

FINANCIAL STATEMENTS



CITY OF GALAX, VIRGINIA

FOR THE YEAR ENDED
JUNE 30, 2023

CITY OF GALAX, VIRGINIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023

Prepared By:
Galax City Finance Department

CITY OF GALAX, VIRGINIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023

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INTRODUCTORY SECTION

CITY OF GALAX, VIRGINIA

CITY COUNCIL

Elizabeth White, Vice Mayor
Michael Larrowe
Martin Warr

Willie Green, Mayor

J. Travis Haynes
Sharon Ritchie
Evan Henck

CITY SCHOOL BOARD

Brett Sexton, Vice-Chair
Rev. Dr. Kevin Rosenfeld

Leah Henck, Chair

Jessica Whitaker
Larry Spangler

CITY SOCIAL SERVICES BOARD

Edit A. Marr Castillo
Evan Henck
Gavin Blevins

Kisha Johnson
William Parks
Jordan Anderson

OTHER OFFICIALS

Interim City Manager Gavin Belvins
Director of Finance..... Judy Taylor-Gallimore
Commissioner of the Revenue..... Rene' Funk
Superintendent of Schools Susan Tilley
Director of Social Services Tammy Smith
City Attorney Steve Durbin
Chief of Police DeWitt Cooper

FINANCIAL SECTION



Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Galax, Virginia's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia, as of and for the year ended June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Galax, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Galax, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Galax, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Galax, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galax, Virginia's basic financial statements. The accompanying combining and individual fund financial statements and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2024, on our consideration of the City of Galax, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Galax, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Galax, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 25, 2024

Basic Financial Statements

City of Galax, Virginia
Statement of Net Position
June 30, 2023

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	IDA
ASSETS					
Cash and cash equivalents	\$ 5,754,002	\$ 3,347,946	\$ 9,101,948	\$ 2,312,592	\$ 41,767
Investments	10,257,106	-	10,257,106	66,689	-
Receivables (net of allowance for uncollectibles):					
Taxes receivable	583,099	-	583,099	-	-
Accounts receivable	1,176,655	1,010,796	2,187,451	-	20
Leases receivable	501,451	-	501,451	-	-
Internal balances	300,000	(300,000)	-	-	-
Due from component unit	-	-	-	-	-
Due from other governmental units	1,052,613	74,681	1,127,294	2,217,861	-
Inventory	-	-	-	44,764	858,708
Prepaid items	25,906	8,393	34,299	154,495	-
Net pension asset	-	-	-	248,188	-
Restricted assets:					
Cash and cash equivalents	321,710	73,222	394,932	952,543	-
Capital assets, not being depreciated/amortized	3,271,359	457,269	3,728,628	3,433,969	-
Capital assets, net of accumulated depreciation/amortization	35,856,114	13,600,717	49,456,831	9,023,808	-
Total assets	\$ 59,100,015	\$ 18,273,024	\$ 77,373,039	\$ 18,454,909	\$ 900,495
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	\$ 24,178	\$ -	\$ 24,178	\$ -	\$ -
Pension related items	668,797	145,845	814,642	2,759,587	-
OPEB related items	114,870	24,915	139,785	573,601	-
Total deferred outflows of resources	\$ 807,845	\$ 170,760	\$ 978,605	\$ 3,333,188	\$ -
LIABILITIES					
Accounts payable	\$ 318,719	\$ 261,361	\$ 580,080	\$ 118,527	\$ -
Construction and retainage payable	4,636	-	4,636	153,232	-
Wages and withholdings payable	208,096	37,535	245,631	1,437,601	-
Due to other governments	610,000	-	610,000	-	-
Customers' deposits	-	73,222	73,222	-	-
Accrued interest payable	64,033	-	64,033	-	-
Due to component unit	20	-	20	-	-
Unearned revenue	-	-	-	786,688	-
Long-term liabilities:					
Due within one year	1,125,263	671,319	1,796,582	243,689	-
Due in more than one year	24,836,383	8,403,921	33,240,304	10,869,726	-
Total liabilities	\$ 27,167,150	\$ 9,447,358	\$ 36,614,508	\$ 13,609,463	\$ -
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	\$ 18,076	\$ -	\$ 18,076	\$ -	\$ -
Pension related items	791,278	224,385	1,015,663	2,083,984	-
OPEB related items	241,262	53,898	295,160	437,016	-
Lease related items	471,444	-	471,444	-	-
Total deferred inflows of resources	\$ 1,522,060	\$ 278,283	\$ 1,800,343	\$ 2,521,000	\$ -
NET POSITION					
Net investment in capital assets	\$ 15,292,849	\$ 5,334,484	\$ 20,627,333	\$ 12,253,039	\$ -
Restricted					
IDA Building renovation	25,000	-	25,000	-	-
Blue Ridge Post book fund	14,574	-	14,574	-	-
Opioid Settlement funds	164,283	-	164,283	-	-
Police funds	11,950	-	11,950	-	-
Animal shelter	71,808	-	71,808	-	-
Fire department funds	34,095	-	34,095	-	-
Net pension asset	-	-	-	248,188	-
Cafeteria operations	-	-	-	739,435	-
School activity funds	-	-	-	213,108	-
Unrestricted (deficit)	15,604,091	3,383,659	18,987,750	(7,796,136)	900,495
Total net position (deficit)	\$ 31,218,650	\$ 8,718,143	\$ 39,936,793	\$ 5,657,634	\$ 900,495

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

City of Galax, Virginia
Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Business-type Activities	Total	Component Units	
			Operating Grants and Contributions	Capital Grants and Contributions				School Board	IDA
PRIMARY GOVERNMENT:									
Governmental activities:									
General government administration	\$ 1,920,420	\$ 675	\$ 1,019,273	\$ -	\$ (900,472)	\$ -	\$ (900,472)	\$ -	\$ -
Judicial administration	701,527	129,109	-	-	(572,418)	-	(572,418)	-	-
Public safety	3,637,050	135,552	1,862,002	-	(1,639,496)	-	(1,639,496)	-	-
Public works	3,806,300	432,147	2,944,091	762,230	332,168	-	332,168	-	-
Health and welfare	4,025,812	-	3,137,599	-	(888,213)	-	(888,213)	-	-
Education	4,668,937	-	-	-	(4,668,937)	-	(4,668,937)	-	-
Parks, recreation, and cultural	2,272,273	340,248	342,228	-	(1,589,797)	-	(1,589,797)	-	-
Community development	561,613	-	4,800	22,300	(534,513)	-	(534,513)	-	-
Interest on long-term debt	555,880	-	-	-	(555,880)	-	(555,880)	-	-
Total governmental activities	\$ 22,149,812	\$ 1,037,731	\$ 9,309,993	\$ 784,530	\$ (11,017,558)	\$ -	\$ (11,017,558)	\$ -	\$ -
Business-type activities:									
Water and sewer	\$ 3,135,219	\$ 3,249,982	\$ 234,681	\$ -	\$ -	\$ 349,444	\$ 349,444	\$ -	\$ -
Stormwater	47,330	505,831	-	-	-	458,501	458,501	-	-
Total business-type activities	\$ 3,182,549	\$ 3,755,813	\$ 234,681	\$ -	\$ -	\$ 807,945	\$ 807,945	\$ -	\$ -
Total primary government	\$ 25,332,361	\$ 4,793,544	\$ 9,544,674	\$ 784,530	\$ (11,017,558)	\$ 807,945	\$ (10,209,613)	\$ -	\$ -
COMPONENT UNITS:									
School Board	\$ 19,246,266	\$ 645,248	\$ 19,995,143	\$ -	\$ -	\$ -	\$ -	\$ 1,394,125	\$ -
Industrial Development Authority	7,717	10	92,431	-	-	-	-	-	84,724
Total component units	\$ 19,253,983	\$ 645,258	\$ 20,087,574	\$ -	\$ -	\$ -	\$ -	\$ 1,394,125	\$ 84,724
General revenues:									
General property taxes					\$ 7,600,809	\$ -	\$ 7,600,809	\$ -	\$ -
Other local taxes:									
Local sales and use taxes					3,141,722	-	3,141,722	-	-
Consumers' utility taxes					179,828	-	179,828	-	-
Business license taxes					1,277,544	-	1,277,544	-	-
Motor vehicle taxes					135,911	-	135,911	-	-
Restaurant food taxes					2,868,619	-	2,868,619	-	-
Lodging taxes					229,103	-	229,103	-	-
Bank stock taxes					215,079	-	215,079	-	-
Other local taxes					76,093	-	76,093	-	-
Unrestricted revenues from the use of money					255,094	25,081	280,175	23,566	-
Miscellaneous					220,819	-	220,819	404,617	-
Grants and contributions not restricted to specific programs					436,195	15,671	451,866	4,100,291	-
Transfers					(1,300,000)	1,300,000	-	-	-
Total general revenues					\$ 15,336,816	\$ 1,340,752	\$ 16,677,568	\$ 4,528,474	\$ -
Change in net position					\$ 4,319,258	\$ 2,148,697	\$ 6,467,955	\$ 5,922,599	\$ 84,724
Net position (deficit) - beginning					26,899,392	6,569,446	33,468,838	(264,965)	815,771
Net position (deficit) - ending					\$ 31,218,650	\$ 8,718,143	\$ 39,936,793	\$ 5,657,634	\$ 900,495

