

CITY OF GALAX, VIRGINIA

FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012



CITY OF GALAX, VIRGINIA

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INTRODUCTORY SECTION

CITY OF GALAX, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2012

CITY COUNCIL

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

CITY SCHOOL BOARD

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

CITY SOCIAL SERVICES BOARD

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

OTHER OFFICIALS

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of June 30, 2012, and the respective changes in financial position, and where applicable cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

In addition, accounting principles generally accepted in the United States of America require that the schedule of funding progress for the defined benefit pension plan and other post-employment benefits and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 28, 2012



BASIC FINANCIAL STATEMENTS

CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 2)	\$ 1,541,230	\$ -	\$ 1,541,230	\$ 1,800,618	\$ 51,784	\$ 3,393,632
Receivables, net (Note 3)	462,822	627,466	1,090,288	-	-	1,090,288
Due from other governments (Note 4)	1,141,488	122,395	1,263,883	759,014	-	2,022,897
Due from primary government	-	-	-	877,360	-	877,360
Prepaid items	16,757	-	16,757	197,402	-	214,159
Inventories	-	-	-	17,122	-	17,122
Deferred charges	23,807	5,994	29,801	-	-	29,801
Note receivable	-	-	-	-	599,991	599,991
Interest receivable	-	-	-	-	3,541	3,541
Restricted assets:						
Cash and cash equivalents (Note 2)	577,555	-	577,555	-	-	577,555
Capital assets: (Note 6)						
Nondepreciable	1,848,335	352,165	2,200,500	243,570	-	2,444,070
Depreciable, net	17,627,455	5,432,488	23,059,943	1,349,506	-	24,409,449
Total assets	23,239,449	6,540,508	29,779,957	5,244,592	655,316	35,679,865
LIABILITIES						
Accounts payable	185,376	34,186	219,562	100,717	-	320,279
Accrued payroll and related liabilities	103,421	20,156	123,577	799,936	-	923,513
Accrued interest payable	99,311	4,857	104,168	-	-	104,168
Due to other governments (Note 4)	650,486	-	650,486	-	-	650,486
Due to component unit	877,360	-	877,360	-	-	877,360
Customer security deposits	-	55,939	55,939	-	-	55,939
Unearned revenue (Note 3)	15,325	-	15,325	-	-	15,325
Long-term liabilities: (Note 7)						
Due within one year	978,259	250,818	1,229,077	149,756	-	1,378,833
Due in more than one year	8,028,216	2,002,346	10,030,562	154,830	-	10,185,392
Total liabilities	10,937,754	2,368,302	13,306,056	1,205,239	-	14,511,295
NET ASSETS						
Invested in capital assets, net of related debt	11,555,116	3,638,932	15,194,048	1,593,076	-	16,787,124
Restricted	577,555	-	577,555	-	-	577,555
Unrestricted	169,024	533,274	702,298	2,446,277	655,316	3,803,891
Total net assets	\$ 12,301,695	\$ 4,172,206	\$ 16,473,901	\$ 4,039,353	\$ 655,316	\$ 21,168,570

CITY OF GALAX, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
Function	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units		Total	
					Governmental Activities	Business-type Activities	Total	School Board		Industrial Development Authority
Primary Government:										
Governmental activities:										
General government administration	\$ 1,496,085	\$ 19,757	\$ 90,303	\$ -	\$ (1,386,025)	\$ -	\$ (1,386,025)			\$ (1,386,025)
Judicial administration	618,300	-	-	-	(618,300)	-	(618,300)			(618,300)
Public safety	2,803,284	163,673	652,031	14,176	(1,973,404)	-	(1,973,404)			(1,973,404)
Public works	2,084,134	411,753	1,631,880	-	(40,501)	-	(40,501)			(40,501)
Health and welfare	1,664,552	-	1,212,336	-	(452,216)	-	(452,216)			(452,216)
Education	3,700,277	-	-	-	(3,700,277)	-	(3,700,277)			(3,700,277)
Parks, recreational, and cultural	1,749,789	470,809	115,308	2,752	(1,160,920)	-	(1,160,920)			(1,160,920)
Community development	2,004,859	-	1,180,000	248,100	(576,759)	-	(576,759)			(576,759)
Interest on long-term debt	235,567	-	-	-	(235,567)	-	(235,567)			(235,567)
Total primary government	16,356,847	1,065,992	4,881,858	265,028	(10,143,969)	-	(10,143,969)			(10,143,969)
Business-type activities:										
Water and sewer	2,572,434	2,720,854	-	4,008	-	152,428	152,428			152,428
Total business-type activities	2,572,434	2,720,854	-	4,008	-	152,428	152,428			152,428
Total primary government	\$ 18,929,281	\$ 3,786,846	\$ 4,881,858	\$ 269,036	(10,143,969)	152,428	(9,991,541)			(9,991,541)
Component Units:										
School Board	\$ 13,048,859	\$ 851,169	\$ 8,711,753	\$ -				\$ (3,485,937)		(3,485,937)
Industrial Development Authority	58,583	-	-	-					\$ (58,583)	(58,583)
Total component units	\$ 13,107,442	\$ 851,169	\$ 8,711,753	\$ -				(3,485,937)	(58,583)	(3,544,520)
General revenues:										
Property taxes					4,107,727	-	4,107,727	-	-	4,107,727
Local sales and use taxes					2,034,823	-	2,034,823	-	-	2,034,823
Consumer utility taxes					184,173	-	184,173	-	-	184,173
Business license tax					935,310	-	935,310	-	-	935,310
Meals tax					1,147,192	-	1,147,192	-	-	1,147,192
Other local taxes					435,963	-	435,963	-	-	435,963
Intergovernmental revenue, unrestricted					465,184	-	465,184	-	-	465,184
Interest and investment income, unrestricted					118	-	118	52,214	43,737	96,069
Other					127,348	-	127,348	12,066	-	139,414
Contributions from primary government					-	-	-	3,207,103	-	3,207,103
Transfers (Note 5)					302,214	(302,214)	-	-	-	-
Total general revenues					9,740,052	(302,214)	9,437,838	3,271,383	43,737	12,752,958
Change in net assets					(403,917)	(149,786)	(553,703)	(214,554)	(14,846)	(783,103)
Net assets beginning					12,705,612	4,321,992	17,027,604	4,253,907	670,162	21,951,673
Net assets ending					\$ 12,301,695	\$ 4,172,206	\$ 16,473,901	\$ 4,039,353	\$ 655,316	\$ 21,168,570

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

CITY OF GALAX, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2012

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,541,230
Cash and cash equivalents, restricted	577,555
Receivables, net (Note 3)	462,822
Prepaid expenses	16,757
Due from other governments (Note 4)	1,141,488
Total assets	<u>\$ 3,739,852</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 185,376
Accrued wages	103,421
Deferred revenue (Note 3)	193,031
Due to other governments (Note 4)	650,486
Due to component unit	877,360
Total liabilities	<u>2,009,674</u>
Fund balance: (Note 9)	
Nonspendable	16,757
Restricted	577,555
Committed	104,249
Assigned	57,000
Unassigned	974,617
Total fund balance	<u>1,730,178</u>
Total liabilities and fund balance	<u>\$ 3,739,852</u>
Reconciliation to the Statement of Net Assets	
Total fund balance	\$ 1,730,178
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	19,475,790
Receivables on the statement of net assets that do not provide current financial resources are reported as deferred revenue in the funds.	177,706
Bond issuance costs are reported as expenditures in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets.	23,807
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds:	
Accrued interest	\$ (99,311)
General obligation bonds and literary fund loans	(7,402,698)
Bond discount	7,800
Notes payable	(305,832)
Capital lease payable	(43,751)
Landfill closure/postclosure	(712,000)
Other postemployment benefits	(95,324)
Compensated absences	(454,670)
	<u>(9,105,786)</u>
Net assets of governmental activities	<u>\$ 12,301,695</u>

