

**CITY OF GALAX, VIRGINIA**  
**ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2013**

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Prepared By:  
Galax City Finance Department

CITY OF GALAX, VIRGINIA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FISCAL YEAR ENDED JUNE 30, 2013

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## INTRODUCTORY SECTION

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# CITY OF GALAX, VIRGINIA

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## CITY COUNCIL

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Willie Greene, Vice Mayor Margo Crouse John Garner	C. M. Mitchell, Mayor	Dr. Robert Lazo Sharon Plichta Bill Webb
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## CITY SCHOOL BOARD

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Dr. James Adams, Vice-Chair Helen Kyle	Raymond Kohl, Chair	Donna Garland Stewart Merdian
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## CITY SOCIAL SERVICES BOARD

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Keith Barker, Chair Dr. Robert Pryor Liza Sutherland	Sharon Plichta Rita Reeves Dr. Thomas Whartenby
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## OTHER OFFICIALS

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City Manager .....	Keith Barker
Director of Finance .....	Judy Taylor-Gallimore
Commissioner of the Revenue.....	David Hankley
Superintendent of Schools .....	Bill Sturgill
Director of Social Services .....	Susan Clark
City Attorney.....	James Cornwell
Chief of Police .....	Rick Clark

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Emphasis of Matter*

As described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

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

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

## *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galax, Virginia's basic financial statements. The introductory section, other supplementary information, supporting schedules, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic financial statements.

*Other Information (continued)*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of the City of Galax, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Galax, Virginia's internal control over financial reporting and compliance.

*Robinson, Turner, Cox Associates*

Blacksburg, Virginia  
November 18, 2013

## Basic Financial Statements

City of Galax, Virginia  
Statement of Net Position  
June 30, 2013

	Primary Government			Component Units		
	Governmental	Business-type	Total	School Board	Galax	IDA
	Activities	Activities			Futures	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,876,325	\$ -	\$ 1,876,325	\$ 1,721,427	\$ 66,796	51,644
Taxes receivable	586,704	-	586,704	-	-	-
Accounts receivable	355,423	618,684	974,107	-	-	-
Interest receivable	-	-	-	-	-	2,827
Due from component unit	-	-	-	870,525	-	-
Due from other governmental units	780,286	30,000	810,286	630,760	-	-
Inventories	-	-	-	17,122	-	-
Loans receivable	18,517	-	18,517	-	-	565,407
Prepaid expenses	14,240	-	14,240	154,911	-	-
Restricted assets:						
Cash and cash equivalents	216,280	61,164	277,444	221,838	-	-
Capital assets (net of accumulated depreciation):						
Land	1,782,097	147,903	1,930,000	165,460	231,219	-
Buildings and improvements	14,583,486	1,568,723	16,152,209	1,161,917	840,483	-
Machinery and equipment	1,660,661	145,557	1,806,218	469,386	-	-
Infrastructure	863,271	3,276,519	4,139,790	-	-	-
Construction in progress	384,949	83,187	468,136	-	-	-
Total assets	\$ 23,122,239	\$ 5,931,737	\$ 29,053,976	\$ 5,413,346	\$ 1,138,498	\$ 619,878
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred charge on refunding	\$ 47,204	\$ -	\$ 47,204	\$ -	\$ -	\$ -
<b>LIABILITIES</b>						
Accounts payable	\$ 283,555	\$ 67,278	\$ 350,833	\$ 62,367	\$ -	\$ -
Wages and withholdings payable	155,015	34,630	189,645	-	-	-
Due to other governments	506,516	-	506,516	808,624	-	-
Customers' deposits	-	61,164	61,164	-	-	-
Accrued interest payable	98,295	3,766	102,061	-	2,827	-
Due to component unit	870,525	-	870,525	-	-	-
Unearned revenue	201,239	-	201,239	-	-	-
Long-term liabilities:						
Due within one year	896,713	258,470	1,155,183	130,299	25,127	-
Due in more than one year	7,591,280	1,818,789	9,410,069	189,625	540,280	-
Total liabilities	\$ 10,603,138	\$ 2,244,097	\$ 12,847,235	\$ 1,190,915	\$ 568,234	\$ -
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property taxes paid in advance	\$ 9,507	\$ -	\$ 9,507	\$ -	\$ -	\$ -
<b>NET POSITION</b>						
Net investment in capital assets	\$ 12,023,219	\$ 3,253,758	\$ 15,276,977	\$ 1,796,763	\$ 506,295	\$ -
Restricted for:						
Anthem stock proceeds	201,770	-	201,770	-	-	-
Blue Ridge Post book fund	14,510	-	14,510	-	-	-
Cafeteria operations	-	-	-	221,838	-	-
Unrestricted	317,299	433,882	751,181	2,203,830	63,969	619,878
Total net position	\$ 12,556,798	\$ 3,687,640	\$ 16,244,438	\$ 4,222,431	\$ 570,264	\$ 619,878

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

City of Galax, Virginia  
Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position							
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	Component Units					
			Capital Grants and Contributions	Total			School Board	IDA	Galax Futures			
<b>PRIMARY GOVERNMENT:</b>												
Governmental activities:												
General government administration	\$ 1,543,098	\$ 20,606	\$ 80,965	\$ -	\$ (1,441,527)	\$ -	\$ (1,441,527)	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial administration	394,278	-	-	-	(394,278)	-	(394,278)	-	-	-	-	-
Public safety	2,790,642	26,815	455,822	-	(2,308,005)	-	(2,308,005)	-	-	-	-	-
Public works	2,556,297	400,572	2,150,916	-	(4,809)	-	(4,809)	-	-	-	-	-
Health and welfare	1,508,926	-	1,051,095	-	(457,831)	-	(457,831)	-	-	-	-	-
Education	4,269,959	-	-	-	(4,269,959)	-	(4,269,959)	-	-	-	-	-
Parks, recreation, and cultural	2,040,066	347,086	5,000	-	(1,687,980)	-	(1,687,980)	-	-	-	-	-
Community development	399,464	-	22,301	109,682	(267,481)	-	(267,481)	-	-	-	-	-
Interest on long-term debt	230,446	-	-	-	(230,446)	-	(230,446)	-	-	-	-	-
Total governmental activities	\$ 15,733,176	\$ 795,079	\$ 3,766,099	\$ 109,682	\$ (11,062,316)	\$ -	\$ (11,062,316)	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type activities:												
Water and sewer	\$ 2,725,663	\$ 2,493,655	\$ -	\$ 41,400	\$ -	\$ (190,608)	\$ (190,608)	\$ -	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 18,458,839	\$ 3,288,734	\$ 3,766,099	\$ 151,082	\$ (11,062,316)	\$ (190,608)	\$ (11,252,924)	\$ -	\$ -	\$ -	\$ -	\$ -
<b>COMPONENT UNITS:</b>												
School Board	\$ 13,443,786	\$ 399,500	\$ 9,155,125	\$ -	\$ -	\$ -	\$ (3,889,161)	\$ -	\$ -	\$ -	\$ -	\$ -
Industrial Development Authority	58,508	-	-	-	-	-	-	-	-	-	(58,508)	-
Galax Futures, Inc.	58,957	60,000	-	-	-	-	-	-	-	-	-	1,043
Total component units	\$ 13,561,251	\$ 459,500	\$ 9,155,125	\$ -	\$ -	\$ -	\$ (3,889,161)	\$ (58,508)	\$ -	\$ -	\$ -	\$ 1,043
General revenues:												
General property taxes					\$ 4,725,836	\$ -	\$ 4,725,836	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes:												
Local sales and use taxes					2,076,455	-	2,076,455	-	-	-	-	-
Consumers' utility taxes					184,625	-	184,625	-	-	-	-	-
Business license taxes					1,049,129	-	1,049,129	-	-	-	-	-
Motor vehicle taxes					114,457	-	114,457	-	-	-	-	-
Restaurant food taxes					1,821,057	-	1,821,057	-	-	-	-	-
Lodging taxes					133,198	-	133,198	-	-	-	-	-
Bank stock taxes					123,323	-	123,323	-	-	-	-	-
Other local taxes					62,557	-	62,557	-	-	-	-	-
Unrestricted revenues from the use of money and property					43,230	-	43,230	-	-	-	34,582	-
Miscellaneous					131,054	-	131,054	-	254,172	-	-	-
Grants and contributions not restricted to specific programs					516,143	-	516,143	-	3,909,319	-	-	-
Transfers					343,903	(343,903)	-	-	-	-	-	-
Total general revenues and transfers					\$ 11,324,967	\$ (343,903)	\$ 10,981,064	\$ 4,163,491	\$ 34,582	\$ -	\$ -	\$ -
Change in net position					\$ 262,651	\$ (534,511)	\$ (271,860)	\$ 274,330	\$ (23,926)	\$ 1,043	\$ -	\$ -
Net position - beginning, as restated					12,294,147	4,222,151	16,516,298	3,948,101	643,804	569,221		
Net position - ending					\$ 12,556,798	\$ 3,687,640	\$ 16,244,438	\$ 4,222,431	\$ 619,878	\$ 570,264	\$ -	\$ -

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

City of Galax, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2013

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	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,092,605
Receivables (net of allowance for uncollectibles):	
Taxes receivable	586,704
Accounts receivable	355,423
Due from other governmental units	780,286
Loan receivable	18,517
Prepaid items	14,240
Total assets	\$ 3,847,775
<b>LIABILITIES</b>	
Liabilities:	
Accounts payable	\$ 283,555
Wages and withholdings payable	155,015
Due to other governments	506,516
Due to component unit	870,525
Unearned revenue	201,239
Total liabilities	\$ 2,016,850
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue-property taxes	\$ 245,481
Unavailable revenue-meals taxes	45,428
Property taxes paid in advance	9,507
Total deferred inflows of resources	\$ 300,416
Fund balance:	
Nonspendable	
Prepaid items	\$ 14,240
Loan receivable	18,517
Restricted	216,280
Committed	67,643
Assigned	82,000
Unassigned	1,131,829
Total fund balances	\$ 1,530,509
Total liabilities, deferred inflows of resources, and fund balance	\$ 3,847,775

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

City of Galax, Virginia  
 Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Position  
 June 30, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,530,509
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	1,782,097	
Buildings and improvements		14,583,486	
Infrastructure		863,271	
Machinery and equipment		1,660,661	
Construction in progress		384,949	19,274,464

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The assets consist of unavailable taxes.

Unavailable revenue			290,909
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds, notes, and capital lease	\$	(7,298,449)	
Less: Unamortized charge on advance refunding		47,204	
Accrued interest payable		(98,295)	
Accrued landfill closure/postclosure monitoring costs		(681,785)	
Compensated absences		(385,627)	
Net OPEB obligation		(122,132)	(8,539,084)

Net position of governmental activities			\$ 12,556,798
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The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2013

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	<u>General</u>
<b>REVENUES</b>	
General property taxes	\$ 4,641,973
Other local taxes	5,570,787
Permits, privilege fees, and regulatory licenses	26,096
Fines and forfeitures	142,786
Revenue from the use of money and property	43,230
Charges for services	795,079
Miscellaneous	131,054
Recovered costs	180,076
Intergovernmental revenues:	
Commonwealth	3,553,786
Federal	838,138
Total revenues	\$ 15,923,005
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 1,303,062
Judicial administration	537,064
Public safety	2,762,814
Public works	2,788,217
Health and welfare	1,512,532
Education	3,921,990
Parks, recreation, and cultural	1,851,395
Community development	369,643
Nondepartmental	276,414
Capital projects	322,753
Debt service:	
Principal retirement	555,677
Bond issuance cost	32,250
Interest and other fiscal charges	198,061
Total expenditures	\$ 16,431,872
Excess (deficiency) of revenues over (under) expenditures	\$ (508,867)
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	\$ 343,903
Advance refunding of bonds	(1,550,555)
Debt service - current refunding - principal	(524,154)
Issuance of bond	2,136,000
Total other financing sources (uses)	\$ 405,194
Net change in fund balances	\$ (103,673)
Fund balances - beginning, as restated	1,634,182
Fund balances - ending	\$ 1,530,509

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

City of Galax, Virginia  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$	(103,673)
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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 exceeded the capital outlays in the current period.