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

City of Galax, Virginia
Balance Sheet
Governmental Funds
June 30, 2023

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 6,021,816
Investments	10,257,106
Receivables (net of allowance for uncollectibles):	
Taxes receivable	583,099
Accounts receivable	1,176,655
Leases receivable	501,451
Due from other funds	300,000
Due from other governmental units	1,052,613
Prepaid items	25,906
Total assets	\$ 19,918,646
LIABILITIES	
Accounts payable	\$ 318,719
Construction and retainage payable	4,636
Wages and withholdings payable	208,096
Due to other governments	610,000
Due to component unit	20
Total liabilities	\$ 1,141,471
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 550,834
Unavailable revenue - meals tax	62,300
Unavailable revenue - opioid settlement proceeds	128,501
Property taxes paid in advance	18,076
Lease related items	501,451
Total deferred inflows of resources	\$ 1,261,162
FUND BALANCES	
Nonspendable	
Prepaid items	\$ 25,906
Restricted	193,209
Committed	739,773
Unassigned	16,557,125
Total fund balances	\$ 17,516,013
Total liabilities, deferred inflows of resources, and fund balance	\$ 19,918,646

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

City of Galax, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Position
 June 30, 2023

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$ 17,516,013
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets not being depreciated/amortized	\$ 3,271,359	
Capital assets being depreciated/amortized	49,642,628	
Accumulated depreciation/amortization	<u>(13,786,514)</u>	39,127,473
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The assets consist of unavailable taxes.		
Leases receivable	30,007	
Unavailable revenue	<u>741,635</u>	771,642
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.		
Pension related items	\$ 668,797	
OPEB related items	<u>114,870</u>	783,667
Internal service funds are used by management to charge the costs of certain activities, such as health insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		53,896
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds, loans, and lease liabilities	\$ (23,854,166)	
Less: Unamortized charge on advance refunding	24,178	
Accrued interest payable	(64,033)	
Accrued landfill closure/postclosure monitoring liability	(560,381)	
Compensated absences	(397,933)	
Net OPEB liabilities	(487,186)	
Net pension liability	<u>(661,980)</u>	(26,001,501)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$ (791,278)	
OPEB related items	<u>(241,262)</u>	(1,032,540)
Net position of governmental activities		<u>\$ 31,218,650</u>

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

City of Galax, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2023

	<u>General</u>
REVENUES	
General property taxes	\$ 7,449,392
Other local taxes	8,097,598
Permits, privilege fees, and regulatory licenses	29,886
Fines and forfeitures	129,109
Revenue from the use of money and property	272,046
Charges for services	848,109
Miscellaneous	249,388
Recovered costs	230,759
Intergovernmental	10,530,718
Total revenues	\$ 27,837,005
EXPENDITURES	
Current:	
General government administration	\$ 1,814,486
Judicial administration	702,214
Public safety	3,578,539
Public works	3,768,590
Health and welfare	4,005,390
Education	4,115,086
Parks, recreation, and cultural	1,985,812
Community development	539,508
Nondepartmental	106,101
Capital projects	774,648
Debt service:	
Principal retirement	647,314
Interest and other fiscal charges	739,748
Total expenditures	\$ 22,777,436
Excess (deficiency) of revenues over (under) expenditures	\$ 5,059,569
OTHER FINANCING SOURCES (USES)	
Transfers out	\$ (1,300,000)
Issuance of leases	146,772
Total other financing sources (uses)	\$ (1,153,228)
Net change in fund balances	\$ 3,906,341
Fund balances - beginning	13,609,672
Fund balances - ending	\$ 17,516,013

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

City of Galax, Virginia
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2023

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

Net change in fund balances - total governmental funds \$ 3,906,341

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/amortization expense. This is the details of items supporting this adjustment:

Capital outlays	\$ 936,862	
Depreciation/amortization expense	<u>(1,571,616)</u>	(634,754)

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

Disposal of assets	\$ <u>(25,671)</u>	(25,671)
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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.

Property taxes	\$ 151,417	
Leases receivable related items	13,675	
Opioid Settlement funds	(28,569)	
Meals tax	<u>26,301</u>	162,824

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

Debt issued or incurred:		
Issuance of leases	\$ (146,772)	
Change in accrued landfill closure/postclosure liability	(4,448)	
Principal repayments:		
General obligation bonds and literary fund loans	590,190	
Lease liabilities	<u>57,124</u>	496,094

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Change in compensated absences	\$ 673	
Change in accrued interest payable	186,170	
Amortization of deferred charge on refunding	(2,302)	
Change in pension related items	191,277	
Change in OPEB related items	<u>23,100</u>	398,918

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

15,506

Change in net position of governmental activities		<u>\$ 4,319,258</u>
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The notes to the financial statements are an integral part of this statement.

City of Galax, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2023

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Stormwater	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,974,007	\$ 1,373,939	\$ 3,347,946	\$ 53,896
Accounts receivable (net of allowance for uncollectibles)	971,451	39,345	1,010,796	-
Due from other governmental units	74,681	-	74,681	-
Prepaid items	8,393	-	8,393	-
Total current assets	<u>\$ 3,028,532</u>	<u>\$ 1,413,284</u>	<u>\$ 4,441,816</u>	<u>\$ 53,896</u>
Noncurrent assets:				
Restricted cash and cash equivalents	\$ 73,222	\$ -	\$ 73,222	\$ -
Total restricted noncurrent assets	<u>73,222</u>	<u>-</u>	<u>73,222</u>	<u>-</u>
Capital assets:				
Capital assets, not being depreciated/amortized	427,269	30,000	457,269	-
Capital assets, net of accumulated depreciation/amortization	12,831,128	769,589	13,600,717	-
Total noncurrent assets	<u>\$ 13,331,619</u>	<u>\$ 799,589</u>	<u>\$ 14,131,208</u>	<u>\$ -</u>
Total assets	<u>\$ 16,360,151</u>	<u>\$ 2,212,873</u>	<u>\$ 18,573,024</u>	<u>\$ 53,896</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 141,236	\$ 4,609	\$ 145,845	\$ -
OPEB related items	24,527	388	24,915	-
Total deferred outflows of resources	<u>\$ 165,763</u>	<u>\$ 4,997</u>	<u>\$ 170,760</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 260,605	\$ 756	\$ 261,361	\$ -
Construction and retainage payable	-	-	-	-
Accrued payroll and related liabilities	36,885	650	37,535	-
Due to other funds	300,000	-	300,000	-
Customers' deposits	73,222	-	73,222	-
Compensated absences - current portion	76,006	-	76,006	-
Bond payable - current portion	575,075	-	575,075	-
Lease liabilities - current portion	20,238	-	20,238	-
Total current liabilities	<u>\$ 1,342,031</u>	<u>\$ 1,406</u>	<u>\$ 1,343,437</u>	<u>\$ -</u>
Noncurrent liabilities:				
Compensated absences - net of current portion	\$ 19,001	\$ -	\$ 19,001	\$ -
Bond payable - net of current portion	8,125,909	-	8,125,909	-
Lease liabilities - net of current portion	2,280	-	2,280	-
Net OPEB liabilities	107,084	1,757	108,841	-
Net pension liability	145,503	2,387	147,890	-
Total noncurrent liabilities	<u>\$ 8,399,777</u>	<u>\$ 4,144</u>	<u>\$ 8,403,921</u>	<u>\$ -</u>
Total liabilities	<u>\$ 9,741,808</u>	<u>\$ 5,550</u>	<u>\$ 9,747,358</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 216,625	\$ 7,760	\$ 224,385	\$ -
OPEB related items	53,029	869	53,898	-
Total deferred inflows of resources	<u>\$ 269,654</u>	<u>\$ 8,629</u>	<u>\$ 278,283</u>	<u>\$ -</u>
NET POSITION				
Net investment in capital assets	\$ 4,534,895	\$ 799,589	\$ 5,334,484	\$ -
Unrestricted	1,979,557	1,404,102	3,383,659	53,896
Total net position	<u>\$ 6,514,452</u>	<u>\$ 2,203,691</u>	<u>\$ 8,718,143</u>	<u>\$ 53,896</u>

