded)			
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio Assets as Percentage of AAL	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll	
A. City of Galax							
June 30, 2010	\$ 17,695,419	\$ 21,551,874	\$ 3,856,455	82.11%	\$ 5,052,761	76.32%	
June 30, 2009	\$ 17,794,425	\$ 19,945,558	\$ 2,151,133	89.21%	\$ 5,254,800	40.94%	
June 30, 2008	\$ 17,617,866	\$ 18,626,035	\$ 1,008,169	94.59%	\$ 4,912,515	20.52%	
B. City of Galax Schools Non-professional Employees							
June 30, 2010	\$ 1,298,181	\$ 1,633,129	\$ 334,948	79.49%	\$ 504,435	66.40%	
June 30, 2009	\$ 1,265,783	\$ 1,523,616	\$ 257,833	83.08%	\$ 501,856	51.38%	
June 30, 2008	\$ 1,225,113	\$ 1,428,814	\$ 203,701	85.74%	\$ 452,869	44.98%	

**OTHER POST-EMPLOYMENT BENEFITS**

A. City of Galax							
July 1, 2010	\$ -	\$ 295,788	\$ 295,788	0.00%	\$ 4,713,716	6.28%	
B. City of Galax School Board							
July 1, 2010	\$ -	\$ 486,866	\$ 486,866	0.00%	\$ 6,219,691	7.83%	

## **CITY OF GALAX, VIRGINIA**

### **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2011**

#### **Note 1. Budgetary Information**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- ◆ Prior to May 1, the City Manager submits to 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 related financing. The following funds have legally adopted budgets: General Fund and the School Operating Fund.
- ◆ Public hearings are conducted to obtain citizen comments.
- ◆ Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- ◆ The Appropriations Resolution places legal restrictions on expenditures at the function level. Only City Council can revise the appropriation for each category. The City Manager is authorized to transfer budgeted amounts within general government departments, and the School Board is authorized to transfer budgeted amounts within the school system's categories.
- ◆ 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.
- ◆ All budgets are adopted on a basis which is consistent with generally accepted accounting principles (GAAP).
- ◆ Appropriations lapse on June 30 for all City units.
- ◆ All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.



## **OTHER SUPPLEMENTARY INFORMATION**

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## **FIDUCIARY FUNDS**

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## CITY OF GALAX, VIRGINIA

**COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUND**  
**AGENCY FUNDS**  
**June 30, 2011**

	<u>Galax Futures</u>	<u>Special Welfare</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	<u>\$    64,744</u>	<u>\$    31,541</u>	<u>\$    96,285</u>
<b>LIABILITIES</b>			
Amounts held for others	<u>\$    64,744</u>	<u>\$    31,541</u>	<u>\$    96,285</u>

## **DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**

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**School Operating Fund** – This fund accounts for the operations of the School Board's elementary, middle and high schools.

## CITY OF GALAX, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**  
**BALANCE SHEET**  
**June 30, 2011**

	<b>School Operating Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,048,771
Due from other governments	743,457
Due from primary government	750,882
Prepaid expenses	187,745
Inventories	27,566
Total assets	<u>\$ 3,758,421</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 47,634
Accrued payroll and related liabilities	830,066
Total liabilities	<u>877,700</u>
<b>FUND BALANCE</b>	
Nonspendable	215,311
Committed	704,875
Assigned	1,960,535
Total fund balance	<u>2,880,721</u>
Total liabilities and fund balance	<u>\$ 3,758,421</u>
<b>Reconciliation to the Statement of Net Assets (Exhibit 1)</b>	
<b>Total fund balance</b>	\$ 2,880,721
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,653,782
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(280,596)</u>
<b>Net assets of governmental activities</b>	<u>\$ 4,253,907</u>

