

CITY OF GALAX, VIRGINIA

FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010



CITY OF GALAX, VIRGINIA

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INTRODUCTORY SECTION

CITY OF GALAX, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2010

CITY COUNCIL

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

CITY SCHOOL BOARD

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

CITY SOCIAL SERVICES BOARD

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

OTHER OFFICIALS

City Manager	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 remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2010, 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 remaining fund information of the City of Galax, Virginia, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 12, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The required supplementary information on pages 41 through 43 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, individual fund statements 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 individual fund statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 12, 2010



BASIC FINANCIAL STATEMENTS

CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2010

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
ASSETS						
Cash and cash equivalents (Note 2)	\$ 1,412,498	\$ -	\$ 1,412,498	\$ 2,295,368	\$ 52,274	\$ 3,760,140
Receivables, net (Note 3)	626,379	604,292	1,230,671	-	55,950	1,286,621
Due from other governments (Note 4)	881,551	181,792	1,063,343	748,621	-	1,811,964
Due from primary government	-	-	-	791,980	-	791,980
Prepaid items	84,917	4,449	89,366	204,419	-	293,785
Inventories	-	-	-	10,411	-	10,411
Bond issue costs, net	35,513	8,990	44,503	-	-	44,503
Note Receivable	-	-	-	-	754,929	754,929
Restricted assets:						
Cash and cash equivalents (Note 2)	572,039	-	572,039	-	-	572,039
Capital assets: (Note 6)						
Nondepreciable	2,406,036	1,695,812	4,101,848	148,960	-	4,250,808
Depreciable, net	17,524,442	3,757,506	21,281,948	1,634,146	-	22,916,094
Total assets	23,543,375	6,252,841	29,796,216	5,833,905	863,153	36,493,274
LIABILITIES						
Accounts payable	325,641	755,584	1,081,225	67,138	-	1,148,363
Accrued payroll and related liabilities	216,305	41,031	257,336	826,407	-	1,083,743
Accrued interest payable	110,469	15,052	125,521	-	-	125,521
Due to other governments (Note 4)	404,915	-	404,915	-	-	404,915
Due to component unit	791,980	-	791,980	-	-	791,980
Customer security deposits	-	41,427	41,427	-	-	41,427
Unearned revenue (Note 3)	8,518	-	8,518	-	-	8,518
Long-term liabilities: (Note 7)						
Due within one year	826,771	410,569	1,237,340	150,534	-	1,387,874
Due in more than one year	8,863,867	956,171	9,820,038	125,544	-	9,945,582
Total liabilities	11,548,466	2,219,834	13,768,300	1,169,623	-	14,937,923
NET ASSETS						
Invested in capital assets, net of related debt	11,448,227	4,178,860	15,627,087	1,783,106	-	17,410,193
Restricted:						
Anthem Stock proceeds	403,583	-	403,583	-	-	403,583
Regional Library Monument	53,296	-	53,296	-	-	53,296
Police Expenses	70,239	-	70,239	-	-	70,239
Museum	44,921	-	44,921	-	-	44,921
Unrestricted	(25,357)	(145,853)	(171,210)	2,881,176	863,153	3,573,119
Total net assets	\$ 11,994,909	\$ 4,033,007	\$ 16,027,916	\$ 4,664,282	\$ 863,153	\$ 21,555,351

CITY OF GALAX, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

					Net (Expense) Revenue and Changes in Net Assets					
Program Revenues					Primary Government			Component Units		
Function	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Industrial Development Authority	Total
Primary Government:										
Governmental activities:										
General government administration	\$ 1,354,495	\$ 70,700	\$ 97,482	\$ -	\$ (1,186,313)	\$ -	\$ (1,186,313)			\$ (1,186,313)
Judicial administration	516,416	-	-	-	(516,416)	-	(516,416)			(516,416)
Public safety	2,572,717	123,072	554,774	507,807	(1,387,064)	-	(1,387,064)			(1,387,064)
Public works	1,399,049	539,795	1,518,588	-	659,334	-	659,334			659,334
Health and welfare	1,730,389	-	1,284,711	-	(445,678)	-	(445,678)			(445,678)
Education	3,878,868	-	-	-	(3,878,868)	-	(3,878,868)			(3,878,868)
Parks, recreational, and cultural	1,728,558	438,180	3,000	50,000	(1,237,378)	-	(1,237,378)			(1,237,378)
Community development	1,041,925	-	-	639,641	(402,284)	-	(402,284)			(402,284)
Interest on long-term debt	278,631	-	-	-	(278,631)	-	(278,631)			(278,631)
Total primary government	14,501,048	1,171,747	3,458,555	1,197,448	(8,673,298)	-	(8,673,298)			
Business-type activities:										
Water and sewer	2,436,820	2,208,811	-	420,785	-	192,776	192,776			192,776
Total business-type activities	2,436,820	2,208,811	-	420,785	-	192,776	192,776			192,776
Total primary government	\$ 16,937,868	\$ 3,380,558	\$ 3,458,555	\$ 1,618,233	(8,673,298)	192,776	(8,480,522)			(8,480,522)
Component Units:										
School Board	\$ 13,383,814	\$ 776,103	\$ 9,580,975	\$ -				\$ (3,026,736)		(3,026,736)
Industrial Development Authority	140	-	-	-					\$ (140)	(140)
Total component units	\$ 13,383,954	\$ 776,103	\$ 9,580,975	\$ -				(3,026,736)	(140)	(3,026,876)
General revenues:										
Property taxes					3,922,184	-	3,922,184	-	-	3,922,184
Local sales and use taxes					1,921,121	-	1,921,121	-	-	1,921,121
Consumer utility taxes					185,677	-	185,677	-	-	185,677
Business license tax					972,920	-	972,920	-	-	972,920
Meals tax					1,171,745	-	1,171,745	-	-	1,171,745
Other local taxes					378,576	-	378,576	-	-	378,576
Intergovernmental revenue, unrestricted					481,486	-	481,486	-	-	481,486
Interest and investment income, unrestricted					1,238	-	1,238	106,630	42,320	150,188
Other					72,478	-	72,478	44,563	-	117,041
Contributions from primary government					-	-	-	3,419,388	194,034	3,613,422
Transfers (Note 5)					(155,561)	155,561	-	-	-	-
Total general revenues					8,951,864	155,561	9,107,425	3,570,581	236,354	12,914,360
Change in net assets					278,566	348,337	626,903	543,845	236,214	1,406,962
Net assets beginning, as restated (Note 20)					11,716,343	3,684,670	15,401,013	4,120,437	626,939	20,148,389
Net assets ending					\$ 11,994,909	\$ 4,033,007	\$ 16,027,916	\$ 4,664,282	\$ 863,153	\$ 21,555,351

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

CITY OF GALAX, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2010

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,412,498
Cash and cash equivalents, restricted	572,039
Receivables, net (Note 3)	626,379
Prepaid expenses	84,917
Due from other governments (Note 4)	881,551
Total assets	<u>\$ 3,577,384</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 325,641
Accrued wages	216,305
Deferred revenue (Note 3)	409,761
Due to other governments (Note 4)	404,915
Due to component unit	791,980
Total liabilities	<u>2,148,602</u>
Fund balance:	
Reserved (Note 9)	983,552
Unreserved:	
Undesignated	445,230
Total fund balance	<u>1,428,782</u>
Total liabilities and fund balance	<u>\$ 3,577,384</u>
Reconciliation to the Statement of Net Assets	
Total fund balance	\$ 1,428,782
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	19,930,478
Receivables on the statement of net assets that do not provide current financial resources are reported as deferred revenue in the funds.	401,243
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.	35,513
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	\$ (110,469)
General obligation bonds and literary fund loans	(8,348,105)
Bond discount	11,680
Notes payable	(168,181)
Capital lease obligations	(13,158)
Landfill closure/postclosure	(783,000)
Other postemployment benefits	(45,447)
Compensated absences	(344,427)
	<u>(9,801,107)</u>
Net assets of governmental activities	<u>\$ 11,994,909</u>