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

City of Galax, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2023

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Stormwater	Total	
OPERATING REVENUES				
Charges for services:				
Water revenues pledged as security for revenue bonds	\$ 1,584,772	\$ -	\$ 1,584,772	\$ -
Sewer revenues pledged as security for revenue bonds	1,536,616	-	1,536,616	-
Stormwater fees	-	505,831	505,831	-
Tap fees	26,500	-	26,500	-
Penalties and interest	17,099	-	17,099	-
Other revenue	84,995	-	84,995	15,506
Total operating revenues	<u>\$ 3,249,982</u>	<u>\$ 505,831</u>	<u>\$ 3,755,813</u>	<u>\$ 15,506</u>
OPERATING EXPENSES				
Personnel services	\$ 1,446,716	\$ 19,302	\$ 1,466,018	\$ -
Insurance claims and expenses	26,646	-	26,646	-
Utilities and telecommunication	356,545	-	356,545	-
Materials and supplies	326,893	-	326,893	-
Repairs and maintenance	236,864	-	236,864	-
Professional development and membership	84,058	-	84,058	-
Depreciation/amortization	654,984	28,028	683,012	-
Total operating expenses	<u>\$ 3,132,706</u>	<u>\$ 47,330</u>	<u>\$ 3,180,036</u>	<u>\$ -</u>
Operating income (loss)	<u>\$ 117,276</u>	<u>\$ 458,501</u>	<u>\$ 575,777</u>	<u>\$ 15,506</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 23,274	\$ 1,807	\$ 25,081	\$ -
Capital contributions	15,671	-	15,671	-
Intergovernmental	234,681	-	234,681	-
Interest expense	(2,513)	-	(2,513)	-
Total nonoperating revenues (expenses)	<u>\$ 271,113</u>	<u>\$ 1,807</u>	<u>\$ 272,920</u>	<u>\$ -</u>
Income before transfers	<u>\$ 388,389</u>	<u>\$ 460,308</u>	<u>\$ 848,697</u>	<u>\$ 15,506</u>
Transfers in	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>	<u>-</u>
Change in net position	<u>\$ 1,688,389</u>	<u>\$ 460,308</u>	<u>\$ 2,148,697</u>	<u>\$ 15,506</u>
Net position - beginning	4,826,063	1,743,383	6,569,446	38,390
Net position - ending	<u>\$ 6,514,452</u>	<u>\$ 2,203,691</u>	<u>\$ 8,718,143</u>	<u>\$ 53,896</u>

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

City of Galax, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2023

	Enterprise Funds			Internal Service Funds
	Water and Sewer	Stormwater	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 3,134,211	\$ 497,666	\$ 3,631,877	\$ -
Receipts for insurance premiums	-	-	-	7,725
Payments to suppliers	(862,688)	756	(861,932)	-
Payments to employees	(1,549,937)	(22,069)	(1,572,006)	-
Payments for health claims	-	-	-	(110,982)
Other operating revenues	-	-	-	15,506
Net cash provided by (used for) operating activities	<u>\$ 721,586</u>	<u>\$ 476,353</u>	<u>\$ 1,197,939</u>	<u>\$ (87,751)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	\$ 1,088,605	\$ -	\$ 1,088,605	\$ -
Intergovernmental revenues	234,681	-	234,681	-
Net cash provided by (used for) noncapital financing activities	<u>\$ 1,323,286</u>	<u>\$ -</u>	<u>\$ 1,323,286</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to utility plant	\$ (218,668)	\$ -	\$ (218,668)	\$ -
Principal payments on bond payable	(575,074)	-	(575,074)	-
Principal payments on lease liabilities	(18,748)	-	(18,748)	-
Contributions in aid of construction	(74,681)	-	(74,681)	-
Interest expense	(2,513)	-	(2,513)	-
Net cash provided by (used for) capital and related financing activities	<u>\$ (889,684)</u>	<u>\$ -</u>	<u>\$ (889,684)</u>	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 23,274	\$ 1,807	\$ 25,081	\$ -
Net cash provided by (used for) investing activities	<u>\$ 23,274</u>	<u>\$ 1,807</u>	<u>\$ 25,081</u>	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,178,462	\$ 478,160	\$ 1,656,622	\$ (87,751)
Cash and cash equivalents - beginning (including restricted of \$74,397)	868,767	895,779	1,764,546	141,647
Cash and cash equivalents - ending (including restricted of \$73,222)	<u>\$ 2,047,229</u>	<u>\$ 1,373,939</u>	<u>\$ 3,421,168</u>	<u>\$ 53,896</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 117,276	\$ 458,501	\$ 575,777	\$ 15,506
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 654,984	\$ 28,028	\$ 683,012	\$ -
(Increase) decrease in accounts receivable	(114,596)	(8,165)	(122,761)	7,725
(Increase) decrease in prepaid items	12,373	-	12,373	-
(Increase) decrease in net pension asset	155,938	3,862	159,800	-
(Increase) decrease in deferred outflows of resources	109,794	2,592	112,386	-
Increase (decrease) in deferred inflows of resources	(462,105)	(9,451)	(471,556)	-
Increase (decrease) in customer deposits	(1,175)	-	(1,175)	-
Increase (decrease) in accrued payroll and related liabilities	(41,802)	(1,084)	(42,886)	-
Increase (decrease) in accounts payable	155,945	756	156,701	-
Increase (decrease) in health claims payable	-	-	-	(110,982)
Increase (decrease) in compensated absences	(3,367)	-	(3,367)	-
Increase (decrease) in net OPEB liabilities	(7,182)	(1,073)	(8,255)	-
Increase (decrease) in net pension liability	145,503	2,387	147,890	-
Total adjustments	<u>\$ 604,310</u>	<u>\$ 17,852</u>	<u>\$ 622,162</u>	<u>\$ (103,257)</u>
Net cash provided by (used for) operating activities	<u>\$ 721,586</u>	<u>\$ 476,353</u>	<u>\$ 1,197,939</u>	<u>\$ (87,751)</u>

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

City of Galax, Virginia
 Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2023

		Custodial Fund
		Special Welfare Fund
		<u> </u>
ASSETS		
Cash and cash equivalents	\$	17,273
Total assets	<u>\$</u>	<u>17,273</u>
 NET POSITION		
Restricted:		
Amounts held for social services clients	\$	17,273
Total net position	<u>\$</u>	<u>17,273</u>

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

City of Galax, Virginia
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2023

	Custodial Fund
	Special Welfare Fund
ADDITIONS	
Special welfare collections	\$ 58,679
Total additions	\$ 58,679
DEDUCTIONS	
Special welfare payments	\$ 62,132
Total deductions	\$ 62,132
Net increase (decrease) in fiduciary net position	\$ (3,453)
Net position, beginning of year	20,726
Net position, end of year	\$ 17,273

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

CITY OF GALAX, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

Note 1-Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

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

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

The Galax-Carroll Regional Library was created by the City and the County of Carroll. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$250,903 to the Library for the current year. The City provides accounting services (payroll services) for this organization.

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

A. Financial Reporting Entity (Continued)

The City and the Counties of Carroll and Grayson participate in the Twin County E-911 Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City contributed \$123,799 to the Commission for the current year. The City provides accounting services (payroll services) for this organization.

The City and the County of Grayson participate in supporting the Galax-Grayson Ambulance Service. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The organization's activities are primarily supported by user charges; however, the City provided a contribution of \$172,026 during the fiscal year. The City provides accounting services (payroll services) for this organization.

The City and the Counties of Carroll and Grayson participate in the Regional Solid Waste Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. Operations are financed by tipping fees and the individual jurisdictions are required to fund any annual deficit(s). The City paid \$143,723 in tipping fees during the current year.

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

The City and Counties of Carroll and Grayson participate in The Twin County Airport Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The Commission is charged with operating the Twin County Regional Airport. During the current year, the City contributed \$76,560 to the Commission. The City has also entered into an agreement with The Twin County Airport Commission to be responsible for a one-third share of their debt service for hangar construction. The commitment could be reduced based on potential revenue from hangar rentals.

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

A. Financial Reporting Entity (Continued)

Blue Ridge Crossroads Economic Development Authority (BRCEDA) is the regional industrial facilities authority that represents the City and the Counties of Carroll and Grayson. Each jurisdiction appoints two members and an alternate member. A moral obligation for debt service is currently in place for a regional project known as Wildwood. Contributions to BRCEDA during the current year were \$163,850. It is the hope of BRCEDA that this park project will be a catalyst for economic development in the region.