## CITY OF GALAX, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2011**

	<b>School Operating Fund</b>
<b>REVENUES</b>	
Revenue from use of money and property	\$ 101,536
Charges for services	822,355
Miscellaneous	51,499
Recovered costs	181
Contribution from primary government	2,936,811
Intergovernmental	8,602,150
Total revenues	<u>12,514,532</u>
<b>EXPENDITURES</b>	
Education:	
Instructional	8,616,784
Admission, attendance, and health	560,640
Transportation	374,005
Operations and maintenance	1,417,715
Food service	1,105,928
Technology	715,990
Total expenditures	<u>12,791,062</u>
Net change in fund balance	(276,530)
<b>FUND BALANCE AT JULY 1</b>	<u>3,157,251</u>
<b>FUND BALANCE AT JUNE 30</b>	<u><u>\$ 2,880,721</u></u>
<b>Reconciliation to the Statement of Activities (Exhibit 2)</b>	
<b>Net change in fund balance – governmental fund</b>	\$ (276,530)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$212,356) exceeded capitalized expenditures (\$83,030).	(129,326)
Compensated absences, early retirement liabilities, and other postemployment benefits are not due and payable at June 30, and therefore are not reported in the fund statements. This amount represents the current year change in those items.	<u>(4,519)</u>
<b>Change in net assets of governmental activities.</b>	<u><u>\$ (410,375)</u></u>

## CITY OF GALAX, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE – BUDGET AND ACTUAL –**  
**SCHOOL OPERATING FUND**  
**Year Ended June 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Revenue from use of money and property	\$ 110,000	\$ 105,000	\$ 101,536	\$ (3,464)
Charges for services	450,000	450,000	822,355	372,355
Miscellaneous	92,358	158,095	51,499	(106,596)
Recovered costs	1,500	1,500	181	(1,319)
Contribution from primary government	4,059,885	4,059,885	2,936,811	(1,123,074)
Intergovernmental	8,314,857	8,118,676	8,602,150	483,474
Total revenues	13,028,600	12,893,156	12,514,532	(378,624)
<b>EXPENDITURES</b>				
Education:				
Instructional	8,775,298	8,752,126	8,616,784	135,342
Admission, attendance, and health	659,968	654,339	560,640	93,699
Transportation	375,921	376,644	374,005	2,639
Operations and maintenance	1,419,203	1,417,700	1,417,715	(15)
Food service	461,200	461,200	1,105,928	(644,728)
Facilities	65,019	-	-	-
Technology	680,718	641,346	715,990	(74,644)
Total expenditures	12,437,327	12,303,355	12,791,062	(487,707)
<b>OTHER FINANCING USES*</b>				
Debt service	523,075	523,075	-	523,075
Transfers out	68,198	66,726	-	66,726
Total other financing uses	591,273	589,801	-	589,801
Net change in fund balance	\$ -	\$ -	\$ (276,530)	\$ (276,530)

\*The amounts related to these budget items are transferred to the City at year-end.



**DISCRETELY PRESENTED  
COMPONENT UNIT – CITY OF GALAX  
INDUSTRIAL DEVELOPMENT AUTHORITY**

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## CITY OF GALAX, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT**  
**CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND**  
**June 30, 2011**

	<b>Enterprise Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 51,999
Interest receivable	3,690
Total current assets	<u>55,689</u>
Noncurrent assets:	
Note receivable	<u>614,473</u>
Total assets	<u>670,162</u>
<b>NET ASSETS</b>	
Unrestricted	<u><u>\$ 670,162</u></u>

## CITY OF GALAX, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT**  
**CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS – PROPRIETARY FUND**  
**June 30, 2011**

	<b>Enterprise Fund</b>
	<hr/>
<b>OPERATING EXPENSES</b>	
Payment to primary government	\$ (237,221)
Bank charges	<hr/> (429)
Operating loss	<hr/> (237,650)
<b>NON-OPERATING INCOME</b>	
Interest income	<hr/> 44,659
Change in net assets	<hr/> (192,991)
<b>NET ASSETS AT JULY 1</b>	<hr/> 863,153
<b>NET ASSETS AT JUNE 30</b>	<hr/> <hr/> \$ 670,162

## CITY OF GALAX, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT**  
**CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY**  
**STATEMENT OF CASH FLOWS –**  
**PROPRIETARY FUND**  
**June 30, 2011**

	<b>Enterprise Fund</b>
<b>OPERATING ACTIVITIES</b>	
Payment to primary government	\$ (237,221)
Bank charges	(429)
Net cash used in operating activities	(237,650)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments received on notes receivable	140,456
<b>INVESTING ACTIVITIES</b>	
Interest received	96,919
Net decrease in cash and cash equivalents	(275)
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning at July 1	52,274
Ending at June 30	\$ 51,999