Capital outlays	\$ 706,750	
Depreciation expense	(908,076)	(201,326)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		77,877
--	--	--------

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

Debt issued or incurred:		
Issuance of general obligation debt	\$ (2,136,000)	
(Increase) Decrease in accrued landfill closure/postclosure cost	30,215	
Principal repayments:		
General obligation bonds	555,677	
Early extinguishment of debt	2,074,709	524,601

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 (increase) in compensated absences	\$ (7,885)	
Decrease (increase) in accrued interest payable	(135)	
(Increase) decrease in net OPEB obligation	(26,808)	(34,828)

Change in net position of governmental activities	\$	262,651
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The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia  
Statement of Net Position  
Proprietary Funds  
June 30, 2013

	Enterprise Fund Water and Sewer
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents - restricted	\$ 61,164
Accounts receivable (net of allowance for uncollectibles)	618,684
Due from other governmental units	30,000
Total current assets	\$ 709,848
Noncurrent assets:	
Capital assets:	
Land	\$ 147,903
Utility plant in service	17,222,451
Machinery and equipment	456,667
Buildings and improvements	1,797,083
Construction in progress	83,187
Less accumulated depreciation	(14,485,402)
Total capital assets	\$ 5,221,889
Total noncurrent assets	\$ 5,221,889
Total assets	\$ 5,931,737
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 67,278
Accrued payroll and related liabilities	34,630
Customers' deposits	61,164
Accrued interest payable	3,766
Compensated absences - current portion	70,970
Bonds payable - current portion	187,500
Total current liabilities	\$ 425,308
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 17,743
Bonds payable - net of current portion	1,780,631
Net OPEB Obligation	20,415
Total noncurrent liabilities	\$ 1,818,789
Total liabilities	\$ 2,244,097
<b>Net Position</b>	
Net investment in capital assets	\$ 3,253,758
Unrestricted	433,882
Total net position	\$ 3,687,640

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

City of Galax, Virginia  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2013

	Enterprise Fund Water and Sewer
<b>OPERATING REVENUES</b>	
Charges for services:	
Water revenues pledged as security for revenue bonds	\$ 1,201,062
Sewer revenues pledged as security for revenue bonds	1,206,415
Tap fees	11,500
Penalties and interest	16,576
Other revenue	58,102
Total operating revenues	\$ 2,493,655
<b>OPERATING EXPENSES</b>	
Personnel services	\$ 1,363,929
Utilities and telecommunication	286,394
Materials and supplies	242,186
Repairs and maintenance	134,039
Depreciation	681,463
Total operating expenses	\$ 2,708,011
Operating income (loss)	\$ (214,356)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Loss on sale of assets	\$ (400)
Interest expense	(17,252)
Total nonoperating revenues (expenses)	\$ (17,652)
Income before contributions and transfers	\$ (232,008)
Capital contributions and construction grants	\$ 41,400
Transfers out	(343,903)
Change in net position	\$ (534,511)
Total net position - beginning (as restated)	4,222,151
Total net position - ending	\$ 3,687,640

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

City of Galax, Virginia  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2013

	Enterprise Fund <u>Water and Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 2,507,662
Payments to suppliers	(629,527)
Payments to employees	(1,341,776)
Net cash provided by (used for) operating activities	\$ 536,359
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	\$ (343,903)
Net cash provided by (used for) noncapital financing activities	\$ (343,903)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Additions to utility plant	\$ (119,099)
Principal payments on bonds	(182,500)
Contributions in aid of construction	133,795
Interest payments	(19,427)
Net cash provided by (used for) capital and related financing activities	\$ (187,231)
Net increase (decrease) in cash and cash equivalents	\$ 5,225
Cash and cash equivalents - beginning (including restricted of \$55,939)	55,939
Cash and cash equivalents - ending (including restricted of \$61,164)	\$ 61,164
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ (214,356)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 681,463
(Increase) decrease in accounts receivable	8,782
Increase (decrease) in customer deposits	5,225
Increase (decrease) in accrued payroll and related liabilities	14,474
Increase (decrease) in accounts payable	33,092
Increase (decrease) in compensated absences	3,315
Increase (decrease) in net OPEB obligation	4,364
Total adjustments	\$ 750,715
Net cash provided by (used for) operating activities	\$ 536,359

No interest was capitalized during the current fiscal year.

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

City of Galax, Virginia  
 Statement of Fiduciary Net Position  
 Fiduciary Funds  
 June 30, 2013

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 52,853
Total assets	\$ 52,853
 <b>LIABILITIES</b>	
Amounts held for social services clients	\$ 28,908
Amounts held for other agencies	23,945
Total liabilities	\$ 52,853

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

CITY OF GALAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

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

Galax Futures Inc. is a non-profit corporation that was organized to take, hold and transfer title to real estate and other property, for purposes of industrial and economic development in the Galax Community. The Board of Galax Futures Inc. is self-perpetuating and is comprised of current City Council members and management of the City of Galax. Under GASB Statements 14 and 61, Galax Futures is considered a "controlled organization" and therefore is reported as a component unit of the City of Galax, Virginia. The financial statements of Galax Futures Inc. include subsidiaries owned (controlled) by Galax Futures Inc. Galax Futures Inc. is presented as an enterprise fund type and does not issue separate financial statements.

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

A. Financial Reporting Entity (Continued)

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

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

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 \$106,416 to the Commission for the current year. The City provides accounting services (payroll services) for this organization.

The City and the County of Grayson participate in supporting the Galax-Grayson Ambulance Service. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The organization's activities are primarily supported by user charges. The City provides accounting services (payroll services) for this organization.

The City and the Counties of Carroll and Grayson participate in the Regional Solid Waste Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. Operations are financed by tipping fees and the individual jurisdictions are required to fund any annual deficit(s). The City paid \$110,422 in tipping fees during the current year.

The City and the Counties of Carroll and Grayson participate in The Wired Road Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The primary purpose of the Authority is to develop and construct broadband infrastructure in the participating localities and then lease that infrastructure to third parties. The organization's activities are to be primarily supported by lease revenue. The City provides accounting services (payroll services) for this organization.

The City and Counties of Carroll and Grayson participate in The Twin County Airport Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The Commission is charged with operating the Twin County Regional Airport. During the current year the City contributed \$23,000 to the Commission. The City has also entered into an agreement with The Twin County Airport Commission to be responsible for a one-third share of the debt service for hanger construction. During the current year, no payments were due for debt service. The commitment could be reduced based on potential revenue from hangar rentals.

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

A. Financial Reporting Entity (Continued)

Blue Ridge Crossroads Economic Development Authority (BRCEDA) is the regional industrial facilities authority that represents the Counties of Galax, Carroll, and Grayson. Each jurisdiction appoints two members and an alternate member. A moral obligation for debt service is currently in place for a regional project known as Wildwood. Contributions to BRCEDA during the current year were \$152,189. It is the hope of BRCEDA that this park project will be a catalyst for economic development in the region.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

The government reports the following major governmental fund:

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

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

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

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

*Fiduciary funds* account for and report assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. Agency funds include the *Special Welfare, Smart Beginnings, Twin County Drug Task Force and Chestnut Creek Art School*.

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

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

1. Cash and cash equivalents

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

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

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

2. Prepaid items

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

3. Receivables and payables

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

4. Capital assets

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

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

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

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

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

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position.

A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and prepaid taxes and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, the City's deferred inflows of resources at June 30 consist of \$9,507 in prepaid taxes.

6. Property Taxes

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

7. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$653,184 at June 30, 2013. The allowance consists of delinquent taxes in the amount of \$490,000; delinquent meals tax of \$75,021; and delinquent water, sewer, and garbage bills of \$88,163.

8. Use of Estimates

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

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

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

9. Compensated Absences

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

10. Long-term obligations

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

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

11. Fund equity

The City follows provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds. GASB Statement No. 54 requires that fund balances be classified into categories based upon the type of restrictions imposed on the use of funds. The City of Galax, Virginia evaluated its funds at June 30, 2013 and classified fund balance into the following five categories:

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

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

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

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

11. Fund equity (Continued)

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

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

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

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

12. Net Position

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

13. Restricted Assets

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

14. Inventories

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

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

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

15. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board:

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

16. Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board:

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement have been retroactively applied through a restatement of beginning net position as report in Note 18 to these financial statements.

17. Net position flow assumption

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

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

A. Budgetary information

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

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

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the City's general fund.

C. Deficit fund equity

At June 30, 2013, there were no funds with negative equity.

**Note 3-Deposits and Investments:**

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

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

Interest Rate Risk

At year end, the City did not hold any investments that were subject to interest rate risk.

Custodial Credit Risk

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

Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2013 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	\$ 1,275

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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

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

	Primary Government	Component Unit- School Board
Due from other local government agencies	\$ 30,000	\$ 4,240
Commonwealth of Virginia:		
Local sales tax	341,641	-
Categorical aid-State sales tax	-	173,485
Categorical aid-Other	60,101	136,038
Non-categorical aid	118,860	-
Categorical aid-Virginia Public Assistance	95,207	-
Federal Government:		
Categorical aid-Virginia Public Assistance	37,629	-
Categorical aid-Other	126,848	316,997
Totals	<u>\$ 810,286</u>	<u>\$ 630,760</u>

**Note 5-Interfund/Component-Unit Obligations:**

Fund	Due to Primary Government/ Component Unit	Due from Primary Government/ Component Unit
Primary Government:		
General Fund	\$ 870,525	\$ -
Component Unit - School Board:		
School Fund	\$ -	\$ 870,525
Totals	<u>\$ -</u>	<u>\$ 870,525</u>

At year end, the City's general fund carries a liability to the Component-Unit School Board for funds due the School Board under the City's appropriation resolution(s).

Primary government contributions to component units for the year ended June 30, 2013, consisted of payments to School Board of \$3,909,319.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization. During the fiscal year, the City transferred funds totaling \$343,903 from the Water and Sewer Fund to the General Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 6-Long-Term Obligations:**

Primary Government - Governmental Activity Obligations:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2013.

	<u>Balance July 1, 2012</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2013</u>
General Obligation Bonds	\$ 2,103,875	\$ 2,136,000	\$ (2,103,875)	\$ 2,136,000
Notes Payable	305,832	-	(83,565)	222,267
Literary Fund Loans	5,298,823	-	(381,101)	4,917,722
Capital lease	43,751	-	(21,291)	22,460
Landfill closure/postclosure liability	712,000	-	(30,215)	681,785
Compensated absences	377,742	291,192	(283,307)	385,627
Net OPEB obligation	95,323	32,430	(5,621)	122,132
	<u>\$ 8,937,346</u>	<u>\$ 2,459,622</u>	<u>\$ (2,908,975)</u>	<u>\$ 8,487,993</u>
Total	<u>\$ 8,937,346</u>	<u>\$ 2,459,622</u>	<u>\$ (2,908,975)</u>	<u>\$ 8,487,993</u>

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

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

Year Ending June 30,	General Obligation Bonds		Notes Payable		Literary Fund Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 120,250	\$ 50,891	\$ 83,682	\$ 8,182	\$ 381,101	\$ 107,532
2015	127,500	43,208	87,000	4,945	381,101	98,599
2016	130,000	40,681	51,585	1,571	381,101	89,666
2017	132,500	38,102	-	-	381,101	80,733
2018	135,000	35,472	-	-	381,101	71,800
2019-2023	572,500	137,711	-	-	1,512,217	236,800
2024-2028	408,750	86,730	-	-	1,250,000	100,000
2029-2033	460,250	36,090	-	-	250,000	5,000
2034	49,250	579	-	-	-	-
Totals	<u>\$ 2,136,000</u>	<u>\$ 469,464</u>	<u>\$ 222,267</u>	<u>\$ 14,698</u>	<u>\$ 4,917,722</u>	<u>\$ 790,130</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 6-Long-Term Obligations: (Continued)**

**Primary Government - Governmental Activity Obligations: (Continued)**

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 2,136,000	\$ 120,250
Notes Payable						
Garbage Truck Loan	3.00%	June-12	2015	200,000	149,941	48,441
Fire Truck Loan	5.00%	May-05	2015	300,000	<u>72,326</u>	<u>35,241</u>
Total Notes Payable					\$ 222,267	\$ 83,682
Other Long-term Debt: (Literary Fund Loans)						
State Literacy Loan	3.00%	April-98	2019	2,622,035	\$ 917,722	\$ 131,101
State Literacy Loan	2.00%	May-08	2028	5,000,000	<u>4,000,000</u>	<u>250,000</u>
Total Literary Fund Loans					<u>\$ 4,917,722</u>	<u>\$ 381,101</u>
Other Obligations:						
Capital Lease - Police Car	5.501%	July-11	2013	67,447	\$ 22,460	\$ 22,460
Landfill closure/post-closure monitoring	n/a	n/a	n/a	n/a	681,785	-
Compensated Absences	n/a	n/a	n/a	n/a	385,627	289,220
Net OPEB Obligation	n/a	n/a	n/a	n/a	<u>122,132</u>	<u>-</u>
Total Other Obligations					<u>\$ 1,212,004</u>	<u>\$ 311,680</u>
Total Long-term obligations					<u>\$ 8,487,993</u>	<u>\$ 896,713</u>

**Advanced refunding:**

The government issued \$1,602,000 of general obligation advance refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$1,510,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$48,355. This amount reported as a deferred outflow and is amortized over the remaining life of the refunded debt, which is the same as the life of the new same. This advance refunding was undertaken to reduce total debt service payments over the next 21 years by \$372,557 and resulted in an economic gain (present value savings) of \$298,305.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 6-Long-Term Obligations: (Continued)**

Primary Government - Enterprise Activity Obligations:

The following is a summary of long-term obligations transactions of the Enterprise Fund for the year ended June 30, 2013.