CITY OF GALAX, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2010

	<u>General Fund</u>
REVENUES	
General property taxes (Note 3)	\$ 3,816,000
Other local taxes	4,560,283
Permits, privilege fees, and regulatory licenses	18,849
Fines and forfeitures	103,750
Revenue from use of money and property	23,411
Charges for services	965,734
Other	241,115
Intergovernmental	<u>4,790,470</u>
Total revenues	<u>14,519,612</u>
EXPENDITURES	
Current:	
General government administration	1,328,623
Judicial administration	516,030
Public safety	2,602,251
Public works	2,091,801
Health and welfare	1,723,290
Education	3,530,899
Parks, recreation, and cultural	1,910,866
Community development	1,041,925
Debt service:	
Principal	516,911
Interest and other fiscal charges	<u>275,887</u>
Total expenditures	15,538,483
Deficiency of revenues over expenditures	(1,018,871)
OTHER FINANCING USES	
Transfers out (Note 5)	<u>(155,561)</u>
Total other financing uses	(155,561)
Net change in fund balance	(1,174,432)
FUND BALANCE AT JULY 1, as restated (Note 20)	<u>2,603,214</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 1,428,782</u></u>

(Continued)

CITY OF GALAX, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2010

**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 \$ (1,174,432)

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	828,361	
Depreciation expense	(850,138)	
		(21,777)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, disposals) is to increase net assets.		238,335
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		175,940
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt (\$516,911) 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 treatments of long-term debt.		516,911
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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	555,000	
Decrease in compensated absences	13,983	
Increase in other postemployment benefits	(22,650)	
Decrease in accrued interest payable	5,096	
Amortization of bond issue costs and other deferred costs	(7,840)	
		543,589

Change in net assets of governmental activities		\$ 278,566
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CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2010

	Business-type Activities
	Enterprise Fund
	Water and Sewer
ASSETS	
Current assets:	
Receivables, net (Note 3)	\$ 604,292
Prepaid expenses	4,449
Due from other governments (Note 4)	181,792
Total current assets	790,533
Noncurrent assets:	
Bond issue costs, net	8,990
Capital assets: (Note 6)	
Nondepreciable	1,695,812
Depreciable, net	3,757,506
Total noncurrent assets	5,462,308
Total assets	6,252,841
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	755,584
Accrued payroll and related liabilities	41,031
Accrued interest payable	15,052
Customer security deposits	41,427
Current portion of noncurrent liabilities (Note 7)	410,569
Total current liabilities	1,263,663
Noncurrent liabilities:	
Due in more than one year (Note 7)	956,171
Total noncurrent liabilities	956,171
Total liabilities	2,219,834
NET ASSETS	
Invested in capital assets, net of related debt	4,178,860
Unrestricted	(145,853)
Total net assets	\$ 4,033,007

CITY OF GALAX, VIRGINIA

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

For the Year Ended June 30, 2010

	Business-type Activities
	Enterprise Fund
	Water and Sewer
OPERATING REVENUES	
Water revenues	\$ 1,100,728
Sewer revenues	1,064,173
Connection fees	25,225
Penalty and interest	12,781
Other revenues	5,904
Total operating revenues	2,208,811
OPERATING EXPENSES	
Salaries, wages, and benefits	1,133,141
Utilities	264,498
Repairs and maintenance – system	98,670
Materials and supplies	258,102
Other expenses	66,494
Depreciation	568,691
Amortization	1,498
Total operating expenses	2,391,094
Operating loss	(182,283)
NON-OPERATING EXPENSES	
Interest expense	(45,726)
Total non-operating expenses	(45,726)
Loss before capital contributions	(228,009)
CAPITAL CONTRIBUTIONS	420,785
TRANSFERS IN (NOTE 5)	155,561
Change in net assets	348,337
NET ASSETS JULY 1	3,684,670
NET ASSETS JUNE 30	\$ 4,033,007

CITY OF GALAX, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	Business-type Activities
	Enterprise Fund
	Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	\$ 1,899,909
Payments to suppliers	(631,351)
Payments to employees	(1,123,866)
Other receipts	5,904
Net cash provided by operating activities	150,596
NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	155,561
Net cash provided by noncapital financing activities	155,561
CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	446,407
Acquisition and construction of capital assets	(796,451)
Contribution of capital by other governments	420,785
Principal payments on debt	(334,198)
Interest payments on debt	(46,592)
Net cash used in capital and related financing activities	(310,049)
Net decrease in cash and cash equivalents	(3,892)
CASH AND CASH EQUIVALENTS	
Beginning at July 1	3,892
Ending at June 30	\$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH	
Operating loss	\$ (182,283)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	570,189
Increase in accounts receivable	(304,683)
Decrease in prepaids	8,511
Increase in accounts payable	47,902
Increase in accrued payroll and related liabilities	12,896
Decrease in compensated absences and other postemployment benefits	(3,621)
Decrease in customer security deposits	1,685
Net cash provided by operating activities	\$ 150,596
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital asset purchases financed by accounts payable	\$ 656,407

CITY OF GALAX, VIRGINIA

STATEMENT OF NET ASSETS – FIDUCIARY FUND
June 30, 2010

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 37,895
LIABILITIES	
Amounts held for social service clients	\$ 37,895

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

Galax City School Board

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

Galax City Industrial Development Authority

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

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

Galax–Carroll Regional Library

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

Twin County E-911 Commission

The City, in conjunction with the counties of Carroll and Grayson, participates in supporting the Twin County E-911 Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$106,581 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, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Galax-Grayson Ambulance Service

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

Carroll – Grayson – Galax Regional Industrial Facilities Authority

The City and the Counties of Carroll and Grayson participate in the Regional Industrial Facilities Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The primary purpose of the authority is to develop facilities that provide for the comfort, convenience, and welfare of the participating localities' citizens. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate industrial development.

Carroll – Grayson – Galax Regional Solid Waste Authority

The City and the Counties of Carroll and Grayson participate in the Regional Solid Waste Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. All Waste Authority operations are financed by tipping fees and the individual jurisdictions are required to fund any annual deficit incurred by the Waste Authority. The City paid \$244,565 in tipping fees during 2010.

The Wired Road Authority

The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The primary purpose of the Authority is to develop and construct broadband infrastructure in the participating localities and then lease that infrastructure to third parties. The organization's activities are to be primarily supported by lease revenue. The City acts as fiscal agent for this organization.

B. Government-wide and Fund Financial Statements

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental fund:

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

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

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

Additionally, the City reports the following fund category:

Fiduciary Funds – Fiduciary funds are used to account for assets held by the City in a purely custodial capacity. The Special Welfare Fund is reported as an agency fund.

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

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

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

Receivables

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

Inventories

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

Capital Assets

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

Capital Assets (Continued)

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

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

Compensated Absences

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

Deferred Revenues

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

Long-term Obligations

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

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

Encumbrances

The City uses encumbrance accounting, wherein purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of fund balance.

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.

Net Assets/Fund Equity

Net assets in the government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are reported as restricted when there are limitations imposed on their use through the enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations.

In the fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments

Deposits

All cash of the City and its component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. seq.* of the *Code of Virginia*, (the “*Code*”) or covered by federal depository insurance. At year end, there was \$31,500 that was not maintained in accounts collateralized in accordance with the Virginia Security of Public Deposits Act; however, the balance at year end was covered by Federal Depository Insurance.

Investments

Investment policy:

In accordance with the *Code* and other applicable law, including regulations, the City’s investment policy (Policy) permits investments in U.S. Treasury Securities, U.S. Agency securities, 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).