CITY OF GALAX, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND

Year Ended June 30, 2012

	<u>General Fund</u>
REVENUES	
General property taxes (Note 3)	\$ 4,087,009
Other local taxes	4,798,066
Permits, privilege fees, and regulatory licenses	19,390
Fines and forfeitures	104,879
Revenue from use of money and property	60,006
Charges for services	917,306
Other	133,687
Intergovernmental	5,584,880
Total revenues	<u>15,705,223</u>
EXPENDITURES	
Current:	
General government administration	1,456,338
Judicial administration	615,081
Public safety	2,849,754
Public works	2,050,229
Health and welfare	1,654,794
Education	3,352,308
Parks, recreation, and cultural	1,796,614
Community development	2,004,859
Debt service:	
Principal	526,929
Interest and other fiscal charges	230,071
Total expenditures	<u>16,536,977</u>
Excess of expenditures over revenue	(831,754)
OTHER FINANCING SOURCES	
Transfers in (Note 5)	293,307
Proceeds from note payable (Note 7)	200,000
Proceeds from capital lease (Note 7)	67,447
Total other financing sources	<u>560,754</u>
Net change in fund balance	(271,000)
FUND BALANCE AT JULY 1	<u>2,001,178</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 1,730,178</u></u>

(Continued)

CITY OF GALAX, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND
Year Ended June 30, 2012**

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

Net change in fund balance – governmental fund \$ (271,000)

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	602,484	
Depreciation expense	(902,599)	
		(300,115)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, disposals, transfers) is to increase net assets. (9,668)

The net effect of a capital asset that was transferred from Business-Type activities to the Governmental activities (Note 5). 8,907

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (54,507)

The issuance of long-term debt and capital leases provide current financial resources to governmental funds (\$267,447), while the repayment of the principal of long-term debt (\$526,929) consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt. 259,482

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Decrease in landfill liability	40,707	
Increase in compensated absences	(46,109)	
Increase in other post-employment benefits	(26,118)	
Decrease in accrued interest payable	2,344	
Amortization of bond issue costs and other deferred costs	(7,840)	
		(37,016)

Change in net assets of governmental activities \$ (403,917)

CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2012

	Business-type Activities
	Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Receivables, net	\$ 627,466
Due from other governments	122,395
Total current assets	749,861
Noncurrent assets:	
Bond issue costs, net	5,994
Capital assets:	
Nondepreciable	352,165
Depreciable, net	5,432,488
Total noncurrent assets	5,790,647
Total assets	6,540,508
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	34,186
Accrued payroll and related liabilities	20,156
Accrued interest payable	4,857
Customer security deposits	55,939
Current portion of noncurrent liabilities	250,818
Total current liabilities	365,956
Noncurrent liabilities:	
Due in more than one year	2,002,346
Total liabilities	2,368,302
NET ASSETS	
Invested in capital assets, net of related debt	3,638,932
Unrestricted	533,274
Total net assets	\$ 4,172,206

CITY OF GALAX, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS – PROPRIETARY FUND
For the Year Ended June 30, 2012**

	Business-type Activities
	Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Sewer revenues	\$ 1,290,718
Water revenues	1,218,628
Grant revenues	134,476
Connection fees	18,500
Penalty and interest	16,381
Other revenues	42,151
Total operating revenues	2,720,854
OPERATING EXPENSES	
Salaries, wages, and benefits	1,254,449
Depreciation	668,722
Materials and supplies	227,249
Utilities	223,583
Repairs and maintenance	99,505
Amortization	1,498
Other expenses	19,938
Total operating expenses	2,494,944
Operating income	225,910
NON-OPERATING EXPENSES	
Interest expense	(21,617)
Loss on disposal of capital assets	(55,873)
Non-operating expenses	(77,490)
Income before capital contributions and transfers	148,420
CAPITAL CONTRIBUTIONS	4,008
TRANSFERS OUT (Note 5)	(302,214)
Change in net assets	(149,786)
NET ASSETS JULY 1	4,321,992
NET ASSETS JUNE 30	\$ 4,172,206

CITY OF GALAX, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Business-type Activities
	Enterprise Fund
	Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	\$ 2,561,982
Receipts from grants	24,476
Payments to suppliers	(574,815)
Payments to employees	(1,282,147)
Other receipts	29,756
Net cash provided by operating activities	759,252
NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(293,307)
Net cash used in noncapital financing activities	(293,307)
CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	230,399
Acquisition and construction of capital assets	(514,368)
Contribution of capital by other governments	24,316
Principal payments on debt	(182,500)
Interest payments on debt	(23,792)
Net cash used in capital and related financing activities	(465,945)
Net change in cash and cash equivalents	-
CASH AND CASH EQUIVALENTS	
Beginning at July 1	-
Ending at June 30	\$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 225,910
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	670,220
Increase in accounts receivable	(108,827)
Decrease in accounts payable	(4,540)
Increase in accrued payroll and related liabilities	(25,062)
Increase in compensated absences and other postemployment benefits	(2,636)
Increase in customer security deposits	4,187
Net cash provided by operating activities	\$ 759,252
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital asset purchases financed by accounts payable	\$ 11,063

CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS – FIDUCIARY FUND
June 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 139,288
LIABILITIES	
Accounts Payable	\$ 11,485
Amounts held for others	127,803
Total Liabilities	\$ 139,288

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

Galax City School Board

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

Galax City Industrial Development Authority

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

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

Galax–Carroll Regional Library

The Galax-Carroll Regional Library was created by the City and 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 acts as fiscal agent for this organization.

Twin County E-911 Commission

The City, in conjunction with the counties of Carroll and Grayson, participates in supporting the Twin County E-911 Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$104,709 to the Commission for the current year. The City acts as fiscal agent for this organization.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Galax-Grayson Ambulance Service

The City and the County of Grayson participate in supporting the Galax-Grayson Ambulance Service. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The organization's activities are primarily supported by user charges. The City acts as fiscal agent for this organization.

Carroll – Grayson – Galax Regional Solid Waste Authority

The City and the Counties of Carroll and Grayson participate in the Regional Solid Waste Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. Operations are financed by tipping fees and the individual jurisdictions are required to fund any annual deficit incurred. The City paid \$143,048 in tipping fees during the current year.

The Wired Road Authority

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 acts as fiscal agent for this organization.

Twin County Airport Commission

The City and the Counties of Carroll and Grayson participate in the Twin County Airport Commission (the "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 in support 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 the payment for debt was \$10,000. The commitment could be reduced based on potential revenue from rental revenues.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Blue Ridge Crossroads

Blue Ridge Crossroads Economic Development Authority (BRCEDA) is the regional industrial facilities authority that represents Galax, Carroll, and Grayson Counties. Each jurisdiction appoints two members and an alternate member. During the current year the City contributed \$118,865 to BRECEA. A moral obligation for debt service is currently in place for a regional project known as Wildwood. The City's remaining portion of the obligation is \$1.8 million and the contributions to BRCEDA during the current year were \$118,865. 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

Government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities that report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary* government is reported separately from certain legally separate *component* units for which the primary government is financially accountable.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

The City reports the following major governmental fund:

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

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

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

Additionally, the City reports the following fund category:

Fiduciary Funds – Fiduciary funds are used to account for assets held by the City in a purely custodial capacity. The Special Welfare Fund, Galax Futures, Smart Beginnings, and Twin County Drug Task Force are reported as agency funds.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

Amounts reported as *program revenues* include charges to customers or applicants for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. *General revenues* include all taxes, grants and contributions not restricted to specific programs, and other revenues not meeting the definition of program revenues.