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

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

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

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

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

The government reports the following major governmental fund:

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

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

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

The government reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

Fiduciary funds account for and report assets held by the government in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. The *Special Welfare* fund is a custodial fund of the City. Fiduciary funds are not included in the government-wide financial statements.

The School Board reports the following major fund:

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

The School Board reports the following nonmajor fund:

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

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

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

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

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

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

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

1. Cash and cash equivalents

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

2. Prepaid items

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

3. Receivables and payables

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

4. Inventories

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

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

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

5. Capital assets

Capital assets are tangible and intangible assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined as assets with an initial, individual cost of more than \$20,000 for the City, and \$5,000 for the Component Unit School Board, and an estimated useful life in excess of two years.

As the City and Component Unit School Board constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease assets (lease assets), the measurement of which is discussed in more detail below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset’s capacity or efficiency or increases its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant equipment, lease assets, and infrastructure of the primary government, as well as the component unit, are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-50
Buildings and improvements	20-40
Machinery and equipment	4-15
Right-to-use lease machinery and equipment	3-10

6. Restricted Assets

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

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

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

7. Investments

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

8. Deferred Outflows/Inflows of Resources

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

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

9. Property Taxes

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

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

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

10. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$276,227 at June 30, 2023. The allowance consists of delinquent taxes in the amount of \$218,006; delinquent meals tax of \$15,993; and delinquent water, sewer, and garbage bills of \$42,228.

11. Use of Estimates

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

12. Compensated Absences

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

13. Pensions

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

14. Other Postemployment Benefits (OPEB)

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

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

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

15. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. 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 and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

16. Fund balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance." City's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes:

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

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

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

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

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

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

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

16. Fund balance (Continued)

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

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment, which does not lapse at year end, is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

17. Net Position

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

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

18. Net position flow assumption

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

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

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

19. Leases

The City leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term lease, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessee

The City recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Lessor

The City recognizes leases receivable and deferred inflows of resources in the government-wide and governmental fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease liability (lessee) or lease receivable (lessor).

The City monitors changes in circumstances that would require a remeasurement or modification of its leases. The City will remeasure the lease asset and liability (lessee) or the lease receivable and deferred inflows of resources (lessor) if certain changes occur that are expected to significantly affect the amount of the lease liability or lease receivable.

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

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

B. Excess of expenditures over appropriations

The City monitors appropriations by fund and for the year ended June 30, 2023, expenditures were below appropriations for all funds.

C. Deficit fund balance

At June 30, 2023, there were no funds with negative balance.

Note 3-Deposits and Investments:

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

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP).

Interest Rate Risk

The City has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

<u>Investment Maturities (in years)</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>1 Year</u>
Local Government Investment Pool	\$ 10,119,036	\$ 10,119,036
Local Government Investment Pool EM	123,496	120,324
Certificates of Deposit	81,263	81,263
Totals	\$ 10,323,795	\$ 10,320,623

Custodial Credit Risk

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

Note 3-Deposits and Investments: (Continued)

External Investment Pool

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

Credit Risk of Debt Securities

The City’s rated debt investments as of June 30, 2023 were rated by Standard & Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor’s rating scale.

City's Rated Debt Investments' Values		
Rated Debt Investments	Fair Quality Ratings	
	AAAm	AAAf
Local Government Investment Pool	\$ 10,119,036	\$ -
Local Government Investment Pool EM	-	123,496

Note 4-Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The City maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 4-Fair Value Measurements: (Continued)

(If there has been a change in valuation technique that has a significant effect on the result (e.g., changing from an expected cash flow technique or the use of an additional valuation technique), document that specific change, and the reason(s) for making it.)

The City has the following recurring fair value measurements as of June 30, 2023:

<u>Investment</u>	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)
Local Government Investment Pool EM	\$ 123,496

Note 5-Due from Other Governmental Units:

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

	<u>Primary Government</u>		Component Unit- School Board
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Due from other local government agencies	\$ -	\$ -	\$ 95,392
Commonwealth of Virginia:			
Local sales tax	536,991	-	-
Categorical aid-State sales tax	-	-	127,892
Categorical aid-Shared expenses	7,115	-	-
Categorical aid-Other	30,521	74,681	199,072
Non-categorical aid	32,589	-	-
Categorical aid-Virginia Public Assistance	100,289	-	-
Categorical aid-Comprehensive Services Act	66,408	-	-
Federal Government:			
Categorical aid-Virginia Public Assistance	163,462	-	-
Categorical aid-Other	115,238	-	1,795,505
Totals	<u>\$ 1,052,613</u>	<u>\$ 74,681</u>	<u>\$ 2,217,861</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 6-Component Unit Contribution and Obligations:

Primary government contributions to component units for the year ended June 30, 2023, consisted of payments to School Board of \$4,100,291 and IDA of \$92,431. At year end, the primary government showed an obligation of \$20 to the Component-Unit IDA.

Note 7-Interfund Transfers and Balance:

Interfund transfers for the year ended June 30, 2023, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ -	\$ 1,300,000
Water and Sewer Fund	1,300,000	-
Component Unit - School Board:		
School Operating Fund	\$ 15,354	\$ 44,838
School Activity Fund	44,838	15,354
Total	<u>\$ 1,360,192</u>	<u>\$ 1,360,192</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

Interfund balances at year end represent amounts that have been transferred between funds in a lending or borrowing capacity and are expected to be repaid by current administration. Interfund balances for the year ended June 30, 2023, consisted of the following:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Primary Government:		
General Fund	\$ 300,000	\$ -
Water and Sewer Fund	-	300,000
Total	<u>\$ 300,000</u>	<u>\$ 300,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8-Long-Term Obligations:

Primary Government - Governmental Activities Obligations:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2023.

	Balance July 1, 2022	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2023
Direct borrowings and placements:				
General obligation bonds	\$ 24,245,657	\$ -	\$ (590,190)	\$ 23,655,467
Lease liabilities	109,051	146,772	(57,124)	198,699
Landfill closure/postclosure liability	555,933	4,448	-	560,381
Compensated absences	398,606	318,212	(318,885)	397,933
Net OPEB liabilities	487,878	187,185	(187,877)	487,186
Net pension liability ¹	-	1,974,381	(1,312,401)	661,980
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 25,797,125	\$ 2,630,998	\$ (2,466,477)	\$ 25,961,646

¹Beginning balance was a net pension asset; however, the ending balance is a net pension liability

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

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

Year Ending June 30,	Direct borrowings and placements		Lease liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 747,313	\$ 532,329	\$ 59,604	\$ 18,589
2025	764,677	513,869	51,449	13,124
2026	782,972	494,962	52,758	7,645
2027	785,450	475,839	34,888	1,666
2028	804,366	456,490	-	-
2029-2033	4,252,163	1,976,472	-	-
2034-2038	3,789,798	1,454,140	-	-
2039-2043	2,144,850	1,138,350	-	-
2044-2048	2,385,486	897,714	-	-
2049-2053	2,653,120	630,080	-	-
2054-2058	2,950,781	332,419	-	-
2059-2061	1,594,491	44,291	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	\$ 23,655,467	\$ 8,946,955	\$ 198,699	\$ 41,024

CITY OF GALAX, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8-Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Obligations: (Continued)

Details of long-term obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Direct borrowings and placements:						
General Obligation Bonds:						
VML/VACO Loan	2.35%	December-12	2034	\$ 2,136,000	\$ 918,250	\$ 78,000
2017 B GO Bond	2.55%	June-17	2032	711,000	457,000	46,000
2018 C Refunding Bond	2.98%	June-17	2037	4,553,000	3,891,000	234,000
RD Loan	2.13%	December-20	2061	8,600,000	8,524,664	150,218
RD Loan	2.13%	December-20	2061	8,500,000	8,425,541	148,471
RD Loan	2.13%	April-22	2037	1,542,500	1,439,012	90,624
Total Direct borrowings and placements					<u>\$ 23,655,467</u>	<u>\$ 747,313</u>
Lease liabilities:						
Enterprise vehicle lease - 236FVK	9.33%	July-19	2024	\$ 17,644	\$ 4,180	\$ 4,181
Enterprise vehicle lease - 237SN7	8.37%	September-19	2024	19,833	5,355	4,558
Enterprise vehicle lease - 237SNF	8.40%	September-19	2024	16,715	4,516	3,843
Police department copier	0.45%	August-21	2026	13,352	8,266	2,668
DSS copiers	0.76%	January-22	2026	43,169	30,371	8,595
Municipal copier	0.45%	January-21	2025	8,686	4,366	1,740
Recreation copier	0.45%	August-22	2025	7,809	3,274	1,568
Pitney Bowes postage machine	0.45%	September-19	2024	10,681	2,513	2,153
Enterprise vehicle lease - 25R7RM	14.26%	March-23	2027	37,058	34,300	7,663
Enterprise vehicle lease - 25R7R5	14.75%	March-23	2027	36,294	33,602	7,453
Enterprise vehicle lease - 25R7RL	14.26%	March-23	2027	37,058	34,300	7,663
Enterprise vehicle lease - 25R7RJ	14.27%	March-23	2027	36,362	33,656	7,519
Total lease liabilities					<u>\$ 198,699</u>	<u>\$ 59,604</u>
Other Obligations:						
Landfill closure/post-closure liability	n/a	n/a	n/a	n/a	\$ 560,381	\$ -
Compensated absences	n/a	n/a	n/a	n/a	397,933	318,346
Net OPEB liabilities	n/a	n/a	n/a	n/a	487,186	-
Net pension liability	n/a	n/a	n/a	n/a	661,980	-
Total Other Obligations					<u>\$ 2,107,480</u>	<u>\$ 318,346</u>
Total Long-term obligations					<u>\$ 25,961,646</u>	<u>\$ 1,125,263</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8-Long-Term Obligations: (Continued)

Primary Government - Business-type Activities Obligations:

The following is a summary of long-term obligations transactions of the Enterprise Funds for the year ended June 30, 2023.