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 or by the City, 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, 2010, 100% of the portfolio was invested in “AAAm” rated obligations. Credit ratings presented in this paragraph are Standard and Poor’s short-term issue 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.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Interest rate risk:

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Local Government Investment Pool (LGIP)	\$ 89,067	100%

Custodial credit risk:

The Policy requires that all investment securities shall be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, all of the City’s investments are held in a bank’s trust department in the City’s name.

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

	<u>Primary Government</u>	<u>Component Units</u>	
		<u>School Board</u>	<u>IDA</u>
Deposits and investments:			
Cash on hand	\$ 1,050	\$ 1,830	\$ -
Deposits	1,932,315	2,293,538	52,274
Investments	89,067	-	-
	<u>\$ 2,022,432</u>	<u>\$ 2,295,368</u>	<u>\$ 52,274</u>
Statements of net assets:			
Cash and cash equivalents	\$ 1,412,498	\$ 2,295,368	\$ 52,274
Cash and cash equivalents, restricted	572,039	-	-
Fiduciary fund cash and cash equivalents	37,895	-	-
	<u>\$ 2,022,432</u>	<u>\$ 2,295,368</u>	<u>\$ 52,274</u>

Restricted amounts:

Restricted cash and cash equivalents at the Primary Government consist of accounts for Police Narcotics \$26,233, DARE \$3,454, Regional Library \$53,296, Anthem Stock \$403,583, Twin County Task Force \$12,771, Police Seizure \$27,781, and Jeff Matthews Museum \$44,921. 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, 2010

Note 3. Receivables, Deferred Revenue, and Property Taxes

Receivables are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables		
Taxes	\$ 938,268	\$ -
Accounts	264,176	624,239
Gross receivables	<u>1,202,444</u>	<u>624,239</u>
Less:		
Allowance for uncollectible taxes	(571,044)	-
Allowance for uncollectible accounts	<u>(5,021)</u>	<u>(19,947)</u>
Total allowance	<u>(576,065)</u>	<u>(19,947)</u>
Receivables, net	<u><u>\$ 626,379</u></u>	<u><u>\$ 604,292</u></u>

Deferred revenue is as follows:

Property taxes receivable – unavailable	\$ 151,686
Meals taxes receivable – unavailable	69,756
Advance collection of 2010-2011 property taxes – unearned	8,518
EMS advance – unavailable	21,406
Library advance – unavailable	26,917
Partners advance – unavailable	<u>131,478</u>
Total deferred revenue – governmental fund	409,761
Less deferrals for unavailability	<u>(401,243)</u>
Unearned revenue – statement of net assets	<u><u>\$ 8,518</u></u>

Property taxes:

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

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

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

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 4. Due from/Due to Other Governments

Amounts due from other governments consist of the following:

	Primary Government	Component Unit – School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 321,892	\$ -
State sales tax	-	164,989
Categorical aid	155,619	-
Non-categorical aid	34,438	-
Categorical aid – schools	-	145,164
Categorical aid – water project	181,792	-
<u>Federal Government:</u>		
Categorical aid	142,429	-
Categorical aid – schools	-	438,468
<u>Local Boards, Authorities, Commissions, and Other Local Governments:</u>		
Galax – Grayson Ambulance Service	105,546	-
Galax – Carroll Regional Library	46,886	-
Wired Road Authority	12,599	-
Twin County E-911 Commission	35,710	-
Crossroads	8,224	-
Carroll County	9,104	-
Grayson County	9,104	-
	<u>\$ 1,063,343</u>	<u>\$ 748,621</u>

Amounts due to other governments consist of the following:

	Primary Government
Due to Carroll and Grayson Counties	<u>\$ 404,915</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 5. Interfund Activity

The primary purpose of the \$155,561 transfer from the general fund to the water and sewer fund is for the fund's portion of pooled cash that is negative.

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	\$ 1,777,837	\$ -	\$ (1,500)	\$ 1,776,337
* Construction-in-progress	196,217	608,261	(174,779)	629,699
Capital assets, nondepreciable	1,974,054	608,261	(176,279)	2,406,036
Capital assets, depreciable:				
Infrastructure	1,059,933	-	-	1,059,933
* Buildings and improvements	18,424,637	189,109	-	18,613,746
Machinery and equipment	3,833,143	445,393	(137,938)	4,140,598
Capital assets, depreciable	23,317,713	634,502	(137,938)	23,814,277
Less accumulated depreciation for:				
Infrastructure	(252,634)	(43,441)	-	(296,075)
* Buildings and improvements	(2,770,228)	(538,730)	-	(3,308,958)
Machinery and equipment	(2,554,773)	(267,967)	137,938	(2,684,802)
Total accumulated depreciation	(5,577,635)	(850,138)	137,938	(6,289,835)
Capital assets, depreciable, net	17,740,078	(215,636)	-	17,524,442
Governmental activities capital assets, net	<u>\$ 19,714,132</u>	<u>\$ 392,625</u>	<u>\$ (176,279)</u>	<u>\$ 19,930,478</u>

*Beginning balances were restated, see Note 20.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 6. Capital Assets (Continued)

Primary Government (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Construction in progress	\$ 158,646	\$ 1,399,474	\$ -	\$ 1,558,120
Land	137,692	-	-	137,692
Capital assets, nondepreciable	<u>296,338</u>	<u>1,399,474</u>	<u>-</u>	<u>1,695,812</u>
Capital assets, depreciable:				
Infrastructure	15,844,405	-	-	15,844,405
Machinery and equipment	378,458	53,384	(10,769)	421,073
Capital assets, depreciable	<u>16,222,863</u>	<u>53,384</u>	<u>(10,769)</u>	<u>16,265,478</u>
Less accumulated depreciation for:				
Infrastructure	(11,752,807)	(528,068)	-	(12,280,875)
Machinery and equipment	(197,243)	(40,623)	10,769	(227,097)
Total accumulated depreciation	<u>(11,950,050)</u>	<u>(568,691)</u>	<u>10,769</u>	<u>(12,507,972)</u>
Capital assets, depreciable, net	<u>4,272,813</u>	<u>(515,307)</u>	<u>-</u>	<u>3,757,506</u>
Business-type activities capital assets, net	<u>\$ 4,569,151</u>	<u>\$ 884,167</u>	<u>\$ -</u>	<u>\$ 5,453,318</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 23,607
Public safety	170,281
Public works	134,447
Health and welfare	5,015
Education	347,969
Parks, recreation, and cultural	<u>168,819</u>
	850,138
Business-type activities:	
Water and sewer	<u>568,691</u>
Total depreciation expense – primary government	<u>\$ 1,418,829</u>

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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>
Downtown Revitalization	\$ 250,560	\$ 7,344
Felts Park Performance Center	<u>185,480</u>	<u>67,100</u>
	<u>\$ 436,040</u>	<u>\$ 74,444</u>

Discretely Presented Component Unit – School Board

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:				
Land	\$ 148,960	\$ -	\$ -	\$ 148,960
Capital assets, nondepreciable	<u>148,960</u>	<u>-</u>	<u>-</u>	<u>148,960</u>
Capital assets, depreciable:				
Buildings and improvements	4,402,513	259,653	-	4,662,166
Machinery and equipment	<u>1,249,186</u>	<u>275,489</u>	<u>(23,368)</u>	<u>1,501,307</u>
Capital assets, depreciable	<u>5,651,699</u>	<u>535,142</u>	<u>(23,368)</u>	<u>6,163,473</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,605,493)	(61,256)	-	(3,666,749)
Machinery and equipment	<u>(773,434)</u>	<u>(112,512)</u>	<u>23,368</u>	<u>(862,578)</u>
Total accumulated depreciation	<u>(4,378,927)</u>	<u>(173,768)</u>	<u>23,368</u>	<u>(4,529,327)</u>
Capital assets, depreciable, net	<u>1,272,772</u>	<u>361,374</u>	<u>-</u>	<u>1,634,146</u>
Governmental activities capital assets, net	<u>\$ 1,421,732</u>	<u>\$ 361,374</u>	<u>\$ -</u>	<u>\$ 1,783,106</u>