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Revenue bonds	\$ 2,147,500	\$ -	\$ (182,500)	\$ 1,965,000
Unamortized bond premium	4,215	-	(1,084)	3,131
Compensated absences	85,398	67,364	(64,049)	88,713
Net OPEB Obligation	16,051	5,304	(940)	20,415
<b>Total</b>	<b>\$ 2,253,164</b>	<b>\$ 72,668</b>	<b>\$ (248,573)</b>	<b>\$ 2,077,259</b>

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

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2014	\$ 187,500	\$ 15,063
2015	192,500	10,455
2016	197,500	5,355
2017	92,500	-
2018	92,500	-
2019-2023	462,500	-
2024-2028	462,500	-
2029-2031	277,500	-
<b>Totals</b>	<b>\$ 1,965,000</b>	<b>\$ 30,873</b>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 6-Long-Term Obligations: (Continued)**

**Primary Government - Enterprise Activity Obligations: (Continued)**

**Details of long-term obligations:**

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 1,665,000	\$ 92,500
VRA Bond	4.35-5.10%	June-01	2016	1,125,000	300,000	95,000
Total Revenue Bonds					<u>\$ 1,965,000</u>	<u>\$ 187,500</u>
Add:						
Unamortized premium	n/a	n/a	n/a	n/a	3,131	-
Net Revenue Bonds					<u>\$ 1,968,131</u>	<u>\$ 187,500</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 88,713	\$ 70,970
Net OBEP Obligation	n/a	n/a	n/a	n/a	20,415	-
Total Long-term obligations					<u><u>\$ 2,077,259</u></u>	<u><u>\$ 258,470</u></u>

**Note 7-Long-Term Obligations-Component Units:**

**Discretely Presented Component Unit - School Board Obligations:**

The following is a summary of long-term obligations transactions of the Component Unit-School Board for the year ended June 30, 2013.

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Net OPEB obligation	\$ 132,391	\$ 46,847	\$ (33,046)	\$ 146,192
Compensated absences	172,195	130,683	(129,146)	173,732
Total	<u><u>\$ 304,586</u></u>	<u><u>\$ 177,530</u></u>	<u><u>\$ (162,192)</u></u>	<u><u>\$ 319,924</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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

**Discretely Presented Component Unit - School Board Obligations: (Continued)**

**Details of long-term obligations:**

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Net OPEB Obligation	n/a	n/a	n/a	n/a	\$ 146,192	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	173,732	130,299
Total long-term obligations					<u>\$ 319,924</u>	<u>\$ 130,299</u>

Compensated absences and OPEB obligation of the Component Unit - School Board are liquidated by the School Operating Fund.

**Discretely Presented Component Unit - Galax Futures, Inc.:**

The following is a summary of long-term obligations transactions of the Component Unit- Galax Futures, Inc. for the year ended June 30, 2013.

	Balance July 1, 2012	Issuances	Retirements	Balance June 30, 2013
Loan payable	\$ 589,074	\$ -	\$ (23,667)	\$ 565,407
Total	<u>\$ 589,074</u>	<u>\$ -</u>	<u>\$ (23,667)</u>	<u>\$ 565,407</u>

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

Year Ending June 30,	Loan Payable	
	Principal	Interest
2014	\$ 25,127	\$ 33,241
2015	540,280	23,919
Totals	<u>\$ 565,407</u>	<u>\$ 57,160</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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

Discretely Presented Component Unit - Galax Futures, Inc.: (Continued)

Details of long-term obligations:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Loan Payable:						
Loan payable to the IDA	6%	12/1/2009	3/1/2015	754,929.00	\$ 565,407	\$ 25,127
Total loan payable					<u>\$ 565,407</u>	<u>\$ 25,127</u>

The loan above is payable to the Component Unit - IDA and is reported as an asset of the IDA.

**Note 8-Employee Retirement System and Defined Benefit Pension Plan:**

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)  
 Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
 Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of 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 service 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 were vested as of January 1, 2013 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 early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 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.

**Note 8-Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

A. Plan Description (Continued)

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. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. 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.

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 0.00%. 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 VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Note 8-Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City is 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 the fiscal year ended 2013 was 11.98% of annual covered payroll.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City is 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 School Board's contribution rate for the fiscal year ended 2013 was 10.63% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2013, the City's and School Board's annual pension cost of \$664,237 and \$59,223 were equal to the required and actual contributions for the City and the School Board Non-Professionals, respectively.

	Three-Year Trend Information			
	Fiscal Year Ending	Annual Pension Cost (APC) <sup>(1)</sup>	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2013	\$ 664,237	100.00%	\$ -
	6/30/2012	706,046	100.00%	-
	6/30/2011	675,244	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2013	\$ 59,223	100.00%	\$ -
	6/30/2012	71,998	100.00%	-
	6/30/2011	70,046	100.00%	-

<sup>(1)</sup> Employer portion only

**Note 8-Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

C. Annual Pension Cost (Continued)

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's and School Board's 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's and School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 75.94% funded. The actuarial accrued liability for benefits was \$23,557,002, and the actuarial value of assets was \$17,889,783, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,667,219. The covered payroll (annual payroll of active employees covered by the plan) was \$5,197,825, and ratio of the UAAL to the covered payroll was 109.03%.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

As of June 30, 2012, the most recent actuarial valuation date, the plan was 74.14% funded. The actuarial accrued liability for benefits was \$1,861,507, and the actuarial value of assets was \$1,380,187, resulting in an unfunded actuarial accrued liability (UAAL) of \$481,320. The covered payroll (annual payroll of active employees covered by the plan) was \$523,220, and ratio of the UAAL to the covered payroll was 91.99%.

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 (AAL) for benefits.

**Note 8-Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

D. Funded Status and Funding Progress

Discretely Presented Component Unit - School Board (Professional Employees)

Plan Description

The Galax City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-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 5.00% of their annual salary to the VRS. The employer may assume this 5.00% member contribution. In addition, the School Board is 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 School Board's contribution to the statewide cost sharing pool for professional employees, not including the 5% member contribution, was \$762,537, 703,226 and 568,397 for the fiscal years ended 2013, 2012 and 2011, respectively. Required employer contributions represented 11.66%, 6.33%, and 3.93% of covered payroll for the fiscal years ended 2013, 2012 and 2011, respectively.

**Note 9-Other Postemployment Benefits - City Health Insurance:**

A. Plan Description

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 9-Other Postemployment Benefits - City Health Insurance: (Continued)**

B. Funding Policy

The City currently pays for post-retirement health care benefits on a pay-as-you-go basis. The City currently has 136 employees that are eligible for the program. In addition, for retirees of the City, 100 percent of premiums are the responsibility of the retiree. The rates (monthly premiums) were as follows at June 30, 2013:

Participants	Single	Employee/Spouse
Employee	\$ 585	\$ 1,187

C. Annual OPEB Cost and Net OPEB Obligation

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

For 2013, the City's annual OPEB cost (expense) was \$37,734 and the ARC was \$37,826. The obligation calculation is as follows:

Annual required contribution	\$ 37,826
Interest on net OPEB obligation	4,455
Adjustment to annual required contribution	(4,547)
Annual OPEB cost (expense)	<u>\$ 37,734</u>
Contributions made	6,561
Increase in net OPEB obligation	<u>\$ 31,173</u>
Net OPEB obligation - beginning of year	111,375
Net OPEB obligation - ending of year	<u>\$ 142,548</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 37,734	17%	\$ 142,547
6/30/2012	36,343	18%	111,375
6/30/2011	33,527	17%	81,475

**Note 9-Other Postemployment Benefits - City Health Insurance: (Continued)**

D. Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2012 (the most recent valuation date), was as follows:

Actuarial accrued liability (AAL)	\$ 336,490
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 336,490
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 4,549,428
UAAL as a percentage of covered payroll	7.40%

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

E. Actuarial methods and Assumptions

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

In the June 30, 2012, most recent actuarial valuation, the unit credit cost method was used. Under this method, stable employer contributions are produced in amounts that increase at the same rate as the employer's payroll. The actuarial assumptions included: discount rate at 4%, salary increases (inflation) of 2.5%/year and medical trend rate at 6.5%/year. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2012, was 30 years.

**Note 10-Other Postemployment Benefits - School Board Health Insurance:**

A. Plan Description

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

B. Funding Policy

The School Board currently pays for post-retirement health care benefits on a pay-as-you-go basis. The School Board currently has 191 employees that are eligible for the program. In addition, for retirees of the School Board, 100 percent of premiums are the responsibility of the retiree. The rates (monthly premiums) were as follows at June 30, 2013:

Participants	Single	Employee/Spouse
Employee	\$ 611	\$ 1,128

C. Annual OPEB Cost and Net OPEB Obligation

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

For 2013, the School Board's annual OPEB cost (expense) was \$46,847 and the ARC was \$46,946. The obligation calculation is as follows:

Annual required contribution	\$ 46,946
Interest on net OPEB obligation	4,816
Adjustment to annual required contribution	(4,915)
Annual OPEB cost (expense)	<u>\$ 46,847</u>
Contributions made	21,046
Increase in net OPEB obligation	<u>\$ 25,801</u>
Net OPEB obligation - beginning of year	120,391
Net OPEB obligation - ending of year	<u>\$ 146,192</u>

**Note 10-Other Postemployment Benefits - School Board Health Insurance: (Continued)**

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

The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 46,847	45%	\$ 146,192
6/30/2012	56,210	61%	120,391
6/30/2011	51,169	55%	92,385

D. Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2012 (the most recent valuation date), was as follows:

Actuarial accrued liability (AAL)	\$ 435,711
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 435,711
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,800,144
UAAL as a percentage of covered payroll	7.51%

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

**Note 10-Other Postemployment Benefits - School Board Health Insurance: (Continued)**

E. Actuarial methods and Assumptions

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

In the June 30, 2012, most recent actuarial valuation, the unit credit cost method was used. Under this method, stable employer contributions are produced in amounts that increase at the same rate as the employer's payroll. The actuarial assumptions included: discount rate at 4%, salary increases (inflation) of 2.5%/year and medical trend rate at 6.5%/year. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2012, was 30 years.