	<u>Balance July 1, 2022</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2023</u>
Direct borrowings and placements:				
Revenue bonds	\$ 9,276,058	\$ -	\$ (575,074)	\$ 8,700,984
Lease liabilities	41,266	-	(18,748)	22,518
Compensated absences	98,374	75,332	(78,699)	95,007
Net OPEB liabilities	117,096	39,830	(48,085)	108,841
Net pension liability ¹	-	449,431	(301,541)	147,890
	<u>\$ 9,532,794</u>	<u>\$ 564,593</u>	<u>\$ (1,022,147)</u>	<u>\$ 9,075,240</u>
Total				

¹Beginning balance was a net pension asset; however, the ending balance is a net pension liability

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

<u>Year Ending June 30,</u>	<u>Direct borrowings and placements</u>		<u>Lease liabilities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 575,075	\$ -	\$ 20,238	\$ 1,024
2025	575,075	-	2,280	18
2026	575,075	-	-	-
2027	575,075	-	-	-
2028	575,075	-	-	-
2029-2033	2,690,373	-	-	-
2034-2038	2,412,873	-	-	-
2039-2040	722,363	-	-	-
	<u>\$ 8,700,984</u>	<u>\$ -</u>	<u>\$ 22,518</u>	<u>\$ 1,042</u>
Totals				

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 8-Long-Term Obligations: (Continued)

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

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Direct borrowings and placements:						
Revenue Bonds:						
VRA Bond	0.00%	December-09	2031	\$ 1,850,000	\$ 740,000	\$ 92,500
VRA Bond	0.00%	January-18	2040	9,651,492	7,960,984	482,575
Total Revenue Bonds					<u>\$ 8,700,984</u>	<u>\$ 575,075</u>
Lease liabilities						
Enterprise lease - 237SRB	7.34%	September-19	2024	\$ 26,486	\$ 7,030	\$ 5,989
Enterprise lease - 237SPX	7.81%	August-19	2024	62,149	15,488	14,249
Total lease liabilities					<u>\$ 22,518</u>	<u>\$ 20,238</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 95,007	\$ 76,006
Net OPEB Liabilities	n/a	n/a	n/a	n/a	108,841	-
Net Pension Liability	n/a	n/a	n/a	n/a	147,890	-
Total Other Obligations					<u>\$ 351,738</u>	<u>\$ 76,006</u>
Total Long-term obligations					<u>\$ 9,075,240</u>	<u>\$ 671,319</u>

Loans from the Virginia Resources Authority (VRA) are governed by rate covenants, which require the City to maintain an annual debt service coverage ratio of 115%. For the year ended June 30, 2023, the City was in compliance with this coverage ratio.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 9-Long-Term Obligations-Component Units:

Discretely Presented Component Unit - School Board Obligations:

The following is a summary of long-term obligations transactions of the Component Unit-School Board for the year ended June 30, 2023.

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Lease liability	\$ 77,088	\$ -	\$ (25,582)	\$ 51,506
Net OPEB liabilities	2,192,043	635,911	(629,926)	2,198,028
Compensated absences	246,434	223,206	(197,147)	272,493
Net pension liability	6,620,369	6,815,684	(4,844,665)	8,591,388
Total	\$ 9,135,934	\$ 7,674,801	\$ (5,697,320)	\$ 11,113,415

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

Year Ending June 30,	Lease liabilities	
	Principal	Interest
2024	\$ 25,695	\$ 179
2025	25,811	63
Totals	\$ 51,506	\$ 242

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Lease liabilities:						
Copier leases	4.50%	July-20	2025	\$ 127,951	\$ 51,506	\$ 25,695
Other Obligations:						
Net OPEB Liabilities	n/a	n/a	n/a	n/a	\$ 2,198,028	\$ -
Compensated Absences	n/a	n/a	n/a	n/a	272,493	217,994
Net Pension Liability	n/a	n/a	n/a	n/a	8,591,388	-
Total long-term obligations					\$ 11,113,415	\$ 243,689

Note 9-Long-Term Obligations-Component Units:

Discretely Presented Component Unit - IDA Obligations:

At June 30, 2023, the IDA had no long-term obligations.

Note 10-Pension Plans:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report, participate in the VRS plan through the City of Galax and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

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

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.

Note 10-Pension Plans: (Continued)

Benefit Structures (Continued)

- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

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

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

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

Contributions

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

Note 10-Pension Plans: (Continued)

Contributions (Continued)

The City’s contractually required employer contribution rate for the year ended June 30, 2023 was 8.72% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$470,515 and \$449,015 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net Pension Liability

At June 30, 2023, the City reported a liability of \$809,870 for its proportionate share of the net pension liability. The City’s net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Contributions as of June 30, 2022 and 2021 was used as a basis for allocation to determine the City’s proportionate share of the net pension asset. At June 30, 2022 and 2021, the City’s proportion was 80.45% and 80.08%, respectively.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City of Galax’s Retirement Plan and the Component Unit Schools Board’s (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2020, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021.

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

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 10-Pension Plans: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95 of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Note 10-Pension Plans: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City of Galax's Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

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

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females et back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Note 10-Pension Plans: (Continued)

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

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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Note 10-Pension Plans: (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u><u>100.00%</u></u>		<u><u>5.33%</u></u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u><u>7.83%</u></u>

* The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Note 10-Pension Plans: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (Nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. Through the fiscal year ending June 30, 2022, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

	Rate		
	1% Decrease (5.75%)	Discount (6.75%)	1% Increase (7.75%)
City's proportionate share of the City Retirement Plan Net Pension Liability (Asset)	<u>\$ 4,401,223</u>	<u>\$ 809,870</u>	<u>\$ (2,123,335)</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 10-Pension Plans: (Continued)

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

For the year ended June 30, 2023, the City recognized pension expense of \$234,915. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 31,167	\$ 177,436
Change in assumptions	310,961	-
Change in proportionate share	1,999	34,279
Net difference between projected and actual earnings on pension plan investments	-	803,948
Employer contributions subsequent to the measurement date	<u>470,515</u>	<u>-</u>
Total	<u>\$ 814,642</u>	<u>\$ 1,015,663</u>

\$470,515 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction/increase of the Net Pension Liability/Asset in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2024	\$ (150,807)
2025	(354,476)
2026	(546,942)
2027	380,689

Note 10-Pension Plans: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Component Unit School Board (Nonprofessional)

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

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Component Unit School Board Nonprofessional</u>
Inactive members or their beneficiaries currently receiving benefits	20
Inactive members:	
Vested inactive members	5
Non-vested inactive members	11
Inactive members active elsewhere in VRS	<u>7</u>
Total inactive members	23
Active members	<u>29</u>
Total covered employees	<u><u>72</u></u>

Note 10-Pension Plans: (Continued)

Component Unit School Board (Nonprofessional) (Continued)

Contributions

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2023 was 2.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$11,848 and \$29,561 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022.