All depreciation expense in the School Board was charged to the Education function.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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	\$ 2,365,230	\$ -	\$ (85,570)	\$ 2,279,660	\$ 87,789
*Notes payable	197,224	-	(29,043)	168,181	30,441
Literary fund loans	6,456,966	-	(388,521)	6,068,445	388,521
Total bonds and loans payable	9,019,420	-	(503,134)	8,516,286	506,751
Landfill postclosure	1,338,000	-	(555,000)	783,000	31,320
Compensated absences	358,410	-	(13,983)	344,427	275,542
Capital lease payable	26,935	-	(13,777)	13,158	13,158
Other post-employment benefits	22,797	22,650	-	45,447	-
Governmental activities long-term liabilities	<u>\$ 10,765,562</u>	<u>\$ 22,650</u>	<u>\$ (1,085,894)</u>	<u>\$ 9,702,318</u>	<u>\$ 826,771</u>
Business-Type Activities:					
General obligation bonds	\$ 1,164,855	\$ 446,407	\$ (334,198)	\$ 1,277,064	\$ 350,657
Compensated absences	83,058	-	(8,168)	74,890	59,912
Other post-employment benefits	3,855	4,547	-	8,402	-
Business-type activities long-term liabilities	<u>\$ 1,251,768</u>	<u>\$ 450,954</u>	<u>\$ (342,366)</u>	<u>\$ 1,360,356</u>	<u>\$ 410,569</u>
Component Unit – School Board:					
Compensated absences	\$ 179,159	\$ -	\$ (5,992)	\$ 173,167	\$ 138,534
Other post-employment benefits	34,641	32,270	-	66,911	-
Early retirement liability	-	36,000	-	36,000	12,000
	<u>\$ 213,800</u>	<u>\$ 68,270</u>	<u>\$ (5,992)</u>	<u>\$ 276,078</u>	<u>\$ 150,534</u>

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

*Beginning balance was restated, see Note 20.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 7. Long-term Liabilities (Continued)

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

Year Ended June 30	Governmental Activities								Business-type Activities	
	General Obligation		Notes Payable		Literary Fund Loan		Capital Lease		General Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 87,789	\$ 101,226	\$ 30,441	\$ 8,410	\$ 388,521	\$ 134,776	\$ 13,158	\$ 347	\$ 350,657	\$ 34,323
2012	90,315	97,633	31,963	6,888	381,101	125,621	-	-	182,500	23,792
2013	97,765	93,746	33,561	5,290	381,101	116,465	-	-	182,500	19,428
2014	100,333	89,562	35,239	3,612	381,101	107,532	-	-	187,500	15,062
2015	103,030	85,237	36,977	1,850	381,101	98,599	-	-	192,500	10,456
2016-2020	593,393	352,965	-	-	1,905,520	358,997	-	-	181,407	5,356
2021-2025	371,564	238,604	-	-	1,250,000	175,000	-	-	-	-
2026-2030	420,000	150,958	-	-	1,000,000	95,000	-	-	-	-
2031-2034	415,471	41,140	-	-	-	-	-	-	-	-
	<u>\$ 2,279,660</u>	<u>\$ 1,251,071</u>	<u>\$ 168,181</u>	<u>\$ 26,050</u>	<u>\$ 6,068,445</u>	<u>\$ 1,211,990</u>	<u>\$ 13,158</u>	<u>\$ 347</u>	<u>\$ 1,277,064</u>	<u>\$ 108,417</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
<u>General Obligation Bonds:</u>						
Rural Development	4.76%	02-2000	02-2020	\$ 1,000,000	\$ 644,561	\$ -
2003 Series A	2.02-4.77	12-2003	08-2033	1,840,000	1,635,099	-
Virginia Resources Authority	4.87	01-1991	01-2011	3,432,752	-	265,657
Virginia Resources Authority	4.10-5.10	06-2001	04-2016	1,125,000	-	565,000
Virginia Resources Authority	0%	12-2009	04-2031	1,850,000	-	446,407
					2,279,660	1,277,064
				Plus: bond premium	-	6,384
				Less: bond discount	(11,680)	-
					<u>\$ 2,267,980</u>	<u>\$ 1,283,448</u>
<u>Other Long-term Debt:</u>						
State Literary Loan	3.00%	07-1991	12-2010	\$ 148,400	\$ 7,420	\$ -
State Literary Loan	3.00	04-1998	12-2019	2,622,035	1,311,025	-
State Literary Loan	2.00	05-2008	10-2028	5,000,000	4,750,000	-
Fire Truck Loan	5.00	05-2005	05-2015	300,000	168,181	-
					<u>\$ 6,236,626</u>	<u>\$ -</u>
<u>Capital Leases:</u>						
Golf Cart Lease	5.22%	03-2006	05-2011	\$ 65,000	\$ 13,158	\$ -

(Continued)

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 8. Short-term Debt

The City issued a tax anticipation note in advance of property tax collections. This note was used to fund operations until the collection of property taxes. The note was obtained in the amount of \$1,200,000 at an interest rate of 2.5% and was repaid during the current year.

Note 9. Landfill Closure and Postclosure Care Costs

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

The presence of certain contaminants from the closed landfill has been detected in the groundwater, which thereby extends the monitoring period in excess of the initial requirement. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City as discussed below. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances. The cumulative amount of estimated postclosure care and corrective costs to date for this site, less cash paid for such costs to date, totals \$783,000. This amount is included in the long-term liabilities in the primary government.

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

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

Note 10. Fund Balance/Net Assets

Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use. Fund balance is reserved in the general fund for the following:

Encumbrances	\$ 326,596
Prepaid expenses	84,917
Purpose restrictions – Museum	44,921
Purpose restrictions – Anthem Stock proceeds	403,583
Purpose restrictions – Regional Library Monument	53,296
Purpose restrictions – Police Narcotics, DARE, Twin County Task Force, and Police Seizure	70,239
	<hr/>
	\$ 983,552
	<hr/>

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 10. Fund Balance/Net Assets (Continued)

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance in the DPCU – School Board is designated for textbooks \$360,178, band uniforms \$63,276, and school nutrition \$264,274.

Deficit Unrestricted Net Assets: At June 30, an unrestricted net asset deficit of \$25,357 and \$145,853 exists in Governmental Activities and Business-Type Activities, respectively. This deficit is expected to be recovered through increasing revenues and decreasing ongoing expenses.

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

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

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

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 13,682,910
Principal and other debt service expenses included in primary government (Exhibit 4)	<u>540,497</u>
Total expenditures for school activities	<u><u>\$ 14,223,407</u></u>

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

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

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 13. Defined Benefit Pension Plan

Plan Description

The City 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"). In addition, professional and non-professional employees of the School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agent multiple-employer retirement system.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after 5 years of service. Employees are eligible for an unreduced benefit at age 65 with five years of service (age 60 with 5 years of service for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years for participating local law enforcement officers, firefighters, and sheriffs), payable monthly, for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. (1.85% sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits.) Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing the System at P.O. Box 2500, Richmond, Virginia 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 the fiscal year 2010 was 12.18% of annual covered payroll. The School Board's contribution rates for fiscal year 2010 were 13.81% for professional employees and 13.56% for non-professional employees. As required by the Commonwealth of Virginia, the contribution rates for school employees were reduced to -0-% for the period of April 1, 2010 to June 30, 2010. This rate reduction did not include the 5% employee share paid by the employer. The City and School Board's contribution rates include the employee's share of 5% paid by employer.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 13. Defined Benefit Pension Plan (Continued)

Funding Policy (Continued)

For the three years ended June 30, 2010, 2009, and 2008, total employer contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$782,520, \$904,079, and \$949,672, respectively, and represented 11.83%, 13.81%, and 15.30% of annual covered payroll, respectively, and 100% of the required contributions for 2010, 2009, and 2008, respectively.