**Note 11-Deferred Inflows of Resources:**

Deferred inflows of resources represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred inflows are as follow:

	Balance Sheet
	Governmental Funds
Primary Government:	
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures.	\$ 245,481
Property taxes received in advance of billings <sup>1</sup>	9,507
Deferred meals taxes representing uncollected meals tax	45,428
Total deferred (unearned) revenue	\$ 300,416

<sup>1</sup>Property taxes paid on advance of an enforceable legal claim by the City are considered deferred inflows under the full and modified accrual basis of accounting and are treated accordingly in the statement of net position and balance sheet.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 12-Capital Assets:**

Capital asset activity for the year ended June 30, 2013 was as follows:

## Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,774,497	\$ 7,600	\$ -	\$ 1,782,097
Construction in progress	73,838	311,111	-	384,949
Total capital assets not being depreciated	<u>\$ 1,848,335</u>	<u>\$ 318,711</u>	<u>\$ -</u>	<u>\$ 2,167,046</u>
Capital assets, being depreciated:				
Infrastructure	\$ 1,299,195	\$ -	\$ -	\$ 1,299,195
Buildings and improvements	19,489,939	-	-	19,489,939
Machinery and equipment	4,642,133	388,039	(88,812)	4,941,360
Total capital assets being depreciated	<u>\$ 25,431,267</u>	<u>\$ 388,039</u>	<u>\$ (88,812)</u>	<u>\$ 25,730,494</u>
Accumulated depreciation:				
Infrastructure	\$ (387,697)	\$ (48,227)		\$ (435,924)
Buildings and improvements	(4,312,391)	(594,062)	-	(4,906,453)
Machinery and equipment	(3,103,724)	(265,787)	88,812	(3,280,699)
Total accumulated depreciation	<u>\$ (7,803,812)</u>	<u>\$ (908,076)</u>	<u>\$ 88,812</u>	<u>\$ (8,623,076)</u>
Total capital assets being depreciated, net	<u>\$ 17,627,455</u>	<u>\$ (520,037)</u>	<u>\$ -</u>	<u>\$ 17,107,418</u>
Governmental activities capital assets, net	<u>\$ 19,475,790</u>	<u>\$ (201,326)</u>	<u>\$ -</u>	<u>\$ 19,274,464</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 12-Capital Assets: (Continued)**

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 148,303	\$ -	\$ (400)	\$ 147,903
Construction in progress	203,862	73,325	(194,000)	83,187
Total capital assets not being depreciated	<u>\$ 352,165</u>	<u>\$ 73,325</u>	<u>\$ (194,400)</u>	<u>\$ 231,090</u>
Capital assets, being depreciated:				
Infrastructure	\$ 16,979,784	\$ 242,667	\$ -	\$ 17,222,451
Building and improvements	1,797,083	-	-	1,797,083
Machinery and equipment	444,607	12,060	-	456,667
Total capital assets being depreciated	<u>\$ 19,221,474</u>	<u>\$ 254,727</u>	<u>\$ -</u>	<u>\$ 19,476,201</u>
Accumulated depreciation:				
Infrastructure	\$ (13,362,451)	\$ (583,481)	\$ -	\$ (13,945,932)
Building and improvements	(138,146)	(90,214)	-	(228,360)
Machinery and equipment	(288,389)	(22,721)	-	(311,110)
Total accumulated depreciation	<u>\$ (13,788,986)</u>	<u>\$ (696,416)</u>	<u>\$ -</u>	<u>\$ (14,485,402)</u>
Total capital assets being depreciated, net	<u>\$ 5,432,488</u>	<u>\$ (441,689)</u>	<u>\$ -</u>	<u>\$ 4,990,799</u>
Business-type activities capital assets, net	<u><u>\$ 5,784,653</u></u>	<u><u>\$ (368,364)</u></u>	<u><u>\$ (194,400)</u></u>	<u><u>\$ 5,221,889</u></u>

Current year increases for assets and accumulated depreciation include the transfer of fully depreciated assets totaling \$14,953 from Governmental activities. Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 24,125
Public safety	222,740
Public works	125,582
Health and welfare	815
Education	347,969
Parks, recreation, and culture	186,845
Total depreciation expense-governmental activities	<u><u>\$ 908,076</u></u>
Business-type activities:	
Water and sewer	<u><u>\$ 696,416</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 12-Capital Assets: (Continued)**

Capital asset activity for the School Board for the year ended June 30, 2013 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 165,460	\$ -	\$ -	\$ 165,460
Construction in progress	78,110	344,443	(422,553)	-
Total capital assets not being depreciated	<u>\$ 243,570</u>	<u>\$ 344,443</u>	<u>\$ (422,553)</u>	<u>\$ 165,460</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,810,566	\$ 422,553	\$ -	\$ 5,233,119
Machinery and equipment	1,615,232	41,547	-	1,656,779
Total capital assets being depreciated	<u>\$ 6,425,798</u>	<u>\$ 464,100</u>	<u>\$ -</u>	<u>\$ 6,889,898</u>
Accumulated depreciation:				
Buildings and improvements	\$ (3,977,303)	\$ (93,899)	\$ -	\$ (4,071,202)
Machinery and equipment	(1,083,100)	(104,293)	-	(1,187,393)
Total accumulated depreciation	<u>\$ (5,060,403)</u>	<u>\$ (198,192)</u>	<u>\$ -</u>	<u>\$ (5,258,595)</u>
Total capital assets being depreciated, net	<u>\$ 1,365,395</u>	<u>\$ 265,908</u>	<u>\$ -</u>	<u>\$ 1,631,303</u>
School Board capital assets, net	<u>\$ 1,608,965</u>	<u>\$ 610,351</u>	<u>\$ (422,553)</u>	<u>\$ 1,796,763</u>

**Note 13-Risk Management:**

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

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

**Note 13-Risk Management: (Continued)**

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

The City and its component unit - School Board continue to carry commercial insurance for all other risk of loss. Settle claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 14-Contingent Liabilities:**

Federal programs in which the City and its component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

**Note 15-Landfill Closure and Post-closure Care Cost:**

The City closed its former landfill site in 1994. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure.

The presence of certain contaminants has been detected in the groundwater, which thereby extends the monitoring period in excess of the initial requirement. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City as discussed below. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances. The cumulative amount of estimated postclosure care and corrective costs to date for this site, less cash paid for such costs to date, totals \$681,785. This amount is included in the long-term liabilities in the primary government.

The City's current plan of remediation is monitored natural attenuation. This remedy consists of monitoring wells on the site for what is expected to be approximately thirty years beginning in the year 2010. It is the City and its external engineer's belief that during thirty years, the groundwater contaminants will decrease to an acceptable level and the City will be released by the DEQ from all other monitoring requirements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 16-Commitments and Contingencies:**

Construction Commitments

The City was involved in a construction project during the fiscal year, as presented below:

<u>Project</u>	<u>Contract Amount</u>	<u>Outstanding at June 30, 2013</u>
Creek Drive Access Road	\$ 367,066	\$ 265,273

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 consent decree remains in effect as of June 30, 2013. The City began implementing measures to comply with the consent decree in 2003 and continues to work toward a permanent resolution.

Wired Road Authority

During 2009, the Wired Road Authority entered a lease agreement and received a loan in the amount of \$260,000 to complete a broadband infrastructure project. The Authority is responsible for the debt service on the lease. The City has a non-binding commitment to make the debt service payments for the Authority. The balance remaining on the lease at the end of the year is \$167,315.

Shared Service Fees

The City shares services with Carroll County and Grayson County for costs incurred for the localities courts and sheriff offices. Due to the nature of these services the final amount due to each County is not known until after the financial statement audit has been completed. It is management's policy to record a liability and expenditure during the current period that is equal to the amount paid during the prior year to account for unbilled shared service fees. Any difference caused during the true-up after year end is recorded in the year the bill is paid. During the current year, the shared service liability due to Carroll County and Grayson County is estimated at \$506,516. The true-up amount recorded during the current year for 2012 actual cost was \$10,017.

**Note 17-New Accounting Standards:**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 will require governments with defined benefit pension plans to disclose a "net pension liability" on their balance sheets. That liability equals the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits. The statement calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability, plus the effect of changes in benefit terms on the net pension liability. These standards will be effective for fiscal years ending June 30, 2014 (67) and June 30, 2015 (68). The City believes the implementation of Statement No. 68 will significantly impact the City and Component Unit School Board's net position; however no formal study or estimate of the impact of this standard has been performed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 18-Restatement of Beginning Fund Balance/Net Position:**

Beginning fund balance and net position has been restated for the current fiscal year as detailed below:

	General <u>Fund</u>	Component-unit <u>School Board</u>
Ending fund balance, as previously reported	\$ 1,730,178	\$ 2,750,863
Add: loan receivable (previously deferred)	18,517	-
Add: ERIP liability recorded twice	-	12,000
Remove: Uncollectible receivables	(58,574)	-
Remove: Over reported prepaids	-	(107,281)
Remove: Receivables recorded twice	-	(11,860)
Move cash to the Utility Fund	(55,939)	-
	<hr/>	<hr/>
Ending fund balance, as restated	\$ 1,634,182	\$ 2,643,722

	Governmental <u>Activities</u>	Component-unit <u>School Board</u>
Ending net position (previously net assets), as previously reported	\$ 12,301,695	\$ 4,039,353
Applicable modified accrual entries above <sup>1</sup>	(114,513)	(107,141)
Add: Underreported fixed assets	-	15,889
Add: Overreported allowance for doubtful taxes	53,843	-
Add: Accrued leave of other organizations <sup>2</sup>	76,929	-
Remove: Bond issuance costs	(23,807)	-
	<hr/>	<hr/>
Ending net position (previously net assets), as restated	\$ 12,294,147	\$ 3,948,101

<sup>1</sup> Loans receivable were not previously deferred in governmental activities

<sup>2</sup> The City processes payroll for several external organizations and leave liabilities for some of these organizations was previously reported as a City liability.

Bond issuance costs were removed (as an asset) due to the implementation of GASB 65, as discussed in Note 1 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**Note 18-Restatement of Beginning Fund Balance/Net Position: (Continued)**

	Business-type <u>Activities</u>	<u>Component units</u>	
		<u>IDA</u>	Galax Futures
Net position (previously net assets), as previously reported	\$ 4,172,206	\$ 655,316	\$ -
Remove: Bond issuance costs	(5,994)	-	-
Remove: Adjust receivable balance	-	(11,512)	-
Cash transferred from the general fund	55,939	-	-
To report Galax Futures as a Comp. Unit	-	-	569,221
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net position (net assets), as restated	\$ 4,222,151	\$ 643,804	\$ 569,221

Bond issuance costs were removed (as an asset) due to the implementation of GASB 65, as discussed in Note 1 to the financial statements.

**Note 19-Restricted, Committed and Assigned Funds/Net Position:**

	<u>Component Unit</u>	
	<u>General Fund</u>	<u>School Fund</u>
Governmental Activities/Funds:		
Restricted:		
Anthem stock proceeds	\$ 201,770	\$ -
Blue Ridge Post book fund	14,510	-
Cafeteria funds	-	221,838
	<u>                    </u>	<u>                    </u>
Total restricted balances	\$ 216,280	\$ 221,838
Governmental Funds:		
Committed funds:		
Museum funds	\$ 13,474	\$ -
Veteran's Memorial fund	15,624	-
Police narcotics and DARE	5,676	-
Rec. Center bus fund	32,869	-
	<u>                    </u>	<u>                    </u>
Total committed funds	\$ 67,643	\$ -
Assigned funds:		
Budget appropriations FY13/14	\$ 82,000	\$ -
	<u>                    </u>	<u>                    </u>

## Required Supplementary Information

City of Galax, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General property taxes	\$ 4,421,000	\$ 4,441,000	\$ 4,641,973	\$ 200,973
Other local taxes	5,578,800	5,578,800	5,570,787	(8,013)
Permits, privilege fees, and regulatory licenses	27,300	27,300	26,096	(1,204)
Fines and forfeitures	85,600	105,100	142,786	37,686
Revenue from the use of money and property	40,250	40,250	43,230	2,980
Charges for services	811,700	811,700	795,079	(16,621)
Miscellaneous	100,500	149,500	131,054	(18,446)
Recovered costs	208,458	208,458	180,076	(28,382)
Intergovernmental revenues:				
Commonwealth	3,737,182	3,870,752	3,553,786	(316,966)
Federal	231,857	345,968	838,138	492,170
Total revenues	<u>\$ 15,242,647</u>	<u>\$ 15,578,828</u>	<u>\$ 15,923,005</u>	<u>\$ 344,177</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,390,928	\$ 1,393,151	\$ 1,303,062	\$ 90,089
Judicial administration	540,453	548,453	537,064	11,389
Public safety	2,604,629	2,691,472	2,762,814	(71,342)
Public works	2,255,912	2,530,522	2,788,217	(257,695)
Health and welfare	1,703,598	1,703,598	1,512,532	191,066
Education	3,923,057	3,923,057	3,921,990	1,067
Parks, recreation, and cultural	1,857,614	1,857,614	1,851,395	6,219
Community development	338,646	399,495	369,643	29,852
Nondepartmental	315,502	315,502	276,414	39,088
Capital projects	183,500	237,960	322,753	(84,793)
Debt service:				
Principal retirement	512,220	552,613	555,677	(3,064)
Bond issuance costs	-	-	32,250	(32,250)
Interest and other fiscal charges	215,764	182,403	198,061	(15,658)
Total expenditures	<u>\$ 15,841,823</u>	<u>\$ 16,335,840</u>	<u>\$ 16,431,872</u>	<u>\$ (96,032)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (599,176)</u>	<u>\$ (757,012)</u>	<u>\$ (508,867)</u>	<u>\$ 248,145</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 428,176	\$ 428,176	\$ 343,903	\$ (84,273)
Advance refunding of bonds	-	-	(1,550,555)	(1,550,555)
Debt service - current refunding - principal	-	-	(524,154)	(524,154)
Issuance of bond	-	-	2,136,000	2,136,000
Total other financing sources (uses)	<u>\$ 428,176</u>	<u>\$ 428,176</u>	<u>\$ 405,194</u>	<u>\$ (22,982)</u>
Net change in fund balances	\$ (171,000)	\$ (328,836)	\$ (103,673)	\$ 225,163
Fund balances - beginning	171,000	328,836	1,634,182	1,305,346
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,530,509</u>	<u>\$ 1,530,509</u>