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

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired.

Receivables

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Inventories

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

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as items with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the assets constructed.

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

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

Compensated Absences

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

Deferred Revenues

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2012 total \$85,847 in the general fund and \$278,000 in the School Operating Fund.

Estimates

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Fund Equity

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

The classifications are as follows:

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

City Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

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

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Pass Through Financing Leases and Installment Sales in IDA

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

Economic Incentive Grants Payable

Economic incentive grants payable are recorded when, in management's opinion, failure by the grantee to meet the performance criteria is unlikely. Refunds of these incentives are reflected as revenues when collection is determined to be likely.

Note 2. Deposits and Investments

Deposits

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

Investments

Investment Policy:

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

(Continued)

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

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

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

Credit Risk:

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

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

Concentration of credit risk:

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

Interest rate risk:

The carrying values of investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
LGIP	\$ 1,273	100%

Concentration of Credit Risk:

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Custodial credit risk: (Continued)

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

	Primary Government	Component Units	
		School Board	IDA
Deposits and investments:			
Cash on hand	\$ 1,200	\$ 2,000	\$ -
Deposits	2,255,600	1,798,618	51,784
Investments	1,273	-	-
	<u>\$ 2,258,073</u>	<u>\$ 1,800,618</u>	<u>\$ 51,784</u>
Statements of net assets:			
Cash and cash equivalents	\$ 1,541,230	\$ 1,800,618	\$ 51,784
Cash and cash equivalents, restricted	577,555	-	-
Fiduciary fund cash and cash equivalents	139,288	-	-
	<u>\$ 2,258,073</u>	<u>\$ 1,800,618</u>	<u>\$ 51,784</u>

Restricted amounts:

Restricted cash and cash equivalents at the Primary Government consist of accounts for unspent bond proceeds \$200,000, Museum \$3,124, Blue Ridge Post 145 Book \$14,507, Veterans Memorial \$38,620, Police Narcotics \$14,045, DARE \$10,543, Anthem Stock \$251,726, and Jeff Matthews Museum \$44,990. The Anthem Stock relates to amounts that are restricted by state legislation for specified purposes.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 3. Receivables, Deferred Revenue, and Property Taxes

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables		
Taxes	\$ 986,377	\$ -
Accounts	162,866	679,877
	<u>1,149,243</u>	<u>679,877</u>
Gross receivables		
Less:		
Allowance for uncollectible taxes	(665,872)	-
Allowance for uncollectible accounts	(20,549)	(52,411)
	<u>(686,421)</u>	<u>(52,411)</u>
Total allowance		
Receivables, net	<u><u>\$ 462,822</u></u>	<u><u>\$ 627,466</u></u>

Deferred revenue is as follows:

Property taxes receivable – unavailable	\$ 107,775
Meals taxes receivable – unavailable	51,414
Advance collection of 2012-2013 property taxes – unearned	10,460
Insurance advance - unearned	4,865
Library advance – unavailable	<u>18,517</u>
Total deferred revenue – governmental fund	193,031
Less deferrals for taxes receivable earned	<u>(177,706)</u>
Unearned revenue – statement of net assets	<u><u>\$ 15,325</u></u>

Property taxes:

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

Real estate taxes are billed in annual installments due December 5. Property taxes attach an enforceable lien on property as of January 1. Any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The real estate tax rate was \$0.62 per \$100 of assessed value.

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4. Due from/Due to Other Governments

Amounts due from other governments consist of the following:

	Governmental Activities	Business-Type Activities	Component Unit – School Board
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 338,237	\$ -	\$ -
State sales tax	-	-	170,097
Categorical aid	175,323	-	-
Non-categorical aid	53,756	-	-
Categorical aid – schools	-	-	160,834
<u>Federal Government:</u>			
Categorical aid	230,633	-	-
Categorical aid – schools	-	-	428,083
<u>Local Boards, Authorities, Commissions And Other Local Governments:</u>			
Mt. Rogers PDC	-	110,000	-
Carroll County – Mill Creek Debt Service	-	12,395	-
Galax – Grayson Ambulance Service	99,386	-	-
Galax – Carroll Regional Library	52,632	-	-
Wired Road Authority	92,398	-	-
Twin County E-911 Commission	54,341	-	-
Crossroads	12,188	-	-
Carroll County	15,897	-	-
Grayson County	15,897	-	-
Galax Partners	800	-	-
	<u>\$ 1,141,488</u>	<u>\$ 122,395</u>	<u>\$ 759,014</u>

Amounts due to other governments consist of the following:

	Governmental Activities
Due to Carroll and Grayson Counties	\$ 521,335
Due to Wired Road Authority	107,840
Other	<u>21,311</u>
	<u><u>\$ 650,486</u></u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 5. Interfund Activity

During the year, the water and sewer fund transferred \$293,307 to the general fund. They also transferred an asset with a net book value of \$8,907 to governmental activities. Total transfers out by the water and sewer fund for the current year were \$302,214. These transfers represented a return of funds previously transferred by the general fund.

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 1,814,997	\$ 50,000	\$ 90,500	\$ 1,774,497
Construction-in-progress	185,348	57,513	169,023	73,838
Capital assets, nondepreciable	2,000,345	107,513	259,523	1,848,335
Capital assets, depreciable:				
Infrastructure	1,223,612	75,583	-	1,299,195
Buildings and improvements	19,241,171	411,310	14,142	19,638,339
Machinery and equipment	4,448,065	293,911	99,843	4,642,133
Capital assets, depreciable	24,912,848	780,804	113,985	25,579,667
Less accumulated depreciation for:				
Infrastructure	340,605	47,092	-	387,697
Buildings and improvements	3,877,244	590,154	6,607	4,460,791
Machinery and equipment	2,918,678	282,756	97,710	3,103,724
Total accumulated depreciation	7,136,527	920,002	104,317	7,952,212
Capital assets, depreciable, net	17,776,321	(139,198)	9,668	17,627,455
Governmental activities capital assets, net	<u>\$ 19,776,666</u>	<u>\$ (31,685)</u>	<u>\$ 269,191</u>	<u>\$ 19,475,790</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets (Continued)

Primary Government (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Construction in progress	\$ 61,975	\$ 454,849	\$ 312,962	\$ 203,862
Land	137,692	10,611	-	148,303
Capital assets, nondepreciable	199,667	465,460	312,962	352,165
Capital assets, depreciable:				
Infrastructure	18,500,431	343,687	67,251	18,776,867
Machinery and equipment	462,864	4,008	22,265	444,607
Capital assets, depreciable	18,963,295	347,695	89,516	19,221,474
Less accumulated depreciation for:				
Infrastructure	12,868,960	643,016	11,379	13,500,597
Machinery and equipment	276,040	25,706	13,357	288,389
Total accumulated depreciation	13,145,000	668,722	24,736	13,788,796
Capital assets, depreciable, net	5,818,295	(321,027)	64,780	5,432,488
Business-type activities capital assets, net	<u>\$ 6,017,962</u>	<u>\$ 144,433</u>	<u>\$ 377,742</u>	<u>\$ 5,784,653</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 20,873
Public safety	223,653
Public works	125,061
Health and welfare	543
Education	347,969
Parks, recreation, and cultural	184,500
	<u>902,599*</u>
Business-type activities:	
Water and sewer	<u>683,676</u>
Total depreciation expense – primary government	<u>\$ 1,586,275</u>

*This amount generally agrees to increase in accumulated depreciation under Primary Government, however during the current year there was a transfer from the Business-Type Activities which is included in the Primary Government Additions line. This asset had prior accumulated depreciation of \$17,403 which caused the difference noted here. See note 5 for details of the transfer.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets (Continued)