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Note 10-Pension Plans: (Continued)

Component Unit School Board (Nonprofessional) (Continued)

Changes in Net Pension Liability (Asset)

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2021	\$ 2,392,000	\$ 2,709,853	\$ (317,853)
Changes for the year:			
Service cost	\$ 47,539	\$ -	\$ 47,539
Interest	158,778	-	158,778
Changes of assumptions	(75,400)	-	(75,400)
Contributions - employer	-	29,561	(29,561)
Contributions - employee	-	33,932	(33,932)
Net investment income	-	(573)	573
Benefit payments	(174,551)	(174,551)	-
Administrative expenses	-	(1,729)	1,729
Other changes	-	61	(61)
Net changes	\$ (43,634)	\$ (113,299)	\$ 69,665
Balances at June 30, 2022	\$ 2,348,366	\$ 2,596,554	\$ (248,188)

Sensitivity of the Net Pension (Asset) to Changes in the Discount Rate

The following presents the net pension (asset) of the Component Unit School Board (nonprofessional) using the discount rate of 6.75%, as well as what the Component Unit School Board's (nonprofessional) net pension (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Discount (6.75%)	1% Increase (7.75%)
Component Unit School Board (nonprofessional) Net Pension (Asset)	\$ 21,276	\$ (248,188)	\$ (472,602)

Note 10-Pension Plans: (Continued)

Component Unit School Board (Nonprofessional) (Continued)

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

For the year ended June 30, 2023, the Component Unit School Board (nonprofessional) recognized pension expense of \$(96,562). At June 30, 2023, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 58,127
Change in assumptions	14,715	-
Net difference between projected and actual earnings on pension plan investments	-	80,851
Employer contributions subsequent to the measurement date	<u>11,848</u>	<u>-</u>
Total	<u>\$ 26,563</u>	<u>\$ 138,978</u>

\$11,848 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	Component Unit School Board (nonprofessional)
2024	\$ (58,801)
2025	(47,948)
2026	(53,449)
2027	35,935

Note 10-Pension Plans: (Continued)

Component Unit School Board (Professional)

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information regarding the plan description is included in the first section of this note.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 16.08% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were \$1,450,822 and \$1,340,591 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$442.4 million to the VRS Teacher Retirement Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

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

At June 30, 2023, the school division reported a liability of \$8,591,388 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2022 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion was 0.09024% as compared to 0.08528% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized pension expense of \$415,831. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. Beginning with the June 30, 2022 measurement date, the difference between expected and actual contributions is included with the pension expense calculation.

Note 10-Pension Plans: (Continued)

Component Unit School Board (Professional) (Continued)

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

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (professional)	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 592,410
Change in assumptions	809,995	-
Net difference between projected and actual earnings on pension plan investments	-	1,120,137
Changes in proportion and differences between employer contributions and proportionate share of contributions	472,207	232,459
Employer contributions subsequent to the measurement date	<u>1,450,822</u>	<u>-</u>
Total	<u>\$ 2,733,024</u>	<u>\$ 1,945,006</u>

\$1,450,822 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (professional)</u>
2024	\$ (276,593)
2025	(357,141)
2026	(644,917)
2027	615,847

Note 10-Pension Plans: (Continued)

Component Unit School Board (Professional) (Continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

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

Mortality rates:

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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Note 10-Pension Plans: (Continued)

Component Unit School Board (Professional) (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB Statement No. 67, less that system’s fiduciary net position. As of June 30, 2022, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		Teacher Employee Retirement Plan
Total Pension Liability	\$	54,732,329
Plan Fiduciary Net Position		45,211,731
Employers' Net Pension Liability (Asset)	\$	<u>9,520,598</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		82.61%

Note 10-Pension Plans: (Continued)

Component Unit School Board (Professional) (Continued)

Net Pension Liability (Continued)

The total pension liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System’s notes to the financial statements and required supplementary information.

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

Sensitivity of the School Division’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Rate		
	(5.75%)	(6.75%)	(7.75%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 15,344,877	\$ 8,591,388	\$ 3,092,563

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 10-Pension Plans: (Continued)

Component Unit School Board (Professional) (Continued)

Aggregate Pension Information

The following is a summary of deferred outflows, deferred inflows, net pension liabilities (assets), and pension expense for the year ended June 30, 2023.

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
VRS Pension Plans:								
Primary Government	\$ 814,642	\$ 1,015,663	\$ 809,870	\$ 234,915	\$ -	\$ -	\$ -	\$ -
School Board Nonprofessional	-	-	-	-	26,563	138,978	(248,188)	(96,562)
School Board Professional	-	-	-	-	2,733,024	1,945,006	8,591,388	415,831
Totals	\$ 814,642	\$ 1,015,663	\$ 809,870	\$ 234,915	\$ 2,759,587	\$ 2,083,984	\$ 8,343,200	\$ 319,269

Note 11-Other Postemployment Benefits - City Health Insurance:

Plan Description

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

Benefits Provided

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

Contributions

The Council does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2023 was \$5,772.

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

Total OPEB Liability

At June 30, 2023, the City reported a liability of \$274,413 for its proportionate share of the total OPEB liability. The City’s total OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. At June 30, 2022, the City’s proportionate share of total OPEB liability was 80.4518% as compared to 80.0833% at June 30, 2021.

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Healthcare cost trend rate	6.7% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2075 and later years.
Discount Rate	3.69%

Mortality rates were based on the Pub-2010 Amount Weighted General/Disabled Employee Rates projected generationally with generational mortality improving using 75% of scale MP-2020, and other adjustments.

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

Discount Rate

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

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

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.69%) or one percentage point higher (4.69%) than the current discount rate:

Rate		
1% Decrease (2.69%)	Current Discount Rate (3.69%)	1% Increase (4.69%)
\$ 296,872	\$ 274,413	\$ 253,778

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

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

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.70% decreasing to an ultimate rate of 2.70%) or one percentage point higher (7.70% decreasing to an ultimate rate of 4.70%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (5.70% decreasing to 2.70%)	Trend (6.70% decreasing to 3.70%)	1% Increase (7.70% decreasing to 4.70%)
\$ 244,843	\$ 274,413	\$ 308,989

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

For the year ended June 30, 2023, the City recognized OPEB expense in the amount of \$(13,139). At June 30, 2023 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 109,919
Changes in assumptions	49,806	111,382
Employer contributions subsequent to the measurement date	5,772	-
Total	\$ 55,578	\$ 221,301

\$5,772 reported as deferred outflows of resources related to OPEB resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2024. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30

2024	\$ (39,841)
2025	(37,096)
2026	(43,314)
2027	(45,412)
2028	(5,832)

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

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

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

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

Plan Description

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

Benefits Provided

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

Plan Membership

At June 30, 2022 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	156
Total active employees without coverage	47
Total retirees with coverage	<u>7</u>
Total	<u><u>210</u></u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School Board for OPEB as the benefits came due during the year ended June 30, 2022 was \$44,258.

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

Total OPEB Liability

The School Board's total OPEB liability was measured as of June 30, 2022. The total OPEB liability was determined by an actuarial valuation as of June 30, 2021.

Actuarial Assumptions

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Healthcare cost trend rate	6.7% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2075 and later years.
Discount Rate	3.69%

Mortality rates were based on the Pub-2010 Amount Weighted General/Disabled Employee Rates projected generationally with generational mortality improving using 75% of scale MP-2020, and other adjustments.

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

Discount Rate

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

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

Changes in Total OPEB Liability

		Component Unit School Board Total OPEB Liability
Balances at June 30, 2021	\$	606,516
Changes for the year:		
Service cost		41,805
Interest		12,023
Changes in assumptions		(75,255)
Benefit payments		(44,258)
Net changes	\$	<u>(65,685)</u>
Balances at June 30, 2022	\$	<u><u>540,831</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.69%) or one percentage point higher (4.69%) than the current discount rate:

Rate		
1% Decrease (2.69%)	Current Discount Rate (3.69%)	1% Increase (4.69%)
\$ <u>582,410</u>	\$ <u>540,831</u>	\$ <u>501,945</u>

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

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

The following presents the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.70% decreasing to an ultimate rate of 3.00%) or one percentage point higher (7.70% decreasing to an ultimate rate of 5.00%) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.70% decreasing to 2.70%)	Healthcare Cost Trend (6.70% decreasing to 3.70%)	1% Increase (7.70% decreasing to 4.70%)
\$ 478,258	\$ 540,831	\$ 615,577

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

For the year ended June 30, 2023, the School Board recognized OPEB expense in the amount of \$59,424. At June 30, 2023, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,862	\$ 67,993
Net difference between projected and actual earnings	-	156,497
Changes in assumptions	110,298	-
Employer contributions subsequent to the measurement date	44,258	-
Total	<u>\$ 220,418</u>	<u>\$ 224,490</u>

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

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

\$44,258 reported as deferred outflows of resources related to OPEB resulting from the School Board’s estimated contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2024. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2024	\$ 5,596
2025	6,136
2026	8,088
2027	8,266
2028	(26,173)
Thereafter	(50,243)

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

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

Plan Description

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

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

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

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

Eligible Employees

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

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. It will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,984 as of June 30, 2023.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2023 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the Group Life Insurance Plan from the City were \$33,516 and \$31,376 for the years ended June 30, 2023 and June 30, 2022, respectively.