Note 1: GAAP serves as the budgetary basis of accounting

## City of Galax, Virginia

Schedule of Pension and OPEB Funding Progress  
For the Year Ended June 30, 2013

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 Primary Government:
 

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## City Retirement Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2012	\$ 17,889,783	\$ 23,557,002	\$ 5,667,219	75.94%	\$ 5,197,825	109.03%
June 30, 2011	18,050,756	22,932,374	4,881,618	78.71%	5,164,454	94.52%
June 30, 2010	17,695,419	21,551,874	3,856,455	82.11%	5,052,761	76.32%

## City Health Care Plan

Actuarial Valuation as of*	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2012	\$ -	\$ 336,490	\$ 336,490	0.00%	\$ 4,549,428	7.40%
July 1, 2010	-	295,788	295,788	0.00%	4,713,716	6.28%

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 Discretely Presented Component Unit:
 

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## School Board Non-Professional Retirement Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2012	\$ 1,380,187	\$ 1,861,507	\$ 481,320	74.14%	\$ 523,220	91.99%
June 30, 2011	1,354,573	1,767,909	413,336	76.62%	510,780	80.92%
June 30, 2010	1,298,181	1,633,129	334,948	79.49%	504,435	66.40%

## School Board Healthcare Plan

Actuarial Valuation as of*	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2012	\$ -	\$ 435,711	\$ 435,711	0.00%	\$ 5,800,144	7.51%
July 1, 2010	-	486,866	486,866	0.00%	6,219,691	7.83%

\*Only two valuations performed to date.

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OTHER SUPPLEMENTARY INFORMATION

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## FIDUCIARY FUNDS - AGENCY FUNDS

Special Welfare - The Special Welfare fund accounts for those funds belonging to individuals entrusted to the local social services agency, such as foster care children.

Smart Beginnings - The Smart Beginnings fund accounts for funds held by the City in a fiduciary capacity for the Smart Beginnings program.

Twin County Drug Task Force - The Twin County Drug Task Force Fund accounts for funds of a regional drug task force team

Chestnut Creek Art School - The Chestnut Creek Art School Fund accounts for funds held for a local art school.

City of Galax, Virginia  
 Combining Statement of Fiduciary Net Position  
 Agency Funds  
 June 30, 2013

	Agency Funds				
	<u>Special Welfare</u>	<u>Smart Beginnings</u>	<u>Twin County Drug Task Force</u>	<u>Chestnut Creek Art School</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 28,908	\$ 10,255	\$ 13,540	\$ 150	\$ 52,853
Total assets	\$ 28,908	\$ 10,255	\$ 13,540	\$ 150	\$ 52,853
<b>LIABILITIES</b>					
Amounts held for social services clients	\$ 28,908	\$ -	\$ -	\$ -	\$ 28,908
Amounts held for other agencies	-	10,255	13,540	150	23,945
Total liabilities	\$ 28,908	\$ 10,255	\$ 13,540	\$ 150	\$ 52,853

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD**

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**MAJOR GOVERNMENTAL FUND**

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

City of Galax, Virginia  
Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2013

	<u>School Operating Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,943,265
Due from primary government	870,525
Due from other governmental units	630,760
Inventories	17,122
Prepaid items	154,911
Total assets	<u>\$ 3,616,583</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 62,367
Salaries payable	808,624
Total liabilities	<u>\$ 870,991</u>
Fund balances:	
Nonspendable	
Prepaid and inventory	\$ 172,033
Restricted	
School cafeterias	221,838
Unassigned	2,351,721
Total fund balances	<u>\$ 2,745,592</u>
Total liabilities and fund balances	<u>\$ 3,616,583</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 2,745,592
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,796,763
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(319,924)
Net position of governmental activities	<u>\$ 4,222,431</u>

City of Galax, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds - Discretely Presented Component Unit - School Board  
For the Year Ended June 30, 2013

	<u>Total Governmental Funds</u>
<b>REVENUES</b>	
Charges for services	\$ 399,500
Miscellaneous	254,172
Recovered costs	2,263
Intergovernmental revenues:	
Local government	3,909,319
Commonwealth	7,645,044
Federal	1,510,081
Total revenues	<u>\$ 13,720,379</u>
<b>EXPENDITURES</b>	
Current:	
Education	\$ 13,618,509
Total expenditures	<u>\$ 13,618,509</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 101,870</u>
Net change in fund balances	\$ 101,870
Fund balances - beginning, as restated	<u>2,643,722</u>
Fund balances - ending	<u>\$ 2,745,592</u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ 101,870
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	187,798
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.	(15,338)
Change in net position of governmental activities	<u>\$ 274,330</u>

City of Galax, Virginia  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Discretely Presented Component Unit - School Board  
 For the Year Ended June 30, 2013

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 500	\$ 500	\$ -	\$ (500)
Charges for services	105,050	195,050	399,500	204,450
Miscellaneous	8,319	227,999	254,172	26,173
Recovered costs	1,500	1,500	2,263	763
Intergovernmental revenues:				
Local government	3,909,319	3,909,319	3,909,319	-
Commonwealth	7,502,621	7,623,326	7,645,044	21,718
Federal	1,464,150	1,475,273	1,510,081	34,808
Total revenues	<u>\$ 12,991,459</u>	<u>\$ 13,432,967</u>	<u>\$ 13,720,379</u>	<u>\$ 287,412</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 12,992,459	\$ 13,433,967	\$ 13,618,509	\$ (184,542)
Total expenditures	<u>\$ 12,992,459</u>	<u>\$ 13,433,967</u>	<u>\$ 13,618,509</u>	<u>\$ (184,542)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	<u>\$ 101,870</u>	<u>\$ 102,870</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Total other financing sources (uses)	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ (1,000)</u>
Net change in fund balances	\$ -	\$ -	\$ 101,870	\$ 101,870
Fund balances - beginning	-	-	2,643,722	2,643,722
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,745,592</u>	<u>\$ 2,745,592</u>

DISCRETELY PRESENTED COMPONENT UNIT - INDUSTRIAL  
DEVELOPMENT AUTHORITY

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MAJOR ENTERPRISE FUND

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

City of Galax, Virginia  
 Discretely Presented Component Unit  
 City of Galax, Virginia - Industrial Development Authority  
 Statement of Net Position - Proprietary Fund  
 June 30, 2013

	Enterprise Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 51,644
Interest receivable	2,827
Total current assets	\$ 54,471
Noncurrent assets:	
Note receivable	\$ 565,407
Total noncurrent assets	\$ 565,407
Total assets	\$ 619,878
 <b>Net Position</b>	
Unrestricted	\$ 619,878
Total net position	\$ 619,878

City of Galax, Virginia  
 Discretely Presented Component Unit  
 City of Galax, Virginia - Industrial Development Authority  
 Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund  
 For the Year Ended June 30, 2013

	Enterprise Fund
<b>OPERATING EXPENSES</b>	
Bank fees	\$ 139
Payments to primary government	58,369
Total operating expenses	\$ 58,508
Operating income (loss)	\$ (58,508)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	34,582
Total nonoperating revenues (expenses)	\$ 34,582
Change in net position	\$ (23,926)
Total net position - beginning (as restated)	643,804
Total net position - ending	\$ 619,878

City of Galax, Virginia  
Discretely Presented Component Unit  
City of Galax, Virginia - Industrial Development Authority  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended June 30, 2013

	Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to suppliers	\$ (58,508)
Net cash provided by (used for) operating activities	\$ (58,508)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earnings	\$ 34,701
Payments received on note receivable	23,667
Net cash provided by (used for) investing activities	\$ 58,368
Net increase (decrease) in cash and cash equivalents	\$ (140)
Cash and cash equivalents - beginning	51,784
Cash and cash equivalents - ending	\$ 51,644
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ (58,508)
Net cash provided by (used for) operating activities	\$ (58,508)

DISCRETELY PRESENTED COMPONENT UNIT - GALAX  
FUTURES

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MAJOR ENTERPRISE FUND

Galax Futures - The Galax Futures operating fund account is an enterprise fund that accounts for operations of the City's Component-unit Galax Futures

City of Galax, Virginia  
Discretely Presented Component Unit  
Galax Futures  
Statement of Net Position - Proprietary Fund  
June 30, 2013

	Enterprise Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 66,796
Total current assets	\$ 66,796
Noncurrent assets:	
Capital assets:	
Land	231,219
Buildings	923,347
Less accumulated depreciation	(82,864)
Total capital assets	\$ 1,071,702
Total noncurrent assets	\$ 1,071,702
Total assets	\$ 1,138,498
<b>LIABILITIES</b>	
Current liabilities:	
Accrued interest payable	\$ 2,827
Note payable - current portion	25,127
Total current liabilities	\$ 27,954
Noncurrent liabilities:	
Note payable - net of current portion	\$ 540,280
Total noncurrent liabilities	\$ 540,280
Total liabilities	\$ 568,234
<b>Net Position</b>	
Net investment in capital assets	\$ 506,295
Unrestricted	63,969
Total net position	\$ 570,264

City of Galax, Virginia  
Discretely Presented Component Unit  
Galax Futures  
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund  
For the Year Ended June 30, 2013

	Enterprise Fund
<b>OPERATING REVENUES</b>	
Charges for services:	
Rental income	60,000
Total operating revenues	\$ 60,000
<b>OPERATING EXPENSES</b>	
Miscellaneous expense	699
Depreciation	23,676
Total operating expenses	\$ 24,375
Operating income (loss)	\$ 35,625
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest expense	(34,582)
Total nonoperating revenues (expenses)	\$ (34,582)
Change in net position	\$ 1,043
Total net position - beginning (as restated)	569,221
Total net position - ending	\$ 570,264

City of Galax, Virginia  
Discretely Presented Component Unit  
Galax Futures  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended June 30, 2013

	Enterprise Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers (rental income)	\$ 60,000
Payments to suppliers	(699)
Net cash provided by (used for) operating activities	\$ 59,301
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal payments on notes	(23,667)
Interest payments	(34,701)
Net cash provided by (used for) capital and related financing activities	\$ (58,368)
Net increase (decrease) in cash and cash equivalents	\$ 933
Cash and cash equivalents - beginning	65,863
Cash and cash equivalents - ending	\$ 66,796
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ 35,625
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 23,676
Total adjustments	\$ 23,676
Net cash provided by (used for) operating activities	\$ 59,301

## Supporting Schedules

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,850,000	\$ 2,850,000	\$ 2,933,419	\$ 83,419
Real and personal public service corporation taxes	90,000	90,000	91,693	1,693
Personal property taxes	470,000	490,000	543,515	53,515
Furniture and fixtures	275,000	275,000	283,893	8,893
Machinery and tools taxes	695,000	695,000	693,625	(1,375)
Delinquent administrative fee	1,000	1,000	9,271	8,271
Penalties	20,000	20,000	39,447	19,447
Interest	20,000	20,000	47,110	27,110
Total general property taxes	<u>\$ 4,421,000</u>	<u>\$ 4,441,000</u>	<u>\$ 4,641,973</u>	<u>\$ 200,973</u>
Other local taxes:				
Local sales and use taxes	\$ 2,055,000	\$ 2,055,000	\$ 2,076,455	\$ 21,455
Consumers' utility taxes	186,000	186,000	184,625	(1,375)
Local consumption tax	46,800	46,800	49,743	2,943
Local admissions tax	21,000	21,000	18,800	(2,200)
Business license taxes	1,000,000	1,000,000	1,049,129	49,129
Motor vehicle licenses	125,000	125,000	114,457	(10,543)
Bank stock taxes	155,000	155,000	123,323	(31,677)
Hotel and motel room taxes	120,000	120,000	133,198	13,198
Restaurant food taxes	1,870,000	1,870,000	1,821,057	(48,943)
Total other local taxes	<u>\$ 5,578,800</u>	<u>\$ 5,578,800</u>	<u>\$ 5,570,787</u>	<u>\$ (8,013)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 3,600	\$ 3,600	\$ 4,444	\$ 844
Building permits and other licenses	23,700	23,700	21,652	(2,048)
Total permits, privilege fees, and regulatory licenses	<u>\$ 27,300</u>	<u>\$ 27,300</u>	<u>\$ 26,096</u>	<u>\$ (1,204)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 85,000	\$ 104,500	\$ 141,348	\$ 36,848
Parking fines	600	600	1,438	838
Total fines and forfeitures	<u>\$ 85,600</u>	<u>\$ 105,100</u>	<u>\$ 142,786</u>	<u>\$ 37,686</u>
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 87	\$ 87
Revenue from use of property	40,250	40,250	43,143	2,893
Total revenue from use of money and property	<u>\$ 40,250</u>	<u>\$ 40,250</u>	<u>\$ 43,230</u>	<u>\$ 2,980</u>
Charges for services:				
Charges for animal adoptions	\$ 6,000	\$ 6,000	\$ 5,965	\$ (35)
Charges for courthouse maintenance	-	-	5,050	5,050
Charges for parking spaces	3,500	3,500	1,487	(2,013)
Charges for courtroom security	15,000	15,000	20,742	5,742
Other charges for services	21,000	21,000	20,606	(394)
Sheriff's fees	200	200	108	(92)
Charges for sanitation and waste removal	364,000	364,000	394,035	30,035
Charges for parks and recreation	402,000	402,000	347,086	(54,914)
Total charges for services	<u>\$ 811,700</u>	<u>\$ 811,700</u>	<u>\$ 795,079</u>	<u>\$ (16,621)</u>