Construction Commitments

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Tower Road Meter Station	\$ 167,000	\$ 8,000

Discretely Presented Component Unit – School Board

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:				
Construction in progress	\$ -	\$ 78,110	\$ -	\$ 78,110
Land	148,960	16,500	-	165,460
Capital assets, nondepreciable	148,960	94,610	-	243,570
Capital assets, depreciable:				
Buildings and improvements	4,662,166	-	-	4,662,166
Machinery and equipment	1,560,048	39,295	-	1,599,343
Capital assets, depreciable	6,222,214	39,295	-	6,261,509
Less accumulated depreciation for:				
Buildings and improvements	3,747,826	81,077	-	3,828,903
Machinery and equipment	969,566	113,534	-	1,083,100
Total accumulated depreciation	4,717,392	194,611	-	4,912,003
Capital assets, depreciable, net	1,504,822	(155,316)	-	1,349,506
Governmental activities capital assets, net	<u>\$ 1,653,782</u>	<u>\$ (60,706)</u>	<u>\$ -</u>	<u>\$ 1,593,076</u>

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Governmental Activities:					
General obligation bonds	\$ 2,193,991	\$ -	\$ 90,116	\$ 2,103,875	\$ 97,765
Notes payable	137,848	200,000	32,016	305,832	81,367
Literary fund loans	5,679,924	-	381,101	5,298,823	381,101
	<u>8,011,763</u>	<u>200,000</u>	<u>503,233</u>	<u>7,708,530</u>	<u>560,233</u>
Total bonds and loans					
Landfill post-closure	752,707	-	40,707	712,000	33,000
Compensated absences	408,561	372,958	326,849	454,670	363,736
Capital lease payable	-	67,447	23,696	43,751	21,290
Other post-employment benefits	69,206	31,659	5,541	95,324	-
	<u>9,242,237</u>	<u>672,064</u>	<u>900,026</u>	<u>9,014,275</u>	<u>978,259</u>
Governmental activities long-term liabilities					
Business – Type Activities:					
General obligation bonds	\$ 2,099,601	\$ 230,399	\$ 182,500	\$ 2,147,500	\$ 182,500
Compensated absences	91,815	73,453	79,870	85,398	68,318
Other post-employment benefits	12,269	4,684	902	16,051	-
	<u>2,203,685</u>	<u>308,536</u>	<u>263,272</u>	<u>2,248,949</u>	<u>250,818</u>
Business-type activities long-term liabilities					
Component Unit – School Board:					
Compensated absences	\$ 164,211	\$ 222,400	\$ 214,416	\$ 172,195	\$ 137,756
Other post-employment benefits	92,385	56,210	28,204	120,391	-
Early retirement liability	24,000	-	12,000	12,000	12,000
	<u>280,596</u>	<u>278,610</u>	<u>254,620</u>	<u>304,586</u>	<u>149,756</u>

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-term Liabilities (Continued)

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

Year Ended June 30	Governmental Activities							
	General Obligation Bonds		Notes Payable		Capital Lease Payable		Literary Fund Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 97,765	\$ 93,746	\$ 81,367	\$ 11,290	\$ 21,290	\$ 2,406	\$ 381,101	\$ 116,465
2014	100,333	89,562	84,479	8,178	22,461	1,235	381,101	107,532
2015	103,030	85,237	87,718	4,939	-	-	381,101	98,599
2016	109,856	80,679	52,268	1,567	-	-	381,101	89,666
2017	113,818	76,783	-	-	-	-	381,101	80,733
2018-2022	536,283	300,053	-	-	-	-	1,643,318	273,598
2023-2027	360,000	206,432	-	-	-	-	1,250,000	125,000
2028-2032	460,000	108,988	-	-	-	-	500,000	60,000
2032-2034	222,790	10,732	-	-	-	-	-	-
	<u>\$ 2,103,875</u>	<u>\$ 1,052,212</u>	<u>\$ 305,832</u>	<u>\$ 25,974</u>	<u>\$ 43,751</u>	<u>\$ 3,641</u>	<u>\$ 5,298,823</u>	<u>\$ 951,593</u>

Business-type Activities	
General Obligation Bonds	
Principal	Interest
\$ 182,500	\$ 19,428
187,500	15,062
192,500	10,456
197,500	5,356
92,500	-
462,500	-
462,500	-
370,000	-
-	-
<u>\$ 2,147,500</u>	<u>\$ 50,302</u>

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>General Obligation Bonds:</u>						
Rural Development	4.76%	02-2000	02-2020	\$ 1,000,000	\$ 548,875	\$ -
2003 Series A	2.02-4.77	12-2003	08-2033	1,840,000	1,555,000	-
Virginia Resources Authority	4.10-5.10	06-2001	04-2016	1,125,000	-	390,000
Virginia Resources Authority	0	12-2009	04-2031	1,850,000	-	1,757,500
					2,103,875	2,147,500
			Plus: bond premium		-	4,215
			Less: bond discount		(7,800)	-
					<u>\$ 2,096,075</u>	<u>\$ 2,151,715</u>
<u>Other Long-term Debt:</u>						
State Literary Loan	3.00%	04-1998	12-2019	\$ 2,622,035	\$ 1,048,823	\$ -
State Literary Loan	2.00	05-2008	10-2028	5,000,000	4,250,000	-
Garbage Truck Loan	3.00	06-2012	12-2015	200,000	200,000	-
Fire Truck Loan	5.00	05-2005	05-2015	300,000	105,832	-
					<u>\$ 5,604,655</u>	<u>\$ -</u>
<u>Capital Lease:</u>						
Police Car Lease	5.501%	07-2011	07-2013	\$ 67,447	\$ 43,751	\$ -

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 8. Landfill Post-closure Care Costs

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

The presence of certain contaminants 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 \$712,000. 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 the thirty years, the groundwater contaminants will decrease to an acceptable level and the City will be released by the DEQ from all other monitoring requirements.

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 9. Fund Balance/Net Assets

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

General Fund

Prepaid items	\$ 16,757
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Restricted:

Purpose restrictions:	
Unspent bond proceeds	\$ 200,000
Museum	48,114
Anthem Stock proceeds	251,726
Veteran's Memorial fund	38,620
Blue Ridge Post 145 Book fund	14,507
Police Narcotics, DARE, and Police Seizure	24,588
	\$ 577,555

Committed:

Encumbrances (Community Development)	\$ 85,847
Rec. Center Bus fund	18,402
	\$ 104,249

Assigned:

Budget Appropriations (Technology Project)	\$ 57,000
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School Board

Nonspendable:

Inventories	\$ 17,122
Prepaid items	197,402
	\$ 214,524

Committed:

Band Uniform	\$ 64,717
Textbooks	333,112
School Nutrition	258,322
Encumbrances (Track Remodel)	278,000
	\$ 934,151

Assigned:

Operating costs of schools	\$ 1,602,188
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CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 10. Significant Transactions of the City and Component Unit – School Board

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

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

Expenditures of School Board – Component Unit (Exhibit B-2)	\$ 12,964,163
Principal and other debt service expenses included in primary government (Exhibit 4)	<u>388,101</u>
Total expenditures for school activities	<u><u>\$ 13,352,264</u></u>

Note 11. Significant Transactions of the City and Component Unit – Industrial Development Authority

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 12. Defined Benefit Pension Plan

Plan Description

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 12. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The City may and has assumed this 5% member contribution. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for 2011 was 11.98% of annual covered payroll. The School Board's contribution rates for 2011 were 13.88% for professional employees and 10.63% for non-professional employees.