## **SUPPORTING SCHEDULE**

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CITY OF GALAX, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture:</u>		
Rural Development	10.766	\$ 97,847
Rural Development / ARC	10.766	10,750
Rural Business Enterprise Grants	10.769	63,670
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	153,181
<u>Department of Agriculture:</u>		
National School Lunch Program (Commodities)	10.555	52,444
<u>Department of Education:</u>		
National School Breakfast Program	10.553	118,696
National School Lunch Program	10.555	334,573
<u>Department of Justice</u>		
<u>Pass-through Payments:</u>		
<u>Department of Justice:</u>		
Justice Assistance Grant Program	16.804	10,000
Byrne JAG Program	16.738	5,601
<u>Department of Housing and Urban Development:</u>		
Community Development Block Grant/Technical Assistance Program	14.227	84,751
<u>Pass-through Payments:</u>		
<u>Department of Housing and Community Development:</u>		
Community Development Block Grant	14.228	19,300
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Title I: Grants to Local Educational Agencies	84.010	553,070
Special Education – Grants to States	84.027	226,524
Vocational Education – Basic Grants to States	84.048	34,263
Special Education – Preschool Grants	84.173	20,079
Rural and Low-Income Schools – Title VI	84.358	22,047
No Child Left Behind Act	84.367	85,437
Language Acquisition – Title III	84.365	23,321
Education Technology Grant – ARRA	84.386	3,425
Title I: Grants to Local Educational Agencies – ARRA	84.389	69,934
Special Education – Grants to States – ARRA	84.391	64,483
Special Education – Preschool Grants – ARRA	84.392	5,585
State Fiscal Stabilization Funds – Education State Grants – ARRA	84.394	467,325

(Continued)

## CITY OF GALAX, VIRGINIA

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

<b><u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
<u>Department of Homeland Security</u>		
<u>Direct Payments:</u>		
State Homeland Security Grant Payment	97.000	\$ 275,074
<u>Department of Health and Human Services:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	11,704
Temporary Assistance to Needy Families	93.558	124,573
Child Care and Development Block Grant	93.575	73,913
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	62,622
Child Care and Development Block Grant – ARRA	93.713	5,813
Child Welfare Services	93.645	482
Foster Care – Title IV-E	93.658	36,948
Foster Care – Title IV-E – AARA	93.658	430
Adoption Assistance	93.659	33,903
Adoption Assistance – AARA	93.659	2,372
Social Service Block Grant	93.667	88,359
Low Income Home Energy Assistance	93.568	10,809
Chafee Foster Care Independence Program	93.674	1,124
Medical Assistance Program	93.778	90,959
Refugee and Entrant Assistance	93.566	264
State Children's Insurance Program	93.767	4,705
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services</u>		
Law Enforcement Terrorism Prevention Program	97.074	34,624
<b>Total Expenditures of Federal Awards</b>		<b>\$ 3,384,984</b>

Note 1. Basis of Accounting

This schedule was prepared on the modified accrual basis.

Note 2. Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities. At June 30, 2011, the School Board had food commodities totaling \$52,444 in inventory.





## **OTHER INFORMATION SECTION**

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TABLE 1

## CITY OF GALAX, VIRGINIA

FINANCIAL TRENDS INFORMATION  
GOVERNMENT-WIDE EXPENSES BY FUNCTIONLast Nine Fiscal Years  
(accrual basis of accounting)  
UNAUDITED

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Total Expenses
2011	\$ 1,403,607	\$ 525,130	\$ 2,764,659	\$ 2,142,439	\$ 1,601,606	\$ 3,395,746	\$ 1,537,985	\$ 648,415	\$ 249,393	\$ 2,423,328	\$ 16,692,308
2010	1,354,495	516,416	2,572,717	1,399,049	1,730,389	3,878,868	1,728,558	1,041,925	278,631	2,436,820	16,937,868
2009	1,410,590	421,172	2,523,114	3,671,499	1,683,602	1,498,542	1,838,667	922,152	279,653	2,539,619	16,788,610
2008	1,216,686	252,958	2,380,854	2,913,678	1,878,593	2,804,597	1,460,945	570,362	325,285	2,587,485	16,391,443
2007	1,781,858	19,150	1,622,046	2,199,901	1,557,938	3,651,186	1,449,683	201,354	229,297	2,424,384	15,136,797
2006	1,808,912	-	1,771,338	2,316,099	1,601,371	3,553,729	1,218,418	290,620	209,613	2,899,388	15,669,488
2005	1,763,462	15,807	1,910,640	3,359,123	1,348,202	3,511,705	842,129	573,980	195,848	2,464,617	15,985,513
2004	1,340,084	28,274	1,966,434	2,267,608	1,399,406	3,312,031	1,198,292	855,988	166,391	2,372,118	14,906,626
2003	1,737,450	21,582	1,634,500	2,082,039	1,459,378	3,177,053	869,646	139,652	138,618	2,289,685	13,549,603

Note: The City implemented GASB 34 on during 2003.