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Miscellaneous revenue:				
Miscellaneous	\$ 79,000	\$ 82,000	\$ 19,419	\$ (62,581)
Sale of surplus	-	-	14,930	14,930
Sale of cemetery lots	10,000	10,000	8,100	(1,900)
Seizures and restitution	2,000	2,000	-	(2,000)
North Central payments	3,000	3,000	40	(2,960)
Donations and contributions	6,500	52,500	88,565	36,065
Total miscellaneous revenue	<u>\$ 100,500</u>	<u>\$ 149,500</u>	<u>\$ 131,054</u>	<u>\$ (18,446)</u>
Recovered costs:				
Wired Road	\$ 31,658	\$ 31,658	-	\$ (31,658)
Juvenile probation	21,500	21,500	24,484	2,984
Animal Shelter	69,000	69,000	62,810	(6,190)
IDA	58,800	58,800	58,369	(431)
Expenditure refunds	-	-	932	932
Sanitation recovered costs	2,500	2,500	2,845	345
Police recovered costs	25,000	25,000	30,636	5,636
Total recovered costs	<u>\$ 208,458</u>	<u>\$ 208,458</u>	<u>\$ 180,076</u>	<u>\$ (28,382)</u>
Total revenue from local sources	<u>\$ 11,273,608</u>	<u>\$ 11,362,108</u>	<u>\$ 11,531,081</u>	<u>\$ 168,973</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications sales and use taxes	\$ 245,000	\$ 245,000	\$ 239,068	\$ (5,932)
Recordation tax	6,000	6,000	16,381	10,381
Motor vehicle carriers' tax	20,000	20,000	28,912	8,912
Mobile home titling tax	5,000	5,000	1,770	(3,230)
Personal property tax relief funds	230,000	230,000	230,012	12
Total noncategorical aid	<u>\$ 506,000</u>	<u>\$ 506,000</u>	<u>\$ 516,143</u>	<u>\$ 10,143</u>
Categorical aid:				
Shared expenses:				
Commissioner of the revenue	\$ 55,000	\$ 55,000	\$ 54,453	\$ (547)
Registrar/electoral board	27,000	27,000	26,512	(488)
Total shared expenses	<u>\$ 82,000</u>	<u>\$ 82,000</u>	<u>\$ 80,965</u>	<u>\$ (1,035)</u>
Other categorical aid:				
599 Funds (Police funding)	\$ 313,000	\$ 313,000	\$ 313,501	\$ 501
Comprehensive services act	-	-	182,719	182,719
Street and highway funds	1,560,000	1,675,000	1,673,240	(1,760)
Liter control	5,500	5,500	7,216	1,716
Virginia Commission for the Arts	5,000	5,000	5,000	-
Public assistance and welfare administration	1,218,882	1,218,882	287,836	(931,046)
Department of Fire Programs	18,000	18,000	8,306	(9,694)
VTC Marketing Leveraging Grant	10,000	10,000	8,400	(1,600)
EMS 4 for Life Funding	4,000	4,000	-	(4,000)

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Other categorical aid: (Continued)				
VDOT revenue sharing	-	18,570	470,460	451,890
Other categorical aid	14,800	14,800	-	(14,800)
Total other categorical aid	\$ 3,149,182	\$ 3,282,752	\$ 2,956,678	\$ (326,074)
Total categorical aid	\$ 3,231,182	\$ 3,364,752	\$ 3,037,643	\$ (327,109)
Total revenue from the Commonwealth	\$ 3,737,182	\$ 3,870,752	\$ 3,553,786	\$ (316,966)
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ -	\$ -	\$ 580,540	\$ 580,540
Community development block grants	-	126,572	109,682	(16,890)
Public safety grants	214,617	182,156	134,015	(48,141)
Community improvement grants	17,240	37,240	13,901	(23,339)
Total categorical aid	\$ 231,857	\$ 345,968	\$ 838,138	\$ 492,170
Total revenue from the federal government	\$ 231,857	\$ 345,968	\$ 838,138	\$ 492,170
Total General Fund	\$ 15,242,647	\$ 15,578,828	\$ 15,923,005	\$ 344,177
Total Primary Government	\$ 15,242,647	\$ 15,578,828	\$ 15,923,005	\$ 344,177
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 500	\$ 500	\$ -	\$ (500)
Total revenue from use of money and property	\$ 500	\$ 500	\$ -	\$ (500)
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 159,744	\$ 159,744
Transportation of pupils	50	50	-	(50)
Payments from other divisions	100,000	190,000	226,473	36,473
Tuition and payments from other divisions	5,000	5,000	13,283	8,283
Total charges for services	\$ 105,050	\$ 195,050	\$ 399,500	\$ 204,450
Miscellaneous revenue:				
Donations	\$ -	\$ -	\$ 10,600	\$ 10,600
Window settlement	-	200,000	200,000	-
E-rate	-	19,680	19,680	-
Other miscellaneous	8,319	8,319	23,892	15,573
Total miscellaneous revenue	\$ 8,319	\$ 227,999	\$ 254,172	\$ 26,173
Recovered costs:				
Other recovered costs	\$ 1,500	\$ 1,500	\$ 2,263	\$ 763
Total recovered costs	\$ 1,500	\$ 1,500	\$ 2,263	\$ 763
Total revenue from local sources	\$ 115,369	\$ 425,049	\$ 655,935	\$ 230,886

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from the City of Galax, Virginia	\$ 3,909,319	\$ 3,909,319	\$ 3,909,319	\$ -
Total revenues from local governments	<u>\$ 3,909,319</u>	<u>\$ 3,909,319</u>	<u>\$ 3,909,319</u>	<u>\$ -</u>
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 995,000	\$ 998,000	\$ 1,014,208	\$ 16,208
Basic school aid	3,842,936	3,855,686	3,857,883	2,197
Remedial summer education	35,443	42,325	42,325	-
Regular foster care	-	-	2,357	2,357
Adult secondary education	7,859	7,859	7,859	-
Gifted and talented	41,831	42,032	42,052	20
Remedial education	200,972	201,937	202,033	96
Migrant education	4,210	1,396	-	(1,396)
Virginia preschool initiative	100,395	100,395	100,395	-
Textbook payment	81,598	81,990	82,029	39
Vocational SOQ payments	104,578	105,080	105,130	50
Vocational adult education	-	-	424	424
Social security fringe benefits	252,806	254,020	254,141	121
Retirement fringe benefits	479,531	481,561	481,764	203
Group life insurance benefits	\$ 15,459	\$ 15,534	\$ 15,541	\$ 7
Early reading intervention	24,985	24,985	24,985	-
Homebound education	5,500	3,927	3,927	-
Special education	474,694	476,972	477,200	228
Regional program tuition	59,155	90,000	94,575	4,575
Vocation equipment	3,542	3,338	3,337	(1)
Vocational occupational preparedness	5,500	5,500	-	(5,500)
Special education - foster children	9,494	9,494	-	(9,494)
At risk payments	224,632	225,456	225,456	-
Mentor teacher program	1,885	981	981	-
Primary class size	227,049	242,701	242,701	-
Technology	128,000	128,000	128,000	-
Standards of Learning algebra readiness	27,905	25,633	25,633	-
School Food	12,134	12,134	12,060	(74)
Other State revenue	8,240	30,813	30,903	90
English as a second language	124,493	151,820	151,820	-
Other state funds	2,795	3,757	15,325	11,568
Total categorical aid	<u>\$ 7,502,621</u>	<u>\$ 7,623,326</u>	<u>\$ 7,645,044</u>	<u>\$ 21,718</u>
Total revenue from the Commonwealth	<u>\$ 7,502,621</u>	<u>\$ 7,623,326</u>	<u>\$ 7,645,044</u>	<u>\$ 21,718</u>

City of Galax, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the federal government:				
Categorical aid:				
School breakfast program	\$ 151,500	\$ 151,500	\$ 120,964	\$ (30,536)
School lunch program	333,500	353,500	435,272	81,772
Title I	526,818	522,500	515,926	(6,574)
Title VI-B, Special education flow-through	242,887	250,615	244,553	(6,062)
Vocational education	31,544	31,350	31,190	(160)
Title VI-B, Special education pre-school	13,214	13,197	13,197	-
Title II Part D	3,419	3,419	3,419	-
Rural and low income schools	33,200	20,000	16,181	(3,819)
Education jobs	16,148	19,316	19,316	-
English language acquisition grant	29,400	28,656	35,660	7,004
Improving teacher quality	82,520	81,220	74,403	(6,817)
Total categorical aid	<u>\$ 1,464,150</u>	<u>\$ 1,475,273</u>	<u>\$ 1,510,081</u>	<u>\$ 34,808</u>
Total revenue from the federal government	<u>\$ 1,464,150</u>	<u>\$ 1,475,273</u>	<u>\$ 1,510,081</u>	<u>\$ 34,808</u>
Total School Operating Fund	<u>\$ 12,991,459</u>	<u>\$ 13,432,967</u>	<u>\$ 13,720,379</u>	<u>\$ 287,412</u>
Total Discretely Presented Component Unit - Total Component-Unit School Board	<u>\$ 12,991,459</u>	<u>\$ 13,432,967</u>	<u>\$ 13,720,379</u>	<u>\$ 287,412</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
General government administration:				
Legislative:				
Mayor and Council	\$ 35,206	\$ 35,206	\$ 32,657	\$ 2,549
General and financial administration:				
City Manager	\$ 218,132	\$ 215,483	\$ 211,274	\$ 4,209
City Attorney	125,000	141,500	140,288	1,212
Marketing	139,978	128,350	116,436	11,914
Commissioner of revenue	154,452	154,452	151,763	2,689
Assessor	-	-	900	(900)
Grants administration	83,395	83,395	75,777	7,618
Finance department	490,030	490,030	434,026	56,004
Management information systems	79,003	79,003	75,178	3,825
Total general and financial administration	\$ 1,289,990	\$ 1,292,213	\$ 1,205,642	\$ 86,571
Board of elections:				
Electoral Board	\$ 21,782	\$ 22,953	\$ 22,843	\$ 110
Registrar	43,950	42,779	41,920	859
Total board of elections	\$ 65,732	\$ 65,732	\$ 64,763	\$ 969
Total general government administration	\$ 1,390,928	\$ 1,393,151	\$ 1,303,062	\$ 90,089
Judicial administration:				
Courts:				
General district court	\$ 54,053	\$ 54,053	\$ 39,837	\$ 14,216
Magistrate	1,400	1,400	728	672
Shared services	485,000	493,000	496,499	(3,499)
Total courts	\$ 540,453	\$ 548,453	\$ 537,064	\$ 11,389
Total judicial administration	\$ 540,453	\$ 548,453	\$ 537,064	\$ 11,389
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,825,332	\$ 1,912,878	\$ 2,009,213	\$ (96,335)
Narcotics	6,500	6,500	9,229	(2,729)
Community policing	6,500	6,500	7,425	(925)
Drug task force	5,000	5,000	-	5,000
COPS grant	43,163	43,163	46,539	(3,376)
Total law enforcement and traffic control	\$ 1,886,495	\$ 1,974,041	\$ 2,072,406	\$ (98,365)
Fire and rescue services:				
Fire programs	\$ 295,150	\$ 294,447	\$ 257,236	\$ 37,211
E911 programs	106,416	106,416	106,416	-
Ambulance and rescue services	69,000	69,000	85,149	(16,149)
Total fire and rescue services	\$ 470,566	\$ 469,863	\$ 448,801	\$ 21,062