For the three years ended June 30, 2012, 2011, and 2010, total employer contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$703,226, \$568,397, and \$782,520, respectively, and represented 13.88%, 8.27%, and 11.83% of annual covered payroll, respectively, and 100% of the required contributions for 2012, 2011, and 2010, respectively.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 12. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For 2011, the City's and School Board's annual pension costs, including the employee share assumed by the City, of \$760,480 and \$71,998, respectively, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City and School Board assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Three-Year Trend Information for City of Galax

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
June 30, 2012	\$ 706,046	100%	\$ -
June 30, 2011	\$ 675,244	100%	\$ -
June 30, 2010	\$ 628,378	100%	\$ -

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
June 30, 2012	\$ 71,998	100%	\$ -
June 30, 2011	\$ 70,046	100%	\$ -
June 30, 2010	\$ 68,195	100%	\$ -

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 12. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 78.71% funded for the City and 76.62% funded for the School Board. The actuarial accrued liability for benefits was \$22,932,374 for the City and \$1,767,909 for the School Board and the actuarial value of assets was \$18,050,756 for the City and \$1,354,573 for the School Board, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,881,618 for the City and \$413,336 for the School Board. The covered payroll (annual payroll of active employees covered by the plan) was \$5,164,454 for the City and \$510,780 for the School Board, and the ratio of the UAAL to the covered payroll was 94.52% for the City and 80.92% for the School Board.

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

Note 13. Other Post-employment Benefits

Plan Description

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

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

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 13. Other Post-employment Benefits (Continued)

Plan Description (Continued)

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

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

Funding Policy

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

Annual Other Post-employment Benefit Cost and Net OPEB Obligation

For 2012, the City and School Board's OPEB costs were equal to the Annual Required Contribution (ARC).

	<u>City</u>	<u>School Board</u>
Annual required contribution	\$ 36,410	\$ 56,286
Interest on net OPEB obligation	3,259	3,696
Adjustment to annual required contribution	<u>(3,326)</u>	<u>(3,772)</u>
Annual OPEB cost	36,343	56,210
Contributions made	<u>(6,443)</u>	<u>(28,204)</u>
Increase in net OPEB obligation	29,900	28,006
Net OPEB obligation – beginning of year	<u>81,475</u>	<u>92,385</u>
Net OPEB obligation – end of year	<u>\$ 111,375</u>	<u>\$ 120,391</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 13. Other Post-employment Benefits (Continued)

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

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

City:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 36,343	32.63%	\$ 111,375
June 30, 2011	\$ 33,527	41.15%	\$ 81,475
June 30, 2010	\$ 30,415	10.58%	\$ 53,849

Schools:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 56,210	60.84%	\$ 120,391
June 30, 2011	\$ 51,169	55.39%	\$ 92,385
June 30, 2010	\$ 58,040	44.40%	\$ 66,911

Funding Status and Funding Progress

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

	City	School Board
Actuarial Accrued Liability (AAL)	\$ 295,788	\$ 486,866
Actuarial Value of Plan Assets	5.22%	7.09%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 295,788	\$ 486,866
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	\$ 4,713,716	\$ 6,219,691
UAAL as a Percentage of Covered Payroll	6.28%	7.83%

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 13. Other Post-employment Benefits (Continued)

Actuarial Methods and Assumptions

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

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

Note 14. Risk Management

General liability and other insurance:

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

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

Unemployment insurance:

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

Healthcare insurance:

The City and School Board provide coverage for employees through policies with Anthem. The City and School Board contribute 85% and 100%, respectively of the required premium amount for single coverage for each employee. Dependents of employees are also covered by the policy provided they pay the additional premium to the City and School Board. Total premiums for 2012 paid by the City and School Board (including employee contributions) were approximately \$1,166,206 and \$1,018,000, respectively.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 15. Commitments and Contingencies

Primary Government

Special purpose grants:

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

Consent order:

During 2003, a final consent decree was ordered against the City which requires an implementation of measures to eliminate sources of inflow and infiltration and overflows from its sanitary sewer collection system. The City began to implement these measures in 2003 to correct the issues and continues to meet requirements of the consent decree at an estimated cost exceeding \$3.0 million. The City has completed several major projects in 2011 and 2012 with funding assistance from general obligation debt through the Virginia Resources Authority in the amount of \$1.85 million and a Southern Rivers Grant amount of approximately \$967,000.

Wired Road Authority:

During 2009, the Wired Road Authority entered a lease agreement and received a loan in the amount of \$260,000 to complete the broadband infrastructure project. The Authority is responsible for the debt service on the loan. The City has a non-binding commitment to make the debt service payments for the Authority. The balance remaining on the lease at the end of the year is \$191,781.

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 \$521,335. The true-up amount recorded during the current year for 2011 actual cost was \$66,314.

Pending Litigation:

The City has been named a defendant in a civil suit pertaining to a citizen injury incurred on or around a water meter cover. Management estimates that the outcome of the suit will either be favorable or fully covered by insurance.

Note 16. Subsequent Events

Grant Awards:

Subsequent to year end the City was awarded a grant from the Department of Housing and Community Development in the amount of \$800,000. This money will be used on the Bottom Area Project. An additional \$600,000 will be made available in the future after some portions of the project have been completed. The City was also awarded a grant in the amount of \$43,500 from the Department of Conservation and Recreation to develop a storm water control program.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 16. Subsequent Events (Continued)

Emergency Medical Services Deed of Trust:

Council approved a motion to issue a Deed of Trust in the amount of \$125,000 to secure a loan for Galax-Grayson Emergency medical Services for the construction of a new building. Galax-Grayson Emergency Medical Services will be responsible for loan payments to Mount Rogers Planning District Commission.

Note 17. Contribution Agreement

In 2010, the City contributed approximately \$194,000 to the IDA, which the IDA loaned to Galax Partners, LP ("LP") to rehabilitate the Galax Art School. The City may, from time to time, demand any loan repayments received by the IDA be contributed back to the City. At June 30, 2012, \$599,991 was outstanding on this note receivable along with \$3,541 in accrued interest.

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

Note 18. New Accounting Standards

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

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

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 18. New Accounting Standards (Continued)

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain items as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of **GASB Statements No. 25 and No. 50** as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of **GASB Statements No. 27 and No. 50** as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GALAX, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
General property taxes	\$ 3,922,693	\$ 3,922,693	\$ 4,087,009	\$ 164,316
Other local taxes	4,596,800	4,649,800	4,798,066	148,266
Permits, privilege fees, and regulatory licenses	20,100	20,100	19,390	(710)
Fines and forfeitures	87,600	87,600	104,879	17,279
Revenue from use of money and property	23,500	23,500	60,006	36,506
Charges for services	1,024,648	1,033,648	917,306	(116,342)
Other	95,585	110,585	133,687	23,102
Intergovernmental	2,459,000	5,235,714	5,584,880	349,166
Total revenues	<u>12,229,926</u>	<u>15,083,640</u>	<u>15,705,223</u>	<u>621,583</u>
EXPENDITURES				
Current:				
General government administration	1,394,063	1,404,463	1,456,338	(51,875)
Judicial administration	371,600	371,600	615,081	(243,481)
Public safety	2,301,237	2,614,613	2,849,754	(235,141)
Public works	2,069,914	2,084,114	2,050,229	33,885
Health and welfare	489,072	1,763,072	1,654,794	108,278
Education	4,172,137	3,858,807	3,352,308	506,499
Parks, recreation, and cultural	1,775,202	1,805,787	1,796,614	9,173
Community development	406,523	1,750,153	2,004,859	(254,706)
Debt service:				
Principal	258,131	139,231	526,929	(387,698)
Interest and other fiscal charges	122,945	122,945	230,071	(107,126)
Total expenditures	<u>13,360,824</u>	<u>15,914,785</u>	<u>16,536,977</u>	<u>(622,192)</u>
Excess of expenditures over revenues	<u>(1,130,898)</u>	<u>(831,145)</u>	<u>(831,754)</u>	<u>(609)</u>
OTHER FINANCING SOURCES				
Proceeds from debt issuance	-	-	267,447	267,447
Transfers in	925,542	560,542	293,307	(267,235)
Total other financing sources	<u>925,542</u>	<u>560,542</u>	<u>560,754</u>	<u>212</u>
Net change in fund balance	<u>\$ (205,356)</u>	<u>\$ (270,603)</u>	<u>\$ (271,000)</u>	<u>\$ (397)</u>