Annual Pension Cost

For fiscal year 2010, the City's and School Board's annual pension costs, including the employee share assumed by the City, of \$628,378 and \$68,195, respectively, were equal to their required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City and School Board assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Three-Year Trend Information for City of Galax

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
June 30, 2010	\$ 628,378	100%	\$ -
June 30, 2009	\$ 641,551	100%	\$ -
June 30, 2008	\$ 549,856	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, 2010	\$ 68,195	100%	\$ -
June 30, 2009	\$ 66,299	100%	\$ -
June 30, 2008	\$ 45,803	100%	\$ -

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 13. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 89.21% funded for the City and 83.08% funded for the School Board. The actuarial accrued liability for benefits was \$19,945,558 for the City and \$1,523,616 for the School Board and the actuarial value of assets was \$17,794,425 for the City and \$1,265,783 for the School Board, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,151,134 for the City and \$257,833 for the School Board. The covered payroll (annual payroll of active employees covered by the plan) was \$5,254,800 for the City and \$501,856 for the School Board, and the ratio of the UAAL to the covered payroll was 40.94% for the City and 51.38% for the School Board.

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

Note 14. Other Post-employment Benefits

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. The City and School Board prospectively adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009. Recognition of the liability accumulated from prior years is being phased in over 30 years, commencing with the 2009 liability.

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. Participating retirees pay 100% of monthly premiums to continue with the insurance plans.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 14. Other Post-employment Benefits (Continued)

Plan Description (Continued)

The number of participants at July 1, 2008, date of valuation, was as follows:

	<u>City</u>	<u>School Board</u>
Retirees currently receiving benefits	3	22
Active employees	149	168
Total	<u>152</u>	<u>190</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 2010, 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	\$ 30,415	\$ 58,040
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	30,415	58,040
Contributions made	<u>(3,218)</u>	<u>(25,770)</u>
Increase in net OPEB obligation	27,197	32,270
Net OPEB obligation – beginning of year	<u>26,652</u>	<u>34,641</u>
Net OPEB obligation – end of year	<u>\$ 53,849</u>	<u>\$ 66,911</u>

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 14. Other Post-employment Benefits (Continued)

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

The City and School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. Since 2009 is the City's first year for implementing GASB No. 45, neither can report the same information for the preceding two years.

City:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 30,415	10.58%	\$ 53,849
June 30, 2009	\$ 29,577	9.89%	\$ 26,652

Schools:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 58,040	44.40%	\$ 66,911
June 30, 2009	\$ 58,068	59.66%	\$ 34,641

Funding Status and Funding Progress

The funding status of the plan as of July 1, 2008 was as follows:

	<u>City</u>	<u>School Board</u>
Actuarial Accrued Liability (AAL)	\$ 247,387	\$ 528,279
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	247,387	528,279
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	4,912,515	6,616,823
UAAL as a Percentage of Covered Payroll	5.04%	7.98%

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, 2010

Note 14. Other Post-employment Benefits (Continued)

Actuarial Methods and Assumptions

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

In the July 1, 2008, 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 2009 liability.

Note 15. Risk Management

General liability and other insurance:

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

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

Unemployment insurance:

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

Healthcare insurance:

The City and School Board provide coverage for employees through policies with Anthem. The City and School Board contribute 85% and 100%, respectively of the required premium amount for single coverage for each employee. Dependents of employee are also covered by the policy provided they pay the additional premium to the City and School Board. Total premiums for fiscal year 2010 paid by the City and School Board (including employee contributions) were approximately \$1,027,126 and \$1,158,169, respectively.

(Continued)

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 16. Commitments and Contingencies

Primary Government

Special purpose grants:

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

Consent order:

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

Wired Road Authority:

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

Litigation:

A claim is pending against the City. In the opinion of City management, after consulting with legal counsel, the potential loss on the claim will not materially affect the City's financial position.

Note 17. Subsequent Event

Subsequent to year end, the School Board transferred \$600,000 in excess cash to the City. This amount did not represent a commitment at June 30 and was not reported in the financials and is not required to be paid back.

In September 2010, the City entered into an agreement with the Blue Ridge Crossroads Economic Development Authority and the Counties of Carroll and Grayson to develop the Wildwood Park Project to stimulate economic development in the area. The total estimated cost of the project is \$8.3 million of which \$6.3 million will be financed by Rural Development loans and \$2.0 million will be financed through grants. The City will pay annual administrative fees and a one-third share of the loan payments.

In July 2010, the City obtained financing through a revenue anticipation note in the amount of \$2.0 million at an interest rate of 2.0% maturing January 31, 2011.

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 18. Contribution Agreement

During 2009, the City entered into agreements with the Galax Industrial Development Authority (IDA) and the Galax Partnership designed to benefit the City through historic tax credits for the rehabilitation of a historic structure, the Chestnut Creek School of the Arts. The City entered a co-development agreement with the Galax Partnership under which it will provide various services and personnel for the project. The Galax Partnership assisted in the formation of the various entities required for this project. When sold, the credits will reduce the City's cost of rehabilitation. At June 30, 2010, the City was due \$131,478 under this agreement.

In conjunction therewith, in 2009 and 2010, the City contributed approximately \$561,000 and \$194,000, respectively, to the IDA, which the IDA loaned to Galax Partners, LP ("LP") for the rehabilitation. The City may, from time to time, demand any loan repayments received by the IDA be contributed back to the City. At June 30, 2010, \$754,929 was outstanding on this note receivable along with \$55,950 in accrued interest.

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

In addition, the LP will lease the facility to Galax Tenant, LP ("Tenant LP") for a term of 10 years at \$4,900 per month. Tenant LP will lease the facility to the City for a term of 7 years at \$5,000 per month. These leases started when a certificate of occupancy for the rehabilitated structure was obtained. In December 2009, the LP entered into a limited partnership agreement with Carter Bank & Trust, the investor. At June 30, 2010, the City owed \$30,000 in rent expense to Tenant LP.

Note 19. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides new fund balance classifications and clarifies governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement will be effective for the year ending June 30, 2011.

Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect it to be material.

CITY OF GALAX, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 20. Prior Period Adjustments

The following is a summary of the restatement to fund balances/net assets at June 30, 2009:

	Primary Government		Discretely Presented Component Unit
	General Fund	Governmental Activities	Industrial Development Authority
Fund balance/ net assets			
June 30, 2009, as previously stated	\$ 2,393,482	\$ 12,312,454	\$ 52,414
To correct IDA note receivable and related interest receivable	-	-	574,525
To correct Social Services accounts receivable	132,087	132,087	-
To record meals tax accounts receivable	77,645	77,645	-
To correct fixed asset beginning balances	-	(778,058)	-
To correct long-term debt beginning balance	-	(27,785)	-
Net change in fund balance/net assets	209,732	(596,111)	574,525
Fund balance/net assets			
June 30, 2009, as restated	<u>\$ 2,603,214</u>	<u>\$ 11,716,343</u>	<u>\$ 626,939</u>

The IDA corrections were due to the historic tax credit project.

The social services correction relates to unrecorded revenue accrual for reimbursable expenditures.

The meals tax correction was due to the City changing its policy with respect to accrual of this revenue.

The fixed asset corrections were due to the Finance Director performing an extensive review of the fixed asset listings.

The long-term debt correction relates to principal payments being applied to an incorrect opening balance dating before 2008.