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Correction and detention:				
Juvenile probation	\$ 107,184	\$ 107,184	\$ 99,116	\$ 8,068
Correction and probation	3,875	3,875	4,229	(354)
Total correction and detention	\$ 111,059	\$ 111,059	\$ 103,345	\$ 7,714
Other protection:				
Animal control	\$ 26,903	\$ 26,903	\$ 31,045	\$ (4,142)
Medical examiner	-	-	1,954	(1,954)
Animal shelter	109,606	109,606	105,263	4,343
Total other protection	\$ 136,509	\$ 136,509	\$ 138,262	\$ (1,753)
Total public safety	\$ 2,604,629	\$ 2,691,472	\$ 2,762,814	\$ (71,342)
Public works:				
Engineering:				
Engineering	\$ 96,657	\$ 96,657	\$ 113,356	\$ (16,699)
Maintenance of highways, streets and bridges:				
Highways, streets, bridges and sidewalks	\$ 1,345,110	\$ 1,620,620	\$ 1,562,778	\$ 57,842
Street lighting	52,000	52,000	406,826	(354,826)
Traffic signals	22,000	22,000	17,784	4,216
Total maint. of highways, streets and bridges	\$ 1,419,110	\$ 1,694,620	\$ 1,987,388	\$ (292,768)
Sanitation and waste removal:				
Refuse collection and disposal	\$ 268,240	\$ 258,240	\$ 258,480	\$ (240)
Landfill	72,000	72,000	31,505	40,495
Total sanitation and waste removal	\$ 340,240	\$ 330,240	\$ 289,985	\$ 40,255
Maintenance of general buildings and grounds:				
Building maintenance	\$ 273,053	\$ 273,053	\$ 262,893	\$ 10,160
Property maintenance	126,852	135,952	134,595	1,357
Total maintenance of general buildings and grounds	\$ 399,905	\$ 409,005	\$ 397,488	\$ 11,517
Total public works	\$ 2,255,912	\$ 2,530,522	\$ 2,788,217	\$ (257,695)
Health and welfare:				
Health:				
Supplement of local health department	\$ 106,841	\$ 106,841	\$ 106,732	\$ 109
Mental health and mental retardation:				
Mental health contribution	\$ 37,973	\$ 37,973	\$ 37,964	\$ 9

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Health and welfare: (continued)				
Welfare:				
Welfare administration and programs	\$ 1,526,507	\$ 1,526,507	\$ 1,335,559	\$ 190,948
Contributions to welfare agencies	32,277	32,277	32,277	-
Total welfare	<u>\$ 1,558,784</u>	<u>\$ 1,558,784</u>	<u>\$ 1,367,836</u>	<u>\$ 190,948</u>
Total health and welfare	<u>\$ 1,703,598</u>	<u>\$ 1,703,598</u>	<u>\$ 1,512,532</u>	<u>\$ 191,066</u>
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 12,671	\$ 12,671	\$ 12,671	\$ -
Contribution to the City School Board	3,910,386	3,910,386	3,909,319	1,067
Total education	<u>\$ 3,923,057</u>	<u>\$ 3,923,057</u>	<u>\$ 3,921,990</u>	<u>\$ 1,067</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks	\$ 50,150	\$ 50,150	\$ 42,038	\$ 8,112
Recreation	1,098,445	1,098,445	1,080,011	18,434
Rosewald Felts	1,000	1,000	388	612
Rex Theater	20,150	20,150	23,158	(3,008)
Golf Course	241,030	241,030	193,291	47,739
Farmer's Market	18,340	18,340	11,134	7,206
Total parks and recreation	<u>\$ 1,429,115</u>	<u>\$ 1,429,115</u>	<u>\$ 1,350,020</u>	<u>\$ 79,095</u>
Cultural enrichment:				
Museum	\$ 32,988	\$ 32,988	\$ 64,350	\$ (31,362)
Chestnut Creek School of the Arts	148,795	148,795	193,047	(44,252)
Art programs and contributions	20,000	20,000	17,262	2,738
Total cultural enrichment	<u>\$ 201,783</u>	<u>\$ 201,783</u>	<u>\$ 274,659</u>	<u>\$ (72,876)</u>
Library:				
Regional library	\$ 226,716	\$ 226,716	\$ 226,716	\$ -
Total library	<u>\$ 226,716</u>	<u>\$ 226,716</u>	<u>\$ 226,716</u>	<u>\$ -</u>
Total parks, recreation, and cultural	<u>\$ 1,857,614</u>	<u>\$ 1,857,614</u>	<u>\$ 1,851,395</u>	<u>\$ 6,219</u>
Community development:				
Planning and community development:				
Planning and development	\$ 151,988	\$ 166,265	\$ 170,882	\$ (4,617)
Broadband	31,658	78,230	46,572	31,658
BRCEDA	155,000	155,000	152,189	2,811
Total planning and community development	<u>\$ 338,646</u>	<u>\$ 399,495</u>	<u>\$ 369,643</u>	<u>\$ 29,852</u>
Total community development	<u>\$ 338,646</u>	<u>\$ 399,495</u>	<u>\$ 369,643</u>	<u>\$ 29,852</u>

City of Galax, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Nondepartmental:				
Nondepartmental	\$ 315,502	\$ 315,502	\$ 276,414	\$ 39,088
Total nondepartmental	<u>\$ 315,502</u>	<u>\$ 315,502</u>	<u>\$ 276,414</u>	<u>\$ 39,088</u>
Capital projects:				
Capital projects	\$ 158,500	\$ 33,500	\$ 18,715	\$ 14,785
Veteran's Memorial	25,000	100,500	102,437	(1,937)
Albany access road	-	23,960	134,384	(110,424)
Bottom area	-	80,000	67,217	12,783
Total capital projects	<u>\$ 183,500</u>	<u>\$ 237,960</u>	<u>\$ 322,753</u>	<u>\$ (84,793)</u>
Debt service:				
Principal retirement	\$ 512,220	\$ 552,613	\$ 555,677	\$ (3,064)
Bond issuance costs	-	-	32,250	(32,250)
Interest and other fiscal charges	215,764	182,403	198,061	(15,658)
Total debt service	<u>\$ 727,984</u>	<u>\$ 735,016</u>	<u>\$ 785,988</u>	<u>\$ (50,972)</u>
Total General Fund	<u>\$ 15,841,823</u>	<u>\$ 16,335,840</u>	<u>\$ 16,431,872</u>	<u>\$ (96,032)</u>
Total Primary Government	<u>\$ 15,841,823</u>	<u>\$ 16,335,840</u>	<u>\$ 16,431,872</u>	<u>\$ (96,032)</u>
<b>Discretely Presented Component Unit - School Board</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Administration and health services	\$ 735,734	\$ 775,247	\$ 665,701	\$ 109,546
Instruction costs:				
Instructional costs	\$ 9,275,336	\$ 9,438,813	\$ 9,184,559	\$ 254,254
Operating costs:				
Pupil transportation	\$ 432,396	\$ 434,896	\$ 410,501	\$ 24,395
Operation and maintenance of school plant	1,349,119	1,350,205	1,368,380	(18,175)
School food service	504,327	524,327	786,115	(261,788)
Facilities	-	200,000	346,147	(146,147)
Technology	695,547	710,479	857,106	(146,627)
Total operating costs	<u>\$ 2,981,389</u>	<u>\$ 3,219,907</u>	<u>\$ 3,768,249</u>	<u>\$ (548,342)</u>
Total School Operating Fund	<u>\$ 12,992,459</u>	<u>\$ 13,433,967</u>	<u>\$ 13,618,509</u>	<u>\$ (184,542)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 12,992,459</u>	<u>\$ 13,433,967</u>	<u>\$ 13,618,509</u>	<u>\$ (184,542)</u>

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

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## STATISTICAL INFORMATION

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Table 1

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

Fiscal Year	General										Interest on Long-Term Debt	Water and Sewer	Total
	Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development					
2012-13	\$ 1,543,098	\$ 394,278	\$ 2,790,642	\$ 2,556,297	\$ 1,508,926	\$ 4,269,959	\$ 2,040,066	\$ 399,464	\$ 230,446	\$ 2,725,663	\$ 18,458,839		
2011-12	1,496,085	618,300	2,803,284	2,084,134	1,664,552	3,700,277	1,749,789	2,004,859	235,567	2,572,434	18,929,281		
2010-11	1,403,607	525,130	2,764,659	2,142,439	1,601,606	3,395,746	1,537,985	648,415	249,393	2,423,328	16,692,308		
2009-10	1,354,495	516,416	2,572,717	1,399,049	1,730,389	3,878,868	1,728,558	1,041,925	278,631	2,436,820	16,937,868		
2008-09	1,410,590	421,172	2,523,114	3,671,499	1,683,602	1,498,542	1,838,667	922,152	279,653	2,539,619	16,788,610		
2007-08	1,216,686	252,958	2,380,854	2,913,678	1,878,593	2,804,597	1,460,945	570,362	325,285	2,587,485	16,391,443		
2006-07	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		
2005-06	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		
2004-05	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		
2003-04	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		

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES							Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs			
2012-13	\$ 3,288,734	\$ 3,766,099	\$ 151,082	\$ 4,725,836	\$ 5,564,801	\$ 43,230	\$ 131,054	\$ 516,143	\$ 18,186,979			
2011-12	3,786,646	4,881,858	269,036	4,107,727	4,737,461	118	127,348	465,184	18,375,378			
2010-11	4,246,388	3,955,984	396,163	3,870,781	4,652,947	25,654	22,744	472,432	17,643,093			
2009-10	3,380,558	3,458,555	1,618,233	3,922,184	4,630,039	1,238	72,478	481,486	17,564,771			
2008-09	3,090,007	3,807,358	1,687,649	3,582,227	4,292,452	28,292	48,352	443,907	16,980,244			
2007-08	2,994,718	3,696,593	483,792	3,834,008	4,533,937	394,984	31,333	492,427	16,461,792			
2006-07	2,924,540	3,672,182	-	3,890,380	4,759,332	342,730	132,585	274,273	15,996,022			
2005-06	2,920,294	3,129,111	82,500	3,693,111	4,476,845	237,781	450,708	269,507	15,259,857			
2004-05	2,531,287	3,074,407	81,762	3,870,231	4,265,960	189,426	227,743	279,497	14,520,313			
2003-04	2,545,103	3,252,098	634,824	3,578,165	4,008,068	77,240	72,493	243,770	14,411,761			

City of Galax, Virginia  
Governmental Expenditures by Function (1)  
Last Ten Fiscal Years

Fiscal Year	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation & Cultural	Community Development	Non-Departmental	Debt Service	Capital Projects	Totals
2012-13	\$ 1,303,062	\$ 537,064	\$ 2,762,814	\$ 2,788,217	\$ 1,512,532	\$ 13,631,180	\$ 1,851,395	\$ 369,643	\$ 276,414	\$ 785,988	\$ 322,753	\$ 26,141,062
2011-12	1,456,338	615,081	2,849,754	2,050,229	1,654,794	16,316,471	1,796,614	2,004,859	-	757,000	-	29,501,140
2010-11	1,362,204	521,213	2,839,033	2,170,537	1,575,688	15,838,839	1,483,293	648,415	-	768,050	-	27,207,272
2009-10	1,328,623	516,030	2,602,251	2,091,801	1,723,290	17,213,809	1,910,866	1,041,925	-	792,798	-	29,221,393
2008-09	1,645,052	421,062	2,537,988	3,787,262	1,677,544	13,179,538	2,267,225	899,677	-	501,901	2,331,368	29,248,617
2007-08	1,207,346	252,753	2,590,060	2,563,386	1,857,486	12,534,267	1,421,845	703,970	-	5,607,283	5,916,422	34,654,818
2006-07	1,204,142	175,625	2,116,872	2,341,894	1,542,713	11,512,602	1,452,742	200,323	-	474,784	220,054	21,241,751
2005-06	2,108,844	14,279	2,674,843	2,315,542	1,601,992	11,075,092	1,678,390	282,956	-	466,248	1,592,429	23,810,615
2004-05	1,762,064	15,807	2,792,264	2,532,263	1,346,140	10,470,252	819,331	583,980	-	486,215	1,982,851	22,791,167
2003-04	1,807,538	28,274	2,449,649	2,199,828	1,396,283	9,726,292	1,397,174	855,988	-	478,153	905,243	21,244,422