CITY OF GALAX, VIRGINIA

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

DEFINED BENEFIT PENSION PLAN

			(Overfunded)			
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio Assets as Percentage of AAL	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
A. City of Galax						
June 30, 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%
June 30, 2009	\$ 17,794,425	\$ 19,945,558	\$ 2,151,133	89.21%	\$ 5,254,800	40.94%
B. City of Galax Schools Non-professional Employees						
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%
June 30, 2009	\$ 1,265,783	\$ 1,523,616	\$ 257,833	83.08%	\$ 501,856	51.38%

OTHER POST-EMPLOYMENT BENEFITS

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

CITY OF GALAX, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2012

Note 1. Budgetary Information

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

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

OTHER SUPPLEMENTARY INFORMATION



FIDUCIARY FUNDS



CITY OF GALAX, VIRGINIA

**COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUND
AGENCY FUNDS
June 30, 2012**

	Galax Futures	TCDTF	Smart Beginnings	Special Welfare	Total
ASSETS					
Cash and cash equivalents	\$ 64,495	\$ 18,477	\$ 18,316	\$ 38,000	\$ 139,288
LIABILITIES					
Accounts Payable	\$ -	\$ 4,336	\$ 7,149	\$ -	\$ 11,485
Amounts held for others	64,495	14,141	11,167	38,000	127,803
Total Liabilities	\$ 64,495	\$ 18,477	\$ 18,316	\$ 38,000	\$ 139,288



DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
BALANCE SHEET
June 30, 2012

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 1,800,618
Due from other governments	759,014
Due from primary government	877,360
Prepaid expenses	197,402
Inventories	17,122
Total assets	<u>\$ 3,651,516</u>
LIABILITIES	
Accounts payable	\$ 100,717
Accrued payroll and related liabilities	799,936
Total liabilities	<u>900,653</u>
FUND BALANCE	
Nonspendable	214,524
Committed	934,151
Assigned	1,602,188
Total fund balance	<u>2,750,863</u>
Total liabilities and fund balance	<u>\$ 3,651,516</u>
Reconciliation to the Statement of Net Assets (Exhibit 1)	
Total fund balance	\$ 2,750,863
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,593,076
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(304,586)</u>
Net assets of governmental activities	<u>\$ 4,039,353</u>

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2012

	School Operating Fund
REVENUES	
Charges for services	\$ 851,169
Recovered costs	942
Revenue from use of money and property	52,214
Other	11,124
Contribution from primary government	3,207,103
Intergovernmental	8,711,753
Total revenues	<u>12,834,305</u>
EXPENDITURES	
Education:	
Instructional	8,590,169
Operations and maintenance	1,341,616
Food service	1,244,115
Technology	784,218
Admission, attendance, and health	593,157
Transportation	410,888
Total expenditures	<u>12,964,163</u>
Net change in fund balance	(129,858)
FUND BALANCE AT JULY 1	<u>2,880,721</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 2,750,863</u></u>
Reconciliation to the Statement of Activities (Exhibit 2)	
Net change in fund balance – governmental fund	\$ (129,858)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$194,611) exceeded capitalized expenditures (\$133,905).	(60,706)
Compensated absences, early retirement liabilities, and other postemployment benefits are not due and payable at June 30, and therefore are not reported in the fund statements. This amount represents the current year change in those items.	<u>(23,990)</u>
Change in net assets of governmental activities.	<u><u>\$ (214,554)</u></u>

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL –
SCHOOL OPERATING FUND
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ -	\$ -	\$ 851,169	\$ 851,169
Recovered costs	1,500	1,500	942	(558)
Revenue from use of money and property	56,670	52,170	52,214	44
Other	138,095	158,012	11,124	(146,888)
Contribution from primary government	4,159,885	4,159,885	3,207,103	(952,782)
Intergovernmental	8,601,130	8,579,814	8,711,753	131,939
Total revenues	12,957,280	12,951,381	12,834,305	(117,076)
EXPENDITURES				
Education:				
Instructional	8,803,535	8,724,649	8,590,169	134,480
Operations and maintenance	1,362,328	1,359,188	1,341,616	17,572
Admission, attendance, and health	722,524	768,614	593,157	175,457
Technology	638,068	631,818	784,218	(152,400)
Food service	462,976	484,060	1,244,115	(760,055)
Transportation	394,624	409,827	410,888	(1,061)
Total expenditures	12,384,055	12,378,156	12,964,163	(586,007)
OTHER FINANCING USES*				
Debt service	506,499	506,499	-	506,499
Transfers out	66,726	66,726	-	66,726
Total other financing uses	573,225	573,225	-	573,225
Net change in fund balance	\$ -	\$ -	\$ (129,858)	\$ (129,858)

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

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

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS – PROPRIETARY FUND
June 30, 2012

	<u>Enterprise Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 51,784
Interest receivable	<u>3,541</u>
Total current assets	<u>55,325</u>
Noncurrent asset:	
Note receivable	<u>599,991</u>
Total assets	<u>655,316</u>
NET ASSETS	
Unrestricted	<u><u>\$ 655,316</u></u>

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS – PROPRIETARY FUND
Year Ended June 30, 2012

	Enterprise Fund
	<hr/>
OPERATING EXPENSES	
Payment to primary government	\$ 58,583
	<hr/>
Operating loss	58,583
	<hr/>
NON-OPERATING INCOME	
Interest income	43,737
	<hr/>
Change in net assets	(14,846)
	<hr/>
NET ASSETS AT JULY 1	670,162
	<hr/>
NET ASSETS AT JUNE 30	\$ 655,316
	<hr/> <hr/>

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2012

	Enterprise Fund
	<hr/>
OPERATING ACTIVITIES	
Payment to primary government	\$ (58,583)
Net cash used in operating activities	<hr/> (58,583) <hr/>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments received on notes receivable	<hr/> 14,482 <hr/>
INVESTING ACTIVITIES	
Interest received	<hr/> 43,886 <hr/>
Net decrease in cash and cash equivalents	(215)
CASH AND CASH EQUIVALENTS	
Beginning at July 1	<hr/> 51,999 <hr/>
Ending at June 30	<hr/> <hr/> \$ 51,784 <hr/> <hr/>