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, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
General property taxes	\$ 3,760,813	\$ 3,760,813	\$ 3,816,000	\$ 55,187
Other local taxes	5,653,000	4,494,500	4,560,283	65,783
Permits, privilege fees, and regulatory licenses	20,000	20,000	18,849	(1,151)
Fines and forfeitures	100,500	70,500	103,750	33,250
Revenue from use of money and property	39,000	14,700	23,411	8,711
Charges for services	1,048,800	982,000	965,734	(16,266)
Other	408,900	472,364	241,115	(231,249)
Intergovernmental	5,894,087	4,919,033	4,790,470	(128,563)
Appropriated fund balance	550,783	969,447	-	(969,447)
Total revenues	17,475,883	15,703,357	14,519,612	(1,183,745)
EXPENDITURES				
Current:				
General government administration	1,325,389	1,325,389	1,328,623	(3,234)
Judicial administration	351,750	351,750	516,030	(164,280)
Public safety	2,146,492	2,541,574	2,602,251	(60,677)
Public works	2,942,225	2,340,175	2,091,801	248,374
Health and welfare	1,740,445	1,740,445	1,723,290	17,155
Education	4,941,396	4,071,396	3,530,899	540,497
Parks, recreation, and cultural	1,856,432	2,004,240	1,910,865	93,375
Community development	2,167,239	936,539	1,041,925	(105,386)
Debt service:				
Principal	148,808	1,348,808	516,911	831,897
Interest and other fiscal charges	127,067	135,450	275,887	(140,437)
Total expenditures	17,747,243	16,795,766	15,538,482	1,257,284
Excess of expenditures over revenues	(271,360)	(1,092,409)	(1,018,870)	73,539
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	1,200,000	-	(1,200,000)
Transfers in	271,360	-	-	-
Transfers out	-	(107,591)	(155,561)	(47,970)
Total other financing sources (uses)	271,360	1,092,409	(155,561)	(1,247,970)
Net change in fund balance	\$ -	\$ -	\$ (1,174,431)	\$ (1,174,431)

CITY OF GALAX, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
AND OTHER POST-EMPLOYMENT BENEFITS
As of June 30, 2010

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, 2009	\$17,794,425	\$ 19,945,558	\$ 2,151,133	89.21%	\$ 5,254,800	40.94%
June 30, 2008	\$17,617,866	\$ 18,626,035	\$ 1,008,169	94.59%	\$ 4,912,515	20.52%
June 30, 2007	\$16,080,004	\$ 16,852,557	\$ 772,553	95.42%	\$ 4,742,239	16.29%
B. City of Galax Schools Non-professional Employees						
June 30, 2009	\$ 1,265,783	\$ 1,523,616	\$ 257,833	83.08%	\$ 501,856	51.38%
June 30, 2008	\$ 1,225,113	\$ 1,428,814	\$ 203,701	85.74%	\$ 452,869	44.98%
June 30, 2007	\$ 1,129,798	\$ 1,348,913	\$ 219,115	83.76%	\$ 448,212	48.89%

OTHER POST EMPLOYMENT BENEFITS

A. City of Galax						
July 1, 2008	\$ -	\$ 247,387	\$ 247,387	0.00%	\$ 4,912,515	5.04%
B. City of Galax School Board						
July 1, 2008	\$ -	\$ 528,279	\$ 528,279	0.00%	\$ 6,616,823	7.98%

CITY OF GALAX, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2010

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



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, 2010

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 2,295,368
Due from other governments	748,621
Due from primary government	791,980
Prepaid expenses	204,419
Inventories	10,411
Total assets	<u>\$ 4,050,799</u>
LIABILITIES	
Accounts payable	\$ 67,138
Accrued payroll and related liabilities	826,407
Total liabilities	<u>893,545</u>
FUND BALANCE	
Reserved for:	
Prepaid expenses	204,419
Inventories	10,411
Unreserved:	
Designated	687,728
Undesignated	2,254,696
Total fund balance	<u>3,157,254</u>
Total liabilities and fund balance	<u>\$ 4,050,799</u>
Reconciliation to the Statement of Net Assets (Exhibit 1)	
Total fund balance	\$ 3,157,254
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,783,106
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(276,078)</u>
Net assets of governmental activities	<u>\$ 4,664,282</u>

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2010

	School Operating Fund
	<hr/>
REVENUES	
Revenue from use of money and property	\$ 106,630
Other revenue	3,195
Charges for services	776,103
Miscellaneous	37,767
Recovered costs	3,601
Contribution from primary government	3,419,388
Intergovernmental	9,580,975
	<hr/>
Total revenues	13,927,659
	<hr/>
EXPENDITURES	
Education:	
Instructional	9,047,290
Admission, attendance, and health	605,402
Transportation	518,152
Operations and maintenance	1,326,795
Food service	1,117,555
Technology	878,091
Facilities	189,625
	<hr/>
Total expenditures	13,682,910
	<hr/>
Net change in fund balance	244,749
	<hr/>
FUND BALANCE AT JULY 1, as restated	2,912,505
	<hr/>
FUND BALANCE AT JUNE 30	<u><u>\$ 3,157,254</u></u>
	<hr/>
Reconciliation to the Statement of Activities (Exhibit 2)	
Net change in fund balance – governmental fund	\$ 244,749
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 capitalized expenditures (\$535,142) exceeded depreciation expense (\$173,768).	361,374
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.	<hr/>
	(62,278)
	<hr/>
Change in net assets of governmental activities.	<u><u>\$ 543,845</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from use of money and property	\$ 125,000	\$ 110,000	\$ 106,630	\$ (3,370)
Other revenue	-	-	3,195	3,195
Charges for services	58,050	73,050	776,103	703,053
Miscellaneous	22,000	19,308	37,767	18,459
Recovered costs	1,500	1,500	3,601	2,101
Contribution from primary government	3,959,885	3,959,885	3,419,388	(540,497)
Intergovernmental	9,275,688	9,506,395	9,580,975	74,580
Total revenues	13,442,123	13,670,138	13,927,659	257,521
EXPENDITURES				
Education:				
Instructional	9,438,811	9,320,026	9,047,290	272,736
Admission, attendance, and health	705,753	703,954	605,402	98,552
Transportation	383,174	457,483	518,152	(60,669)
Operations and maintenance	1,271,080	1,395,608	1,326,795	68,813
Food service	460,826	461,085	1,117,555	(656,470)
Facilities	-	-	189,625	(189,625)
Technology	650,249	799,752	878,091	(78,339)
Total expenditures	12,909,893	13,137,908	13,682,910	(545,002)
OTHER FINANCING USES*				
Debt service	(532,230)	(532,230)	-	532,230
Total other financing uses	(532,230)	(532,230)	-	532,230
Net change in fund balance	\$ -	\$ -	\$ 244,749	\$ 244,749

*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, 2010

	Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 52,274
Interest receivable	55,950
Total current assets	108,224
Noncurrent assets:	
Note receivable	754,929
Total assets	863,153
NET ASSETS	
Unrestricted	\$ 863,153

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS – PROPRIETARY FUND
June 30, 2010

	Enterprise Fund
	<hr/>
OPERATING EXPENSES	
Bank charges	\$ 140
	<hr/>
Operating loss	(140)
	<hr/>
NON-OPERATING INCOME	
Interest income	42,320
Contribution from the City of Galax	194,034
	<hr/>
Non-operating income	236,354
	<hr/>
Change in net assets	236,214
	<hr/>
NET ASSETS AT JULY 1, as restated (Note 20)	626,939
	<hr/>
NET ASSETS AT JUNE 30	\$ 863,153
	<hr/> <hr/>

CITY OF GALAX, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
CITY OF GALAX INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS –
PROPRIETARY FUND
June 30, 2010

	Enterprise Fund
	<hr/>
OPERATING ACTIVITIES	
Bank charges	\$ (140)
	<hr/>
Net cash used in operating activities	(140)
	<hr/>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Contribution by the primary government	194,034
Increase in note receivable	(194,034)
	<hr/>
Net cash used in capital and related financing activities	-
	<hr/>
Net decrease in cash and cash equivalents	(140)
	<hr/>
CASH AND CASH EQUIVALENTS	
Beginning at July 1	52,414
	<hr/>
Ending at June 30	\$ 52,274
	<hr/> <hr/>