Contributions to the Group Life Insurance Plan from the Component Unit School Board (Nonprofessional) were \$4,574 and \$4,146 for the years ended June 30, 2023 and June 30, 2022, respectively.

Contributions to the Group Life Insurance Plan from the Component Unit School Board (Professional) were \$48,938 and \$44,865 for the years ended June 30, 2023 and June 30, 2022, respectively.

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

Contributions (Continued)

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

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

Primary Government Group Life Insurance Plan

At June 30, 2023, the entity reported a liability of \$321,614 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the participating employer's proportion was 0.0267% as compared to 0.0290% at June 30, 2021.

For the year ended June 30, 2023, the participating employer recognized GLI OPEB expense of \$9,485. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

Component Unit School Board (Nonprofessional) Group Life Insurance Plan

At June 30, 2023 the entity reported a liability of \$42,505 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the participating employer's proportion was 0.0035% as compared to 0.0029% at June 30, 2021.

For the year ended June 30, 2023, the participating employer recognized GLI OPEB expense of \$3,473. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

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

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

Component Unit School Board (Professional) Group Life Insurance Plan

At June 30, 2023, the entity reported a liability of \$459,844 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer’s proportion of the Net GLI OPEB Liability was based on the covered employer’s actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the participating employer’s proportion was 0.0382% as compared to 0.0365% at June 30, 2021.

For the year ended June 30, 2023, the participating employer recognized GLI OPEB expense of \$12,369. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)		Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,468	\$ 12,902	\$ 3,366	\$ 1,705	\$ 36,414	\$ 18,448
Net difference between projected and actual earnings on GLI OPEB program investments	-	20,096	-	2,656	-	28,734
Change in assumptions	11,995	31,326	1,585	4,140	17,151	44,791
Changes in proportionate share	13,228	9,535	10,604	715	25,606	17,597
Employer contributions subsequent to the measurement date	33,516	-	4,574	-	48,938	-
Total	\$ 84,207	\$ 73,859	\$ 20,129	\$ 9,216	\$ 128,109	\$ 109,570

\$33,516, \$4,574, and \$48,938 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

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

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

Year Ended June 30	Primary Government	Component Unit School Board (nonprofessional)	Component Unit School Board (professional)
2024	\$ (6,423)	\$ 1,371	\$ (9,512)
2025	(4,693)	1,391	(6,972)
2026	(13,798)	(92)	(21,978)
2027	4,705	2,508	7,535
2028	(2,959)	1,161	528

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

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

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

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

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

Actuarial Assumptions (Continued)

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110 of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

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

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

Actuarial Assumptions (Continued)

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75 of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2022, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

	GLI OPEB Plan
Total GLI OPEB Liability	\$ 3,672,085
Plan Fiduciary Net Position	2,467,989
GLI Net OPEB Liability (Asset)	<u>\$ 1,204,096</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	67.21%

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

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly the 40th percentile of expected long-term results of the VRS fund asset allocation at the time, providing a median return of 7.11%, including expected inflation of 2.50%.

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City's proportionate share of the GLI Plan Net OPEB Liability	\$ 467,987	\$ 321,614	\$ 203,326
Component Unit School Board's (nonprofessional) proportionate share of the GLI Plan Net OPEB Liability	\$ 61,849	\$ 42,505	\$ 26,872
Component Unit School Board's (professional) proportionate share of the GLI Plan Net OPEB Liability	\$ 669,127	\$ 459,844	\$ 290,715

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

Group Life Insurance Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

Plan Description

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

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

Eligible Employees

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

Benefit Amounts

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

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

HIC Plan Notes

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

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 1.21% of covered employee compensation for employees in the VRS Teacher Employee HIC Plan. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee HIC Plan were \$109,200 and \$100,461 for the years ended June 30, 2023 and June 30, 2021, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$12 million to the VRS Teacher HIC Plan. This special payments was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

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

At June 30, 2023, the school division reported a liability of \$1,112,651 for its proportionate share of the VRS Teacher Employee HIC Net OPEB Liability. The Net VRS Teacher Employee HIC Program OPEB Liability was measured as of June 30, 2022 and the total VRS Teacher HIC OPEB liability used to calculate the Net VRS Teacher Employee HIC OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net VRS Teacher Employee HIC OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC OPEB plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion of the VRS Teacher Employee HIC was 0.0891% as compared to 0.0845% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized VRS Teacher Employee HIC OPEB expense of \$84,107. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Net OPEB expense was related to deferred amounts from changes in proportionate share and differences between actual and expected contributions.

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

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

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 45,353
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	1,117
Change in assumptions	32,506	2,841
Change in proportionate share and differences between actual and expected contributions	51,577	41,247
Employer contributions subsequent to the measurement date	<u>109,200</u>	<u>-</u>
Total	<u>\$ 193,283</u>	<u>\$ 90,558</u>

\$109,200 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2024	\$ (8,209)
2025	(6,402)
2026	(2,792)
2027	2,423
2028	2,762
Thereafter	5,743

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

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee HIC Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

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

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teacher Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

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

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee HIC Plan represents the Plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the VRS Teacher Employee HIC Plan is as follows (amounts expressed in thousands):

	Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$ 1,470,891
Plan Fiduciary Net Position	221,845
Teacher Employee Net HIC OPEB Liability (Asset)	<u>\$ 1,249,046</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability	15.08%

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

Net Teacher Employee HIC OPEB Liability (Continued)

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
		Inflation	2.50%
		Expected arithmetic nominal return**	7.83%

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by each school division for the VRS Teacher Employee HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

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

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 1,253,970	\$ 1,112,651	\$ 992,858

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee HIC Plan’s Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

Plan Description

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

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

Eligible Employees

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

Benefit Amounts

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

HIC Plan Notes

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

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

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	6
Inactive members:	
Vested inactive members	2
Total inactive members	8
Active members	<u>29</u>
Total covered employees	<u><u>37</u></u>

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The school division’s contractually required employer contribution rate for the year ended June 30, 2023 was 0.79% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the HIC Plan were \$6,691 and \$6,066 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net HIC OPEB Liability

The school division’s net HIC OPEB liability was measured as of June 30, 2022. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2021, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

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

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

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

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified-2020 Improvement Scale that is 75% of the MP-2020 rates

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

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2022, the rate was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2021	\$ 48,254	\$ 5,332	\$ 42,922
Changes for the year:			
Service cost	\$ 656	\$ -	\$ 656
Interest	3,275	-	3,275
Differences between expected and actual experience	(4,038)	-	(4,038)
Assumption changes	5,300	-	5,300
Contributions - employer	-	6,066	(6,066)
Net investment income	-	(128)	128
Benefit payments	(777)	(777)	-
Administrative expenses	-	(20)	20
Net changes	\$ 4,416	\$ 5,141	\$ (725)
Balances at June 30, 2022	\$ 52,670	\$ 10,473	\$ 42,197

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

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

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
School Division's Net HIC OPEB Liability	\$ 47,267	\$ 42,197	\$ 37,845

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

For the year ended June 30, 2023, the school division recognized HIC Plan OPEB expense of \$3,904. At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to the school division's HIC Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,182
Net difference between projected and actual earnings on HIC OPEB plan investments	247	-
Change in assumptions	4,724	-
Employer contributions subsequent to the measurement date	6,691	-
Total	\$ 11,662	\$ 3,182

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

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

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB (Continued)

\$6,691 reported as deferred outflows of resources related to the HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in the future reporting periods as follows:

<u>Year Ended June 30</u>			
2024	\$		491
2025			491
2026			483
2027			324

HIC Plan Data

Information about the VRS Political Subdivision HIC Plan is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 16-Aggregate OPEB Information:

	<u>Primary Government</u>				<u>Component Unit School Board</u>			
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>
City Stand-Alone Plan	\$ 55,578	\$ 221,301	\$ 274,413	\$ (13,139)	\$ -	\$ -	\$ -	\$ -
School Stand-Alone Plan	-	-	-	-	220,418	224,490	540,831	59,424
VRS OPEB Plans:								
Group Life Insurance Plan:								
City	84,207	73,859	321,614	9,485	-	-	-	-
School Board Nonprofessional	-	-	-	-	20,129	9,216	42,505	3,473
School Board Professional	-	-	-	-	128,109	109,570	459,844	12,369
Political Subdivision Retiree HIC Plan (School Board nonprofessional)	-	-	-	-	11,662	3,182	42,197	3,904
Teacher Health Insurance Credit Plan	-	-	-	-	193,283	90,558	1,112,651	84,107
Totals	<u>\$ 139,785</u>	<u>\$ 295,160</u>	<u>\$ 596,027</u>	<u>\$ (3,654)</u>	<u>\$ 573,601</u>	<u>\$ 437,016</u>	<u>\$ 2,198,028</u>	<u>\$ 163,277</u>

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

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

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

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The City's LODA coverage is fully covered or "insured" through VRSA Insurance Programs. This is built into the LODA coverage cost presented in the annual renewals. The City's LODA premium for the year ended June 30, 2023 was \$31,818.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 18-Unearned and Deferred/Unavailable Revenue:

Unearned and unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred.