TABLE 2

## CITY OF GALAX, VIRGINIA

**FINANCIAL TRENDS INFORMATION**  
**GOVERNMENT-WIDE REVENUES**  
 Last Nine Fiscal Years  
 (accrual basis of accounting)  
 UNAUDITED

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES						
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Intergovernmental Revenue, Unrestricted		Total Revenues	
							Miscellaneous			
2011	\$ 4,246,388	\$ 3,955,984	\$ 396,163	\$ 3,870,781	\$ 4,652,947	\$ 25,654	\$ 22,744	\$ 472,432	\$ 17,643,093	
2010	3,380,558	3,458,555	1,618,233	3,922,184	4,630,039	1,238	72,478	481,486	17,564,771	
2009	3,090,007	3,807,358	1,687,649	3,582,227	4,292,452	28,292	48,352	443,907	16,980,244	
2008	2,994,718	3,696,593	483,792	3,834,008	4,533,937	394,984	31,333	492,427	16,461,792	
2007	2,924,540	3,672,182	-	3,890,380	4,759,332	342,730	132,585	274,273	15,996,022	
2006	2,920,294	3,129,111	82,500	3,693,111	4,476,845	237,781	450,708	269,507	15,259,857	
2005	2,531,287	3,074,407	81,762	3,870,231	4,265,960	189,426	227,743	279,497	14,520,313	
2004	2,545,103	3,252,098	634,824	3,578,165	4,008,068	77,240	72,493	243,770	14,411,761	
2003	2,643,469	2,910,302	-	3,655,538	3,861,731	147,339	108,138	280,022	13,606,539	

Note: The City implemented GASB 34 during 2003.

TABLE 3

## CITY OF GALAX, VIRGINIA

**FINANCIAL TRENDS INFORMATION**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**Last Ten Fiscal Years (2)**  
**UNAUDITED**

<b>Fiscal Year</b>	<b>General Government Administration</b>	<b>Judicial Administration</b>	<b>Public Safety</b>	<b>Public Works</b>	<b>Health and Welfare</b>	<b>Education (1)</b>	<b>Parks, Recreation, and Cultural</b>	<b>Community Development</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Total Expenditures</b>
2011	\$ 1,362,204	\$ 521,213	\$ 2,839,033	\$ 2,170,537	\$ 1,575,688	\$ 15,838,839	\$ 1,483,293	\$ 648,415	\$ -	\$ 768,050	\$ 27,207,272
2010	1,328,623	516,030	2,602,251	2,091,801	1,723,290	17,213,809	1,910,866	1,041,925	-	792,798	29,221,393
2009	1,645,052	421,062	2,537,988	3,787,262	1,677,544	13,179,538	2,267,225	899,677	2,331,368	501,901	29,248,617
2008	1,207,346	252,753	2,590,060	2,563,386	1,857,486	12,534,267	1,421,845	703,970	5,916,422	5,607,283	34,654,818
2007	1,204,142	175,625	2,116,872	2,341,894	1,542,713	11,512,602	1,452,742	200,323	220,054	474,784	21,241,751
2006	2,108,844	14,279	2,674,843	2,315,542	1,601,992	11,075,092	1,678,390	282,956	1,592,429	466,248	23,810,615
2005	1,762,064	15,807	2,792,264	2,532,263	1,346,140	10,470,252	819,831	583,980	1,982,851	486,215	22,791,667
2004	1,807,538	28,274	2,449,649	2,199,828	1,396,283	9,726,292	1,397,174	855,988	905,243	478,153	21,244,422
2003	1,487,098	21,828	2,344,297	2,153,360	1,478,821	9,056,974	1,084,350	139,652	608,636	378,646	18,753,662
2002	1,554,893	24,899	1,799,658	1,997,735	1,439,565	8,576,921	879,103	126,445	477,356	383,177	17,259,752

**Note:** Includes General Fund of the Primary Government and Discretely Presented Component Unit - School Board.

**(1)** Starting with fiscal year 2003, Education excludes contribution from Primary Government to Discretely Presented Component Unit - School Board.

**(2)** Reclassifications were made to 2007 amounts due to a change in presentation of recovered costs. Unable to reclassify amounts prior to 2007.