SUPPORTING SCHEDULE



CITY OF GALAX, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<u>Department of Agriculture:</u>		
<u>Pass-through Payments:</u>		
Farmers' Market Promotion Program	10.168	\$ 2,400
Rural Development – Community Facility Loans and Grants	10.766	6,750
Rural Business Enterprise Grants	10.769	35,930
<u>Commonwealth of Virginia Department of Agriculture and Consumer Services:</u>		
Child Nutrition Cluster		
National School Lunch Program (Commodities)	10.555	40,602
National School Breakfast Program	10.553	124,473
National School Lunch Program	10.555	356,393
<u>Department of Social Services:</u>		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	124,721
<u>Department of Homeland Security:</u>		
<u>Pass-through Payments:</u>		
State Domestic Preparedness Equipment Support Program	97.004	14,176
Emergency Management Performance Grants	97.042	13,182
<u>Department of Housing and Urban Development:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Housing and Community Development:</u>		
Community Development Block Grant	14.228	262,335
<u>Department of Justice:</u>		
<u>Direct Payments:</u>		
Public Safety Partnership and Community Policing Grants	16.710	17,345
<u>Pass-through Payments:</u>		
JAG Program Cluster		
Justice Assistance Grant Program	16.804	11,707
Byrne JAG Program	16.738	19,848
Organized Crime Drug Enforcement Task Forces	16.000	8,217
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Motor Vehicles:</u>		
Safe Routes to Schools Mini-Grant	20.205	1,000
State and Community Highway Safety (Section 402)	20.600	10,344
Alcohol Open Container Requirements	20.607	18,862

CITY OF GALAX, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
Title I, Part A Cluster		
Title I: Grants to Local Educational Agencies	84.010	522,356
Title I: Grants to Local Educational Agencies – ARRA	84.389	41,729
Special Education Cluster (IDEA)		
Special Education – Grants to States	84.027	223,979
Special Education – Preschool Grants	84.173	13,214
Special Education – Grants to States – ARRA	84.391	286
Vocational Education – Basic Grants to States	84.048	31,824
Drug Free Schools and Communities – State Grants	84.186	112
Rural and Low-income Schools – Title VI	84.358	33,048
Language Acquisition – Title III	84.365	46,805
ESEA – Improving Teacher Quality State Grants (Title II, Part A)	84.367	84,340
Education Jobs Fund – ARRA	84.410	298,596
<u>Department of Health and Human Services:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	11,507
Temporary Assistance to Needy Families	93.558	110,540
Refugee and Entrant Assistance	93.566	111
Low Income Home Energy Assistance	93.568	11,494
CCDF Cluster		
Child Care and Development Block Grant	93.575	18,029
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	35,831
Child Welfare Services	93.645	359
Foster Care – Title IV-E	93.658	27,894
Adoption Assistance	93.659	36,101
Social Service Block Grant	93.667	72,468
Chafee Foster Care Independence Program	93.674	778
Medical Assistance Program	93.778	76,201
State Children's Insurance Program	93.767	3,708
<u>Department of Emergency Services:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services:</u>		
Assistance to Firefighters	97.044	99,000
Homeland Security	97.073	39,614
Total Expenditures of Federal Awards		\$ 2,908,209

Note 1. Basis of Accounting

This schedule was prepared on the modified accrual basis.

Note 2. Nonmonetary Assistance

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

OTHER INFORMATION SECTION

TABLE 1

CITY OF GALAX, VIRGINIA

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

UNAUDITED

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water and Sewer	Total Expenses
2012	\$ 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
2011	1,403,607	525,130	2,764,659	2,142,439	1,601,606	3,395,746	1,537,985	648,415	249,393	2,423,328	16,692,308
2010	1,354,495	516,416	2,572,717	1,399,049	1,730,389	3,878,868	1,728,558	1,041,925	278,631	2,436,820	16,937,868
2009	1,410,590	421,172	2,523,114	3,671,499	1,683,602	1,498,542	1,838,667	922,152	279,653	2,539,619	16,788,610
2008	1,216,686	252,958	2,380,854	2,913,678	1,878,593	2,804,597	1,460,945	570,362	325,285	2,587,485	16,391,443
2007	1,781,858	19,150	1,622,046	2,199,901	1,557,938	3,651,186	1,449,683	201,354	229,297	2,424,384	15,136,797
2006	1,808,912	-	1,771,338	2,316,099	1,601,371	3,553,729	1,218,418	290,620	209,613	2,899,388	15,669,488
2005	1,763,462	15,807	1,910,640	3,359,123	1,348,202	3,511,705	842,129	573,980	195,848	2,464,617	15,985,513
2004	1,340,084	28,274	1,966,434	2,267,608	1,399,406	3,312,031	1,198,292	855,988	166,391	2,372,118	14,906,626
2003	1,737,450	21,582	1,634,500	2,082,039	1,459,378	3,177,053	869,646	139,652	138,618	2,289,685	13,549,603

Note: The City implemented GASB 34 on during 2003.

TABLE 2

CITY OF GALAX, VIRGINIA

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

	PROGRAM REVENUES			GENERAL REVENUES					
Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Intergovernmental Revenue, Unrestricted	Total Revenues
2012	\$ 3,786,646	\$ 4,881,858	\$ 269,036	\$ 4,107,727	\$ 4,737,461	\$ 118	\$ 127,348	\$ 465,184	\$ 18,375,378
2011	4,246,388	3,955,984	396,163	3,870,781	4,652,947	25,654	22,744	472,432	17,643,093
2010	3,380,558	3,458,555	1,618,233	3,922,184	4,630,039	1,238	72,478	481,486	17,564,771
2009	3,090,007	3,807,358	1,687,649	3,582,227	4,292,452	28,292	48,352	443,907	16,980,244
2008	2,994,718	3,696,593	483,792	3,834,008	4,533,937	394,984	31,333	492,427	16,461,792
2007	2,924,540	3,672,182	-	3,890,380	4,759,332	342,730	132,585	274,273	15,996,022
2006	2,920,294	3,129,111	82,500	3,693,111	4,476,845	237,781	450,708	269,507	15,259,857
2005	2,531,287	3,074,407	81,762	3,870,231	4,265,960	189,426	227,743	279,497	14,520,313
2004	2,545,103	3,252,098	634,824	3,578,165	4,008,068	77,240	72,493	243,770	14,411,761
2003	2,643,469	2,910,302	-	3,655,538	3,861,731	147,339	108,138	280,022	13,606,539

TABLE 3

CITY OF GALAX, VIRGINIA

FINANCIAL TRENDS INFORMATION
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
Last Ten Fiscal Years (1)
UNAUDITED

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Capital Projects	Debt Service	Total Expenditures
2012	\$ 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
2011	1,362,204	521,213	2,839,033	2,170,537	1,575,688	15,838,839	1,483,293	648,415	-	768,050	27,207,272
2010	1,328,623	516,030	2,602,251	2,091,801	1,723,290	17,213,809	1,910,866	1,041,925	-	792,798	29,221,393
2009	1,645,052	421,062	2,537,988	3,787,262	1,677,544	13,179,538	2,267,225	899,677	2,331,368	501,901	29,248,617
2008	1,207,346	252,753	2,590,060	2,563,386	1,857,486	12,534,267	1,421,845	703,970	5,916,422	5,607,283	34,654,818
2007	1,204,142	175,625	2,116,872	2,341,894	1,542,713	11,512,602	1,452,742	200,323	220,054	474,784	21,241,751
2006	2,108,844	14,279	2,674,843	2,315,542	1,601,992	11,075,092	1,678,390	282,956	1,592,429	466,248	23,810,615
2005	1,762,064	15,807	2,792,264	2,532,263	1,346,140	10,470,252	819,831	583,980	1,982,851	486,215	22,791,667
2004	1,807,538	28,274	2,449,649	2,199,828	1,396,283	9,726,292	1,397,174	855,988	905,243	478,153	21,244,422
2003	1,487,098	21,828	2,344,297	2,153,360	1,478,821	9,056,974	1,084,350	139,652	608,636	378,646	18,753,662

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

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

TABLE 4

CITY OF GALAX, VIRGINIA

FINANCIAL TRENDS INFORMATION

GENERAL GOVERNMENTAL REVENUES BY SOURCE

Last Ten Fiscal Years (1)