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

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

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue from use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2012-13	\$ 4,641,973	\$ 5,570,787	\$ 26,096	\$ 142,786	\$ 43,230	\$ 1,194,579	\$ 385,226	\$ 182,339	\$ 13,547,049	\$ 25,734,065
2011-12	4,087,009	4,798,066	19,390	104,879	112,220	1,768,475	144,811	942	14,296,633	25,332,425
2010-11	3,870,688	4,675,312	16,353	114,770	127,190	2,203,561	170,396	181	13,078,590	24,257,041
2009-10	3,816,000	4,560,283	18,849	103,750	130,041	1,741,837	282,077	3,601	14,371,445	25,027,883
2008-09	3,570,161	4,296,653	20,162	89,124	68,520	1,550,100	116,451	1,299	15,331,075	25,043,545
2007-08	3,692,282	4,529,736	24,176	153,381	520,585	1,627,701	195,078	453	13,225,335	23,968,727
2006-07	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
2005-06	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
2004-05	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
2003-04	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

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

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

Table 5

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

Fiscal Year	Current Tax Levy	Collected within the Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2012-13	\$ 4,643,429	\$ 4,428,347	95.37%	\$ -	\$ 4,428,347	95.37%
2011-12	3,999,533	3,831,544	95.80%	55,927	3,887,471	97.20%
2010-11	3,728,831	3,588,318	96.23%	74,961	3,663,279	98.24%
2009-10	3,916,477	3,776,354	96.42%	100,781	3,877,135	99.00%
2008-09	3,923,267	3,699,935	94.31%	157,652	3,857,587	98.33%
2007-08	3,991,116	3,795,947	95.11%	130,250	3,926,197	98.37%
2006-07	4,212,069	3,823,553	90.78%	168,124	3,991,677	94.77%
2005-06	4,176,254	3,752,783	89.86%	126,969	3,879,752	92.90%
2004-05	4,083,269	3,904,819	95.63%	126,927	4,031,746	98.74%
2003-04	3,857,166	3,648,281	94.58%	79,308	3,727,589	96.64%

(1) Exclusive of penalties and interest.

Table 6

**City of Galax, Virginia**  
**Assessed Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year	Real Estate (1)	Personal Property (1)	Public Service Companies (2)	Total
2012-13	\$ 449,458,875	\$ 102,868,300	\$ 13,364,028	\$ 565,691,203
2011-12	443,963,100	99,871,993	14,483,951	558,319,044
2010-11	444,067,400	96,562,916	13,770,881	554,401,197
2009-10	442,517,089	82,983,895	13,567,565	539,068,549
2008-09	441,047,000	102,287,271	13,938,302	557,272,573
2007-08	358,067,015	98,479,264	13,145,695	469,691,974
2006-07	356,511,315	116,885,023	12,232,851	485,629,189
2005-06	352,035,705	115,136,700	12,541,268	479,713,673
2004-05	347,419,079	110,809,834	14,538,850	472,767,763
2003-04	283,461,600	115,811,677	11,504,733	410,778,010

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

(2) Assessed by the State Corporation Commission.

Table 7

City of Galax, Virginia  
Property Tax Rates (1)  
Last Ten Fiscal Years

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2012-13	\$ 0.67	\$ 0.67	\$ 2.25	\$ 1.50
2011-12	0.62	0.62	1.68	1.42
2010-11	0.57	0.70	1.68	1.42
2009-10	0.57	0.70	1.68	1.42
2008-09	0.55	0.55	1.42	1.42
2007-08	0.50	0.50	1.42	1.42
2006-07	0.70	0.70	1.42	1.42
2005-06	0.70	0.70	1.42	1.42
2004-05	0.70	0.70	1.42	1.42
2003-04	0.76	0.76	1.42	1.42

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2012-13	7,042	\$ 5,656,912	\$ 7,275,989	\$ 7,275,989	1.29%	\$ 1,033
2011-12	6,983	5,583,190	7,402,698	7,402,698	1.33%	1,060
2010-11	7,042	5,544,012	7,873,915	7,873,915	1.42%	1,118
2009-10	6,880	5,390,685	8,348,105	8,348,105	1.55%	1,213
2008-09	6,808	5,572,726	8,822,196	8,822,196	1.58%	1,296
2007-08	6,837	4,696,920	9,435,220	9,435,220	2.01%	1,380
2006-07	6,837	4,856,292	9,418,978	9,418,978	1.94%	1,378
2005-06	6,837	4,797,137	4,712,430	4,712,430	0.98%	689
2004-05	6,837	4,727,678	4,893,486	4,893,486	1.04%	716
2003-04	6,837	4,107,750	5,177,476	5,177,476	1.26%	757

(1) Source: Bureau of Economic Analysis. 2004-2005 was not available, estimate was used.

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

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

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

Table 9

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2012-13	\$ 555,677	\$ 230,311	785,988	\$ 26,141,062	3.01%
2011-12	526,929	230,071	757,000	29,501,140	2.57%
2010-11	517,681	250,369	768,050	27,207,272	2.82%
2009-10	516,911	275,887	792,798	29,221,393	2.71%
2008-09	300,835	201,066	501,901	29,248,617	1.72%
2007-08	5,261,321	345,962	5,607,283	34,654,818	16.18%
2006-07	293,452	181,332	474,784	21,241,751	2.24%
2005-06	246,057	220,191	466,248	23,810,615	1.96%
2004-05	283,990	202,225	486,215	22,791,667	2.13%
2003-04	277,351	200,802	478,153	21,244,422	2.25%

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

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**COMPLIANCE SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Galax, Virginia's basic financial statements, and have issued our report thereon dated November 18, 2013.

### Internal Control Over Financial Reporting

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

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

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 deficiency described in the accompanying schedule of findings and questioned costs (as item 2013-1) to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs (as item 2013-2) to be a significant deficiency.

## Compliance and Other Matters

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

### City of Galax, Virginia's Response to Findings

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

### Purpose of this Report

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

*Robinson, Fauser, Cox Associates*

Blacksburg, Virginia  
November 18, 2013

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

### Report on Compliance for Each Major Federal Program

We have audited the City of Galax, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Galax, Virginia's major federal programs for the year ended June 30, 2013. The City of Galax, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the City of Galax, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 of Galax, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Galax, Virginia's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, the City of Galax, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013

## Report on Internal Control Over Compliance

Management of the City of Galax, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Galax, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 of Galax, Virginia's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Robinson, Faimer, Cox Associates*

Blacksburg, Virginia  
November 18, 2013

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE:</b>			
Direct payments:			
Farmer's Market Promotion Program	10.168	NA	\$ 6,291
Pass through payments from:			
<i>Department of Social Services:</i>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010110/0040110/0040111	\$ 150,072
Food Distribution-Schools (Note C) (Child Nutrition Cluster)	10.555	NA	
<i>Department of Education:</i>			
School Breakfast Program (Child Nutrition Cluster)	10.553	40591	\$ 120,964
National School Lunch Program (Child Nutrition Cluster)	10.555	40623	388,951
Food Distribution-Schools (Note C) (Child Nutrition Cluster)	10.555	NA	46,321
Total Department of Agriculture			<u>\$ 712,599</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass through payments from:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950110/0950111	\$ 11,248
Temporary Assistance for Needy Families	93.558	0400111	127,520
Refugee and Entrant Assistance - State Administered Programs	93.566	0500110/0500111	458
Low Income Home Energy Assistance	93.568	0600410/0600411	12,634
Social Services Block Grant	93.667	1000110/1000111	84,743
Chafee Foster Care Independence	93.674	9150110/9150111	597
Children's Health Insurance Program	93.767	0540110/0540111	3,779
Medical Assistance Program	93.778	1200110/1200111	90,165
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900110/0900111	651
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760110/0760111	21,831
Foster Care - Title IV E	93.658	1100110/1100111	41,187
Adoption Assistance	93.659	1120110/1120111	35,655
Total Department of Health and Human Services			<u>\$ 430,468</u>
<b>DEPARTMENT OF JUSTICE:</b>			
Direct payments:			
Public Safety Partnership and Community Policing Grants	16.710	NA	\$ 46,539
ARRA - Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government	16.804	NA	1,858
Edward Byrne Memorial Justice Assistance Grant Program	16.738	NA	7,308
Organized Crime Drug Enforcement Task Forces	16.000	NA	3,007
Total Department of Justice			<u>\$ 58,712</u>
<b>DEPARTMENT OF HOMELAND SECURITY:</b>			
Direct payments:			
Assistance to Firefighters Grant	97.044	NA	<u>\$ 6,332</u>
Pass through payments from:			
<i>Department of Emergency Management:</i>			
Emergency Management Performance Grant	97.042	158	\$ 34,524
State Homeland Security Grant Program	97.073	52709	6,180
Total Department of Homeland Security			<u>\$ 47,036</u>
<b>DEPARTMENT OF TRANSPORTATION:</b>			
Pass through payments from:			
<i>Department of Motor Vehicles:</i>			
State and Community Highway Safety	20.600	50326	\$ 13,052
Highway Planning and Construction	20.205	na	15,215
Total Department of Transportation			<u>\$ 28,267</u>

## CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>ENVIRONMENTAL PROTECTION AGENCY:</b>			
Direct payments:			
Non-Point Source Implementation Grants (319)	66.460	NA	<u>\$ 7,610</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Pass through payments from:			
<i>Department of Housing and Community Development:</i>			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	50790	<u>\$ 109,682</u>
<b>DEPARTMENT OF EDUCATION:</b>			
Pass through payments from:			
<i>Department of Education:</i>			
Career and Technical Education -- Basic Grants to States	84.048	61095	\$ 31,190
Improving Teacher Quality State Grants	84.367	61480	74,403
ARRA - Education Jobs Fund	84.410	62700	19,316
English Language Acquisition Grants	84.365	unknown	35,660
Rural Education	84.358	43481	16,181
Title I Grants to Local Educational Agencies (Title 1 - Part A Cluster)	84.010	42901	515,926
Special Education - Grants to States (Special Education Cluster (IDEA))	84.027	73071	244,553
Special Education - Preschool Grants (Special Education Cluster (IDEA))	84.173	62521	13,197
Educational Technology State Grants	84.318	61600	3,419
Total Department of Education			<u>\$ 953,845</u>
Total Expenditures of Federal Awards			<u>\$ 2,348,219</u>

## Note A--Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Galax, Virginia under programs of the federal government for the year ended June 30, 2013. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Galax, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Galax, Virginia.

## Note B--Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

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

## Note C--Food Distribution

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

## Note D--Relationship to the Financial Statements:

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Primary government:	
General Fund	\$ 838,138
Component Unit School Board:	
School Operating Fund	<u>\$ 1,510,081</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 2,348,219</u>

City of Galax, Virginia

Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2013

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Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes (1)
Significant deficiencies identified?	Yes (1)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.027/84.173	Special Education cluster

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee?	No
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Section II - Financial Statement Findings

Finding 2013-1

Criteria: Per Statement on Auditing Standards 115, an auditee should have sufficient expertise in the selection and application of accounting principles used in the preparation of the annual financial report.

Condition: The auditor noted certain adjustments that were necessary for the City and School Board's financial reports to be prepared in accordance with current reporting standards. The auditor notes that there were relatively few adjustments necessary and that staff possesses a good understanding of current reporting standards.

Effect: There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Cause: The auditee is relatively small and does not have staff dedicated to the external financial reporting process.

Recommendation: Overall, the City and School Board's financial statements required little adjustment, and as such, we recommend that they review current year audit adjustments and consider same during the closing process in future periods.

Management's Response: Management concurs with the auditor's recommendation.

Finding 2013-2

Condition: One employee has access to both accounting records and related assets. Specifically, a City Clerk receives payments from customers for utility billings and the same clerk has the ability to adjust customer accounts.

Criteria: A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.

Effect: A proper segregation of duties is not established.

Cause of Condition: The City has limited staff and cannot justify the additional expense associated with hiring additional staff to alleviate the aforementioned condition.

Recommendation: We recommend that the City consider changing the employees ability to adjust accounts.

Management's Response: The City has limited staff, but will consider the Auditors' recommendation and/or seek out compensating controls over utility collections.

City of Galax, Virginia

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

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**Section III - Federal Award Findings and Questioned Costs**

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

**Section IV - Status of Prior Audit Findings and Questioned Costs**

There were no prior audit findings related to federal awards.