TABLE 4

**CITY OF GALAX, VIRGINIA**

**FINANCIAL TRENDS INFORMATION**

**GENERAL GOVERNMENTAL REVENUES BY SOURCE**

**Last Ten Fiscal Years (2)**

**UNAUDITED**

<b>Fiscal Year</b>	<b>General Property Taxes</b>	<b>Other Local Taxes</b>	<b>Permits, Privilege Fees, and Regulatory Licenses</b>	<b>Fines and Forfeitures</b>	<b>Revenue from Use of Money and Property</b>	<b>Charges for Services</b>	<b>Miscellaneous</b>	<b>Recovered Costs</b>	<b>Inter-governmental (1)</b>	<b>Total Revenues</b>
2011	\$ 3,870,688	\$ 4,675,312	\$ 16,353	\$ 114,770	\$ 127,190	\$ 2,203,561	\$ 170,396	\$ 181	\$ 13,078,590	\$ 24,257,041
2010	3,816,000	4,560,283	18,849	103,750	130,041	1,741,837	282,077	3,601	14,371,445	25,027,883
2009	3,570,161	4,296,653	20,162	89,124	68,520	1,550,100	116,451	1,299	15,331,075	25,043,545
2008	3,692,282	4,529,736	24,176	153,381	520,585	1,627,701	195,078	453	13,225,335	23,968,727
2007	3,763,326	4,759,332	31,418	123,191	525,018	1,216,582	141,053	27,058	12,558,189	23,145,167
2006	3,735,520	4,476,845	24,917	62,003	347,199	1,034,503	494,225	1,359,359	11,433,998	22,968,569
2005	3,851,532	4,265,960	16,638	83,654	222,134	817,954	260,628	1,053,063	10,994,978	21,566,541
2004	3,581,524	4,008,068	56,427	76,081	85,634	821,956	116,581	1,182,667	10,697,819	20,626,757
2003	3,652,217	3,861,731	34,080	67,471	159,820	887,928	83,312	1,095,623	9,440,159	19,282,341
2002	3,458,595	3,699,237	27,195	67,834	177,488	831,319	96,014	111,250	9,337,169	17,806,101

**Note: Includes General Fund of the Primary Government and Discretely Presented Component Unit - School Board.**

**(1) Starting with 2003, excludes contribution from Primary Government to Discretely Presented Component Unit - School Board.**

**(2) Reclassifications were made to 2007 amounts due to a change in presentation of recovered costs. Unable to reclassify amounts prior to 2007.**

TABLE 5

## CITY OF GALAX, VIRGINIA

**REVENUE CAPACITY INFORMATION**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**Last Ten Fiscal Years**  
**UNAUDITED**

Years Ended June 30	Collected within the					
	Current Tax Levy (1)	Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2011	\$ 3,728,831	\$ 3,588,318	96.23%	\$ -	\$ 3,588,318	96.23%
2010	3,916,477	3,776,354	96.42%	63,150	3,839,504	98.03%
2009	3,923,267	3,699,935	94.31%	650,059	3,764,990	95.97%
2008	3,991,116	3,795,947	95.11%	54,475	3,850,422	96.47%
2007	4,212,069	3,823,553	90.78%	164,135	3,987,688	94.67%
2006	4,176,254	3,752,783	89.86%	125,176	3,877,959	92.86%
2005	4,083,269	3,904,819	95.63%	125,635	4,030,454	98.71%
2004	3,857,166	3,648,281	94.58%	78,247	3,726,528	96.61%
2003	3,835,391	3,701,331	96.50%	130,007	3,831,338	99.89%
2002	3,654,879	3,485,512	95.37%	154,759	3,640,271	99.60%

(1) Exclusive of penalties and interest.