UNAUDITED

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	Total Revenues
2012	\$ 4,087,009	\$ 4,798,066	\$ 19,390	\$ 104,879	\$ 112,220	\$ 1,768,475	\$ 144,811	\$ 942	\$ 14,296,633	\$ 25,332,425
2011	3,870,688	4,675,312	16,353	114,770	127,190	2,203,561	170,396	181	13,078,590	24,257,041
2010	3,816,000	4,560,283	18,849	103,750	130,041	1,741,837	282,077	3,601	14,371,445	25,027,883
2009	3,570,161	4,296,653	20,162	89,124	68,520	1,550,100	116,451	1,299	15,331,075	25,043,545
2008	3,692,282	4,529,736	24,176	153,381	520,585	1,627,701	195,078	453	13,225,335	23,968,727
2007	3,763,326	4,759,332	31,418	123,191	525,018	1,216,582	141,053	27,058	12,558,189	23,145,167
2006	3,735,520	4,476,845	24,917	62,003	347,199	1,034,503	494,225	1,359,359	11,433,998	22,968,569
2005	3,851,532	4,265,960	16,638	83,654	222,134	817,954	260,628	1,053,063	10,994,978	21,566,541
2004	3,581,524	4,008,068	56,427	76,081	85,634	821,956	116,581	1,182,667	10,697,819	20,626,757

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

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

TABLE 5

CITY OF GALAX, VIRGINIA

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

Years Ended June 30	Current Tax Levy (1)	Collected within the Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$ 3,999,533	\$ 3,831,544	95.80%	\$ -	\$ 3,831,544	95.80%
2011	3,728,831	3,588,318	96.23%	48,489	3,636,807	97.53%
2010	3,916,477	3,776,354	96.42%	85,067	3,861,421	98.59%
2009	3,923,267	3,699,935	94.31%	145,401	3,764,990	95.97%
2008	3,991,116	3,795,947	95.11%	121,575	3,850,422	96.47%
2007	4,212,069	3,823,553	90.78%	164,135	3,987,688	94.67%
2006	4,176,254	3,752,783	89.86%	125,176	3,877,959	92.86%
2005	4,083,269	3,904,819	95.63%	125,635	4,030,454	98.71%
2004	3,857,166	3,648,281	94.58%	78,247	3,726,528	96.61%
2003	3,835,391	3,701,331	96.50%	130,007	3,831,338	99.89%

(1) Exclusive of penalties and interest.

TABLE 6**CITY OF GALAX, VIRGINIA**

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

Fiscal Year	Real Estate (1)	Personal Property (1)	Public Service Corporation	Total Assessed Value
2012	\$ 443,963,100	\$ 99,871,993	\$ 14,483,951	\$ 558,319,044
2011	444,067,400	96,562,916	13,770,881	554,401,197
2010	442,517,089	82,983,895	13,567,565	539,068,549
2009	441,047,000	102,287,271	13,938,302	557,272,573
2008	358,067,015	98,479,264	13,145,695	469,691,974
2007	356,511,315	116,885,023	12,232,851	485,629,189
2006	352,035,705	115,136,700	12,541,268	479,713,673
2005	347,419,079	110,809,834	14,538,850	472,767,763
2004	283,461,600	115,811,677	11,501,733	410,775,010
2003	280,916,236	111,642,577	10,166,928	402,725,741

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

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property (2)	Machinery and Tools (2)
2012	0.62	0.62	1.68	1.42
2011	0.57	0.70	1.68	1.42
2010	0.57	0.70	1.68	1.42
2009	0.55	0.55	1.42	1.42
2008	0.50	0.50	1.42	1.42
2007	0.70	0.70	1.42	1.42
2006	0.70	0.70	1.42	1.42
2005	0.70	0.70	1.42	1.42
2004	0.76	0.76	1.42	1.42
2003	0.76	0.76	1.42	1.42

(2) Per \$100 of assessed value.

TABLE 8

CITY OF GALAX, VIRGINIA

DEBT CAPACITY INFORMATION

RATIOS OF NET GENERAL BONDED DEBT

Last Ten Fiscal Years

UNAUDITED

Fiscal Year	Population (1)	Assessed Value (in hundreds) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2012	6,983	5,583,190	\$ 7,402,698	\$ 7,402,698	1.33%	\$ 1,060
2011	7,042	5,544,012	7,873,915	7,873,915	1.42%	1,118
2010	6,880	5,390,685	8,348,105	8,348,105	1.55%	1,213
2009	6,808	5,572,726	8,822,196	8,822,196	1.58%	1,296
2008	6,837	4,696,920	9,435,220	9,435,220	2.01%	1,380
2007	6,837	4,856,292	9,418,978	9,418,978	1.94%	1,378
2006	6,837	4,797,137	4,712,430	4,712,430	0.98%	689
2005	6,837	4,727,678	4,893,486	4,893,486	1.04%	716
2004	6,837	4,107,750	5,177,476	5,177,476	1.26%	757
2003	6,837	4,019,677	3,614,827	3,614,827	0.90%	529

(1) United States Bureau of the Census.

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

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

Excludes revenues bonds, landfill closure/postclosure care liability, capital leases, and compensated absences.

TABLE 9

CITY OF GALAX, VIRGINIA

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED
DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
Last Ten Fiscal Years
UNAUDITED**

Fiscal Year	Principal	Interest and Other Fiscal Charges	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2012	\$ 526,929	\$ 230,071	\$ 757,000	\$ 29,501,140	2.57%
2011	517,681	250,369	768,050	27,207,272	2.82%
2010	516,911	275,887	792,798	29,221,393	2.71%
2009	300,835	201,066	501,901	29,248,617	1.72%
2008	5,261,321	345,962	5,607,283	34,654,818	16.18%
2007	293,452	181,332	474,784	21,241,751	2.24%
2006	246,057	220,191	466,248	23,810,615	1.96%
2005	283,990	202,225	486,215	22,791,667	2.13%
2004	277,351	200,802	478,153	21,244,422	2.25%
2003	241,474	137,172	378,646	18,753,662	2.02%

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

COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Members of City Council
City of Galax, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *Specifications for Audits of Counties, Cities and Towns*, and *Specifications for Audits of Authority, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management of City of Galax, Virginia, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies, Items 08-1 and 11-1, described in the accompanying schedule of findings and questioned costs to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are reported as Items 12-1 and 12-2 in the accompanying schedule of findings and questioned costs.**

We noted certain other matters that we reported to management of the City in a separate letter dated November 28, 2012.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 28, 2012

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

Honorable Members of City Council
City of Galax, Virginia

Compliance

We have audited the compliance of the City of Galax, Virginia with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Galax, Virginia complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 28, 2012

CITY OF GALAX, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2012

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Comprehensive Services Act

Highway Maintenance

State Agency Requirements

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

CITY OF GALAX, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. SUMMARY OF AUDITOR'S RESULTS

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

<u>Name of Program:</u>	<u>CFDA Number</u>
State Administrative Matching Grant for Supplemental Nutrition Assistance Program	10.561
Title I Grants to Local Education Agencies	84.010, 84.389
Education Jobs Fund	84.410
Child Nutrition Cluster	10.553, 10.555
Temporary Assistance to Needy Families	93.558

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

CITY OF GALAX, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

08-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management concurs and will implement controls where possible.

11-1: Audit Adjustments (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

12-1: General Fund Budget Appropriations

Condition:

Expenditures exceeded budget appropriations in six general fund categories and three school operating fund categories.

Recommendation:

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

Management Response:

Management concurs with this finding.

CITY OF GALAX, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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

12-2: Conflicts of Interest Act – Disclosure Forms

Condition:

We noted that two individuals did not timely submit all applicable forms required by the *Code of Virginia*. Two were filed after the deadline and opg wcu not submitted.

Recommendation:

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

Management Response:

Management concurs with this finding.