SUPPORTING SCHEDULE

CITY OF GALAX, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

<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>		
Rural Business Opportunity Grant	10.766	\$ 79,450
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	144,821
<u>Department of Agriculture:</u>		
National School Lunch Program (Commodities)	10.555	41,571
<u>Department of Education:</u>		
National School Breakfast Program	10.553	120,881
National School Lunch Program	10.555	331,490
<u>Department of Transportation:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Transportation:</u>		
State and Community Highway Safety	20.600	13,465
<u>Commission for the Arts:</u>		
<u>Pass-through Payments:</u>		
<u>National Endowment for the Arts</u>		
Promotion of the Arts Partnership Agreements	45.025	3,000
<u>Department of Housing and Urban Development:</u>		
Community Development Block Grant/Technical Assistance Program	14.227	44,300
<u>Pass-through Payments:</u>		
<u>Department of Housing and Community Development:</u>		
Community Development Block Grant	14.228	301,158
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Title I: Grants to Local Educational Agencies	84.010	459,059
Special Education – Grants to States	84.027	235,134
Vocational Education – Basic Grants to States	84.048	30,920
Special Education – Preschool Grants	84.173	10,156
Drug Free Schools and Communities – State Grants	84.186	23,777
Rural and Low-Income Schools – Title VI	84.358	26,781
No Child Left Behind Act	84.367	87,082
Technology Literacy Challenge Fund	84.318	4,159
Language Acquisition – Title III	84.365	38,474
Education Technology Grant – ARRA	84.386	7,297
Title I: Grants to Local Educational Agencies – ARRA	84.389	225,785
Special Education – Grants to States – ARRA	84.391	218,213
Special Education – Preschool Grants – ARRA	84.392	3,945
State Fiscal Stabilization Funds – Education State Grants – ARRA	84.394	598,840

(Continued)

CITY OF GALAX, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

<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>
Department of Health and Human Services:		
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	\$ 15,004
Temporary Assistance to Needy Families	93.558	136,193
Child Care and Development Block Grant	93.575	71,420
Child Care Mandatory and Matching Funds of the Child Care		
and Development Fund	93.596	61,760
Child Care and Development Block Grant – ARRA	93.713	28,140
Child Welfare Services	93.645	404
Foster Care – Title IV-E	93.658	39,068
Foster Care – Title IV-E – AARA	93.658	774
Adoption Assistance	93.659	30,059
Adoption Assistance – AARA	93.659	3,232
Social Service Block Grant	93.667	52,356
Low Income Home Energy Assistance	93.568	8,062
Chafee Foster Care Independence Program	93.674	936
Medical Assistance Program	93.778	83,728
Refugee and Entrant Assistance	93.566	314
State Children’s Insurance Program	93.767	6,345
<u>Pass-through Payments:</u>		
<u>Department of Emergency Services</u>		
Emergency Management Performance Grant	97.000	35,000
Law Enforcement Terrorism Prevention Program	97.074	249,934
State Homeland Security Program	97.073	18,250
Total Expenditures of Federal Awards		\$ 3,890,737

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, 2010, the School Board had food commodities totaling \$2,483 in inventory.



OTHER INFORMATION SECTION

TABLE 1

CITY OF GALAX, VIRGINIA

FINANCIAL TRENDS INFORMATION
GOVERNMENT-WIDE EXPENSES BY FUNCTIONLast Eight 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
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 June 30, 2003.

TABLE 2

CITY OF GALAX, VIRGINIA

FINANCIAL TRENDS INFORMATION

GOVERNMENT-WIDE REVENUES

Last Eight 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
2010	\$ 3,380,558	\$ 3,458,555	\$ 1,618,233	\$ 3,922,184	\$ 4,630,039	\$ 1,238	\$ 72,478	\$ 481,486	\$ 17,564,771
2009	3,090,007	3,807,358	1,687,649	3,582,227	4,292,452	28,292	48,352	443,907	16,980,244
2008	2,994,718	3,696,593	483,792	3,834,008	4,533,937	394,984	31,333	492,427	16,461,792
2007	2,924,540	3,672,182	-	3,890,380	4,759,332	342,730	132,585	274,273	15,996,022
2006	2,920,294	3,129,111	82,500	3,693,111	4,476,845	237,781	450,708	269,507	15,259,857
2005	2,531,287	3,074,407	81,762	3,870,231	4,265,960	189,426	227,743	279,497	14,520,313
2004	2,545,103	3,252,098	634,824	3,578,165	4,008,068	77,240	72,493	243,770	14,411,761
2003	2,643,469	2,910,302	-	3,655,538	3,861,731	147,339	108,138	280,022	13,606,539

Note: The City implemented GASB 34 on June 30, 2003.

TABLE 3

CITY OF GALAX, VIRGINIA

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (1)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Debt Service	Total Expenditures
2010	\$ 1,328,623	\$ 516,030	\$ 2,602,251	\$ 2,091,801	\$ 1,723,290	\$ 17,213,809	\$ 1,910,866	\$ 1,041,925	\$ -	\$ 792,798	\$ 29,221,393
2009	1,645,052	421,062	2,537,988	3,787,262	1,677,544	13,179,538	2,267,225	899,677	2,331,368	501,901	29,248,617
2008	1,207,346	252,753	2,590,060	2,563,386	1,857,486	12,534,267	1,421,845	703,970	5,916,422	5,607,283	34,654,818
2007	1,204,142	175,625	2,116,872	2,341,894	1,542,713	11,512,602	1,452,742	200,323	220,054	474,784	21,241,751
2006	2,108,844	14,279	2,674,843	2,315,542	1,601,992	11,075,092	1,678,390	282,956	1,592,429	466,248	23,810,615
2005	1,762,064	15,807	2,792,264	2,532,263	1,346,140	10,470,252	819,831	583,980	1,982,851	486,215	22,791,667
2004	1,807,538	28,274	2,449,649	2,199,828	1,396,283	9,726,292	1,397,174	855,988	905,243	478,153	21,244,422
2003	1,487,098	21,828	2,344,297	2,153,360	1,478,821	9,056,974	1,084,350	139,652	608,636	378,646	18,753,662
2002	1,554,893	24,899	1,799,658	1,997,735	1,439,565	8,576,921	879,103	126,445	477,356	383,177	17,259,752
2001	1,312,265	38,866	1,744,559	1,969,796	1,339,364	8,326,970	840,047	25,498	2,211,142	359,254	18,167,761

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

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

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

TABLE 4

CITY OF GALAX, VIRGINIA

FINANCIAL TRENDS INFORMATION

GENERAL GOVERNMENTAL REVENUES BY SOURCE

Last Ten Fiscal Years (2)

UNAUDITED

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 (1)	Total Revenues
2010	\$ 3,816,000	\$ 4,560,283	\$ 18,849	\$ 103,750	\$ 130,041	\$ 1,741,837	\$ 282,077	\$ 3,601	\$ 14,371,445	\$ 25,027,883
2009	3,570,161	4,296,653	20,162	89,124	68,520	1,550,100	116,451	1,299	15,331,075	\$ 25,043,545
2008	3,692,282	4,529,736	24,176	153,381	520,585	1,627,701	195,078	453	13,225,335	23,968,727
2007	3,763,326	4,759,332	31,418	123,191	525,018	1,216,582	141,053	27,058	12,558,189	23,145,167
2006	3,735,520	4,476,845	24,917	62,003	347,199	1,034,503	494,225	1,359,359	11,433,998	22,968,569
2005	3,851,532	4,265,960	16,638	83,654	222,134	817,954	260,628	1,053,063	10,994,978	21,566,541
2004	3,581,524	4,008,068	56,427	76,081	85,634	821,956	116,581	1,182,667	10,697,819	20,626,757
2003	3,652,217	3,861,731	34,080	67,471	159,820	887,928	83,312	1,095,623	9,440,159	19,282,341
2002	3,458,595	3,699,237	27,195	67,834	177,488	831,319	96,014	111,250	9,337,169	17,806,101
2001	3,120,832	3,861,310	25,799	68,799	576,165	936,240	84,982	1,097,559	9,035,313	18,806,999