**TABLE 6****CITY OF GALAX, VIRGINIA**

**REVENUE CAPACITY INFORMATION  
 ASSESSED VALUE OF TAXABLE PROPERTY  
 Last Ten Fiscal Years  
 UNAUDITED**

<b>Fiscal Year</b>	<b>Real Estate (1)</b>	<b>Personal Property (1)</b>	<b>Public Service Corporation</b>	<b>Total Assessed Value</b>
2011	\$ 444,067,400	\$ 96,562,916	\$ 13,770,881	\$ 554,401,197
2010	442,517,089	82,983,895	13,567,565	539,068,549
2009	441,047,000	102,287,271	13,938,302	557,272,573
2008	358,067,015	98,479,264	13,145,695	469,691,974
2007	356,511,315	116,885,023	12,232,851	485,629,189
2006	352,035,705	115,136,700	12,541,268	479,713,673
2005	347,419,079	110,809,834	14,538,850	472,767,763
2004	283,461,600	115,811,677	11,501,733	410,775,010
2003	280,916,236	111,642,577	10,166,928	402,725,741
2002	278,368,801	110,139,304	13,459,559	401,967,664

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

**CITY OF GALAX, VIRGINIA****TABLE 7****PROPERTY TAX RATES (1)  
Last Ten Fiscal Years  
UNAUDITED**

<b>Fiscal Year</b>	<b>Real Estate</b>	<b>Mobile Homes</b>	<b>Personal Property (2)</b>	<b>Machinery and Tools (2)</b>
2011	0.57	0.70	1.68	1.42
2010	0.57	0.70	1.68	1.42
2009	0.55	0.55	1.42	1.42
2008	0.50	0.50	1.42	1.42
2007	0.70	0.70	1.42	1.42
2006	0.70	0.70	1.42	1.42
2005	0.70	0.70	1.42	1.42
2004	0.76	0.76	1.42	1.42
2003	0.76	0.76	1.42	1.42
2002	0.76	0.76	1.42	1.42

**Note: Per \$100 of assessed value.**



TABLE 8

## CITY OF GALAX, VIRGINIA

**DEBT CAPACITY INFORMATION**  
**RATIOS OF NET GENERAL BONDED DEBT**  
**Last Ten Fiscal Years**  
**UNAUDITED**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Assessed Value (in hundreds) (2)</b>	<b>Gross Bonded Debt (3)</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net Bonded Debt to Assessed Value</b>	<b>Net Bonded Debt Per Capita</b>
2011	7,042	5,544,012	\$ 7,873,915	\$ 7,873,915	1.42%	\$ 1,118
2010	6,880	5,390,685	8,348,105	8,348,105	1.55%	1,213
2009	6,808	5,572,726	8,822,196	8,822,196	1.58%	1,296
2008	6,837	4,696,920	9,435,220	9,435,220	2.01%	1,380
2007	6,837	4,856,292	9,418,978	9,418,978	1.94%	1,378
2006	6,837	4,797,137	4,712,430	4,712,430	0.98%	689
2005	6,837	4,727,678	4,893,486	4,893,486	1.04%	716
2004	6,837	4,107,750	5,177,476	5,177,476	1.26%	757
2003	6,837	4,019,677	3,614,827	3,614,827	0.90%	529
2002	6,837	3,926,982	3,856,301	3,856,301	0.98%	564

(1) United States Bureau of the Census.

(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 revenues bonds, landfill closure/postclosure 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  
Last Ten Fiscal Years  
UNAUDITED**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest and Other Fiscal Charges</b>	<b>Total Debt Service</b>	<b>Total General Governmental Expenditures</b>	<b>Ratio of Debt Service to General Governmental Expenditures</b>
2011	\$ 517,681	\$ 250,369	\$ 768,050	\$ 27,207,272	2.82%
2010	516,911	275,887	792,798	29,221,393	2.71%
2009	300,835	201,066	501,901	29,248,617	1.72%
2008	5,261,321	345,962	5,607,283	34,654,818	16.18%
2007	293,452	181,332	474,784	21,241,751	2.24%
2006	246,057	220,191	466,248	23,810,615	1.96%
2005	283,990	202,225	486,215	22,791,667	2.13%
2004	277,351	200,802	478,153	21,244,422	2.25%
2003	241,474	137,172	378,646	18,753,662	2.02%
2002	238,566	144,611	383,177	17,259,752	2.22%

**Note: Includes General Fund and Discretely Presented Component Unit - School Board.**

## COMPLIANCE SECTION

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**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**

Honorable Members of City Council  
City of Galax, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 29, 2011. 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; *Specifications for Audits of Counties, Cities and Towns*, and *Specifications for Audits of Authority, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*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. **We consider the deficiencies, Items 08-1 and 11-1, described in the accompanying schedule of findings and questioned costs to be material weaknesses.**

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are reported as Items 11-3 through 11-5 in the accompanying schedule of findings and questioned costs.**

We noted certain other matters that we reported to management of the City in a separate letter dated November 29, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, state and federal awarding agencies, pass-through entities, and the Galax City Council, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 29, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH *OMB CIRCULAR A-133***

Honorable Members of City Council  
City of Galax, Virginia

**Compliance**

We have audited the compliance of the City of Galax, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* 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'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. Our audit does not provide a legal determination of the City's compliance with those requirements.

**In our opinion, the City of Galax, Virginia complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and questioned costs as Item 11-2.**

## Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, 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'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.

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 deficiencies, significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

\*\*\*\*\*

This report is intended for the information and use of management, City Council, others within the entity, and state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 29, 2011

**CITY OF GALAX, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2011**

As more fully described in the 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*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

**STATE COMPLIANCE MATTERS**

*Code of Virginia*

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Comprehensive Services Act

Highway Maintenance

State Agency Requirements

Education

**FEDERAL COMPLIANCE MATTERS**

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.



**CITY OF GALAX, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Two significant deficiencies** relating to the audit of the financial statements are reported in the 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*. **The significant deficiencies were deemed to be material weaknesses.**
3. **No instances of noncompliance material** to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding** relating to major programs.
7. The programs tested as major programs include:

<b><u>Name of Program:</u></b>	<b><u>CFDA Number</u></b>
ARRA State Fiscal Stabilization Funds	84.394
Special Education Cluster	84.027, 84.173
ARRA Special Education Cluster	84.391, 84.392
Title I Grants to Local Educational Agencies	84.010
ARRA Title I Grants to Local Educational Agencies	84.389
School Nutrition Cluster	10.553, 10.555

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The City was not determined to be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**08-1: Segregation of Duties (Material Weakness)**

*Condition:*

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to payroll, accounts payable, accounts receivable, and cash disbursements.

*Recommendation:*

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

*Management's Response:*

Management concurs and will implement controls where possible.

**CITY OF GALAX, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**11-1: Audit Adjustments (Material Weakness)**

*Condition:*

We noted errors in the year end closing process related to cash at the School Board, receivables, due from other governments at Social Services, and other liabilities at the School Board in the current year indicating controls over these items are not adequate.

*Recommendation:*

During the year end closing process, management should implement review procedures to ensure that the propriety and reasonableness of ending balances.

*Management's Response:*

Management concurs and will implement procedures to address the issues noted.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT**

**11-2: Title I – Participation of Private School Children – CFDA 84.010**

*Condition:*

Local agencies receiving federal funding must conduct timely consultations with private school officials to determine the kind of educational services to provide to eligible private school children. It appears the School Board did not perform these consultations as required.

*Recommendation:*

Management should ensure that the required consultation is done with all eligible private schools.

*Management's Response:*

Management concurs with this finding.

**CITY OF GALAX, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)**

**11-3: Virginia Security for Public Deposits Act**

*Condition:*

Three deposit accounts at the City were not marked as public funds.

*Recommendation:*

All deposit accounts should be marked as public funds in accordance with the Virginia Security for Public Deposits Act.

*Management's Response:*

Management concurs with this finding.

**11-4: General Fund Budget Appropriations**

*Condition:*

Expenditures exceeded budgeted appropriations in three general fund categories.

*Recommendation:*

Steps should be taken to ensure that any excess expenditures over budgeted appropriations be approved by City Council and the budget be amended accordingly.

*Management's Response:*

Management concurs with this finding.

**11-5: Conflicts of Interest Act – Disclosure Forms**

*Condition:*

One out of thirty-two people for the City did not file a statement of economic interest by the deadline required by the *Code of Virginia*. In addition, there were seven individuals who did not submit all applicable forms.

*Recommendation:*

Steps should be taken to ensure timely and complete filing of economic interest by all required parties.

*Management's Response:*

Management concurs with this finding.

**CITY OF GALAX, VIRGINIA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2011**

**10-1: Title I – Employee Time and Effort – CFDA 84.010**

*Condition:*

Time required semi-annual employee time and effort certifications are not currently being filed for Title I teachers.

*Recommendation:*

Management should implement procedures to ensure timely and complete filing of the semi-annual employee time and effort certifications for Title I teachers.

*Current Status:*

No similar instances noted during the current audit.

**10-2: Title I – School-Wide Plan – CFDA 84.010**

*Condition:*

Through review of the school-wide plan, it was noted that the needs assessment was not updated with the most current data.

*Recommendation:*

Management should ensure that the school-wide plan is updated on a yearly basis.

*Current Status:*

No similar instances noted during the current audit.