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

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

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

TABLE 5

CITY OF GALAX, VIRGINIA

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

Years Ended June 30	Current Tax Levy (1)		Year of Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2010	\$	3,916,477	\$ 3,776,354	96.42%	\$ -	\$ 3,776,354	96.42%
2009		3,923,267	3,699,935	94.31%	23,567	3,723,502	94.31%
2008		3,991,116	3,795,947	95.11%	37,666	3,833,613	95.11%
2007		4,212,069	3,823,553	90.78%	164,135	3,987,688	94.67%
2006		4,176,254	3,752,783	89.86%	125,176	3,877,959	92.86%
2005		4,083,269	3,904,819	95.63%	125,635	4,030,454	98.71%
2004		3,857,166	3,648,281	94.58%	78,247	3,726,528	96.61%
2003		3,835,391	3,701,331	96.50%	130,007	3,831,338	99.89%
2002		3,654,879	3,485,512	95.37%	154,759	3,640,271	99.60%
2001		3,353,857	3,202,579	95.49%	55,572	3,258,151	97.15%

(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
2010	\$ 442,517,089	\$ 82,983,895	\$ 13,567,565	\$ 539,068,549
2009	441,047,000	102,287,271	13,938,302	557,272,573
2008	358,067,015	98,479,264	13,145,695	469,691,974
2007	356,511,315	116,885,023	12,232,851	485,629,189
2006	352,035,705	115,136,700	12,541,268	479,713,673
2005	347,419,079	110,809,834	14,538,850	472,767,763
2004	283,461,600	115,811,677	11,501,733	410,775,010
2003	280,916,236	111,642,577	10,166,928	402,725,741
2002	278,368,801	110,139,304	13,459,559	401,967,664
2001	275,864,125	103,465,831	13,368,254	392,698,210

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

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property (2)	Machinery and Tools (2)
2010	\$ 0.57	\$ 0.70	\$ 1.68	\$ 1.42
2009	0.55	0.55	1.42	1.42
2008	0.50	0.50	1.42	1.42
2007	0.70	0.70	1.42	1.42
2006	0.70	0.70	1.42	1.42
2005	0.70	0.70	1.42	1.42
2004	0.76	0.76	1.42	1.42
2003	0.76	0.76	1.42	1.42
2002	0.76	0.76	1.42	1.42
2001	0.76	0.76	1.42	1.42

Note: Per \$100 of assessed value.

TABLE 8

CITY OF GALAX, VIRGINIA

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

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
2010	6,880	\$ 5,390,685	\$ 8,348,105	\$ 8,348,105	1.55%	\$ 1,213
2009	6,808	5,572,726	8,822,196	8,822,196	1.58%	1,296
2008	6,837	4,696,920	9,435,220	9,435,220	2.01%	1,380
2007	6,837	4,856,292	9,418,978	9,418,978	1.94%	1,378
2006	6,837	4,797,137	4,712,430	4,712,430	0.98%	689
2005	6,837	4,727,678	4,893,486	4,893,486	1.04%	716
2004	6,837	4,107,750	5,177,476	5,177,476	1.26%	757
2003	6,837	4,019,677	3,614,827	3,614,827	0.90%	529
2002	6,837	3,926,982	3,856,301	3,856,301	0.98%	564
2001	6,837	2,856,853	4,063,651	4,063,651	1.42%	594

(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
2010	\$ 516,911	\$ 275,887	\$ 792,798	\$ 29,221,393	2.71%
2009	300,835	201,066	501,901	29,248,617	1.72%
2008	5,261,321	345,962	5,607,283	34,654,818	16.18%
2007	293,452	181,332	474,784	21,241,751	2.24%
2006	246,057	220,191	466,248	23,810,615	1.96%
2005	283,990	202,225	486,215	22,791,667	2.13%
2004	277,351	200,802	478,153	21,244,422	2.25%
2003	241,474	137,172	378,646	18,753,662	2.02%
2002	238,566	144,611	383,177	17,259,752	2.22%
2001	213,657	145,597	359,254	18,167,761	1.98%

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 remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *Specifications for Audits of Counties, Cities and Towns*, and *Specifications for Audits of Authority, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section 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 08-2, described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting.**

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 10-4 through 10-9 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 12, 2010.

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

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


CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 12, 2010

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

Honorable Members of City Council
City of Galax, Virginia

Compliance

We have audited the compliance of the City of Galax, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that are applicable to each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Galax, Virginia complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed three instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as Items 10-1, 10-2, and 10-3.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify not all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

The City's 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 the responses.

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 12, 2010

CITY OF GALAX, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2010

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, 2010**

A. SUMMARY OF AUDITOR'S RESULTS

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

<u>Name of Program:</u>	<u>CFDA Number</u>
ARRA State Fiscal Stabilization Funds	84.394
Special Education Cluster	84.027, 84.173
ARRA Special Education Cluster	84.391, 84.392
Title I Grants to Local Educational Agencies	84.010
ARRA Title I Grants to Local Educational Agencies	84.389
Community Development Block Grant	14.228

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

B. FINDINGS – FINANCIAL STATEMENT AUDIT

08-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management concurs and will implement controls where possible.

CITY OF GALAX, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

08-2: Prior Period Errors and Closing Process (Material Weakness)

Condition:

We noted errors which relate to previous years in accounts receivables and principal payments. In addition, we noted errors in the year end closing process related to cash, receivables, due from other governments, deferred revenues, capital assets, 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

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

Condition:

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

Recommendation:

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

Management's Response:

Management concurs with this finding.

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

Condition:

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

Recommendation:

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

Management's Response:

Management concurs with this finding.

CITY OF GALAX, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

10-3: Community Development Block Grant – Davis-Bacon Act – CFDA 14.228

Condition:

It was noted that payroll certifications for two of three contractors selected for testing compliance with the Davis-Bacon Act could not be obtained due to the contractors not providing payroll certifications to the engineer timely.

Recommendation:

All efforts should be made to collect and review all payroll certifications timely to comply with the Davis-Bacon Act.

Management's Response:

Management concurs with this finding.

10-4: Exonerations

Condition:

The *Code of Virginia* requires that all exoneration forms be properly approved. Two out of seven exonerations that we examined did not receive approval.

Recommendation:

The City should properly approve all exonerations.

Management's Response:

Management concurs with this finding.

10-5: Highway Maintenance – Costs

Condition:

In our sample of seven work orders charged to highway maintenance, we noted the following errors or unallowed costs.

- One was for work performed on ineligible streets.
- One did not list the specific street that work was performed on in order to determine whether or not the street was eligible.
- All seven work orders omitted pay rates for labor costs. The City uses an estimate in developing labor charges to be reported to the state.

Recommendation:

We recommend that the City review its controls over Highway Maintenance Program and initiate changes that will prevent the above errors from occurring. Furthermore, the City should consider using actual labor costs to determine adequacy of amounts reported to the state.

Management's Response:

Management concurs with this finding.

CITY OF GALAX, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

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

10-6: Virginia Security for Public Deposits Act

Condition:

One deposit account at the City was not marked as public funds.

Recommendation:

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

Management's Response:

Management concurs with this finding.

10-7: General Fund Budget Appropriations

Condition:

Expenditures exceeded budgeted appropriations in five general fund categories.

Recommendation:

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

Management's Response:

Management concurs with this finding.

10-8: Conflicts of Interest Act – Disclosure Forms

Condition:

Two out of thirty-three people for the City did not file a statement of economic interest by the deadline required by the *Code of Virginia*.

Recommendation:

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

Management's Response:

Management concurs with this finding.

CITY OF GALAX, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

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

10-9: Procurement

Condition:

One project entered into by the School Board did not have a signed contract or retainage withheld.

Recommendation:

As required, the School Board should ensure that all significant projects have signed contracts and the proper amount of retainage withheld.

Management's Response:

Management concurs with this finding.