	<u>Government-wide Statements</u>	<u>Balance Sheet</u>
	<u>Governmental Activities</u>	<u>Governmental Funds</u>
Deferred/Unavailable revenue:		
Unavailable property tax revenue representing uncollected property tax billings are not available for the funding of current expenditures	\$ -	\$ 550,834
Prepaid property taxes due after June 30 but paid in advance by taxpayers	18,076	18,076
Unavailable meals tax revenue representing uncollected meals tax not available for the funding of current expenditures	-	62,300
Unavailable opioid settlement proceeds representing uncollected opioid settlement proceeds not available for the funding of current expenditures	-	128,501
Totals	<u>\$ 18,076</u>	<u>\$ 759,711</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 19-Capital Assets:

Capital asset activity for the year ended June 30, 2023 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated/amortized:				
Land	\$ 2,931,122	\$ -	\$ (10,000)	\$ 2,921,122
Construction in progress	420,903	345,320	(415,986)	350,237
Total capital assets not being depreciated/amortized	<u>\$ 3,352,025</u>	<u>\$ 345,320</u>	<u>\$ (425,986)</u>	<u>\$ 3,271,359</u>
Capital assets, being depreciated/amortized:				
Infrastructure	\$ 6,762,032	\$ 415,985	\$ (8,470)	\$ 7,169,547
Buildings and improvements	34,561,600	253,589	(94,225)	34,720,964
Machinery and equipment	8,252,622	191,182	(952,152)	7,491,652
Right-to-use lease machinery and equipment	157,132	146,772	(43,439)	260,465
Total capital assets being depreciated/amortized	<u>\$ 49,733,386</u>	<u>\$ 1,007,528</u>	<u>\$ (1,098,286)</u>	<u>\$ 49,642,628</u>
Accumulated depreciation/amortization:				
Infrastructure	\$ (1,448,870)	\$ (201,821)	\$ 8,470	\$ (1,642,221)
Buildings and improvements	(7,153,909)	(876,189)	94,225	(7,935,873)
Machinery and equipment	(4,645,990)	(434,764)	936,481	(4,144,273)
Right-to-use lease machinery and equipment	(48,744)	(58,842)	43,439	(64,147)
Total accumulated depreciation/amortization	<u>\$ (13,297,513)</u>	<u>\$ (1,571,616)</u>	<u>\$ 1,082,615</u>	<u>\$ (13,786,514)</u>
Total capital assets being depreciated/amortized, net	<u>\$ 36,435,873</u>	<u>\$ (564,088)</u>	<u>\$ (15,671)</u>	<u>\$ 35,856,114</u>
Governmental activities capital assets, net	<u>\$ 39,787,898</u>	<u>\$ (218,768)</u>	<u>\$ (441,657)</u>	<u>\$ 39,127,473</u>

Assets with a net value of \$15,671 (gross value \$37,610 and depreciation of \$21,939) were transferred to the Utility Fund from the City in the current year.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 19-Capital Assets: (Continued)

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated/amortized:				
Land	\$ 149,374	\$ -	\$ -	\$ 149,374
Construction in progress	89,227	218,668	-	307,895
Total capital assets not being depreciated/amortized	<u>\$ 238,601</u>	<u>\$ 218,668</u>	<u>\$ -</u>	<u>\$ 457,269</u>
Capital assets, being depreciated/amortized:				
Infrastructure	\$ 30,032,723	\$ -	\$ (34,212)	\$ 29,998,511
Building and improvements	1,823,395	-	(7,192)	1,816,203
Machinery and equipment	678,663	37,610	(63,867)	652,406
Right-to-use lease machinery and equipment	58,635	-	-	58,635
Total capital assets being depreciated/amortized	<u>\$ 32,593,416</u>	<u>\$ 37,610</u>	<u>\$ (105,271)</u>	<u>\$ 32,525,755</u>
Accumulated depreciation/amortized:				
Infrastructure	\$ (16,793,586)	\$ (541,982)	\$ 34,212	\$ (17,301,356)
Building and improvements	(1,048,001)	(90,810)	7,192	(1,131,619)
Machinery and equipment	(464,935)	(53,323)	63,867	(454,391)
Right-to-use lease machinery and equipment	(18,836)	(18,836)	-	(37,672)
Total accumulated depreciation/amortized	<u>\$ (18,325,358)</u>	<u>\$ (704,951)</u>	<u>\$ 105,271</u>	<u>\$ (18,925,038)</u>
Total capital assets being depreciated/amortized, net	<u>\$ 14,268,058</u>	<u>\$ (667,341)</u>	<u>\$ -</u>	<u>\$ 13,600,717</u>
Business-type activities capital assets, net	<u>\$ 14,506,659</u>	<u>\$ (448,673)</u>	<u>\$ -</u>	<u>\$ 14,057,986</u>

Assets with a net value of \$15,671 (gross value \$37,610 and depreciation of \$21,939) were transferred to the Utility Fund from the City in the current year.

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Note 19-Capital Assets: (Continued)

Primary Government: (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 26,042
Public safety	394,735
Public works	312,390
Health and welfare	20,238
Education	553,851
Parks, recreation, and cultural	<u>264,360</u>
Total depreciation/amortization expense-governmental activities	<u>\$ 1,571,616</u>
Business-type activities:	
Water and sewer	\$ 654,984
Stormwater	<u>28,028</u>
Total depreciation/amortization expense-business type activities	<u>\$ 683,012</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 19-Capital Assets: (Continued)

Capital asset activity for the School Board for the year ended June 30, 2023 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	\$ 201,548	\$ -	\$ -	\$ 201,548
Construction in progress	2,460,544	4,796,455	(4,024,578)	3,232,421
Total capital assets not being depreciated/amortized	<u>\$ 2,662,092</u>	<u>\$ 4,796,455</u>	<u>\$ (4,024,578)</u>	<u>\$ 3,433,969</u>
Capital assets, being depreciated/amortized:				
Buildings and improvements	\$ 11,427,665	\$ 4,024,578	\$ -	\$ 15,452,243
Machinery and equipment	2,620,390	399,148	-	3,019,538
Right-to-use lease machinery and equipment	102,553	-	-	102,553
Total capital assets being depreciated/amortized	<u>\$ 14,150,608</u>	<u>\$ 4,423,726</u>	<u>\$ -</u>	<u>\$ 18,574,334</u>
Accumulated depreciation/amortized:				
Buildings and improvements	\$ (7,260,324)	\$ (258,374)	\$ -	\$ (7,518,698)
Machinery and equipment	(1,813,604)	(166,983)	-	(1,980,587)
Right-to-use lease machinery and equipment	(25,620)	(25,621)	-	(51,241)
Total accumulated depreciation/amortized	<u>\$ (9,099,548)</u>	<u>\$ (450,978)</u>	<u>\$ -</u>	<u>\$ (9,550,526)</u>
Total capital assets being depreciated/amortized, net	<u>\$ 5,051,060</u>	<u>\$ 3,972,748</u>	<u>\$ -</u>	<u>\$ 9,023,808</u>
School Board capital assets, net	<u>\$ 7,713,152</u>	<u>\$ 8,769,203</u>	<u>\$ (4,024,578)</u>	<u>\$ 12,457,777</u>

Note 20-Inventory Held for Resale:

The IDA had land and a building that was shown as inventory held for resale at June 30, 2023 in the amount of \$858,708. This inventory is valued at cost.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 21-Leases Receivable:

Primary Government:

The following is a summary of lessor activity of the City for the year ended June 30, 2023:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance	Interest Revenue
Leases receivable	\$ 518,403	\$ -	\$ (16,952)	\$ 501,451	\$ 15,324

Lease revenue recognized during the fiscal year was \$16,952.

Details of leases receivable:

Lease Description	Lease Origination Date*	End Date	Payment Frequency	Discount Rate	Ending Balance	Amount Due Within One Year
Cell Tower	Dec-08	2039	Monthly	3.00%	\$ 279,244	\$ 10,229
Cell Tower	Nov-08	2039	Monthly	3.00%	222,207	8,220
Total					\$ 501,451	\$ 18,449

There are no variable payments for any of the lease receivables above

*Date shown is the original lease commencement date. GASB Statement No. 87 was implemented as of July 1, 2021.

Note 22-Risk Management:

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

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

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

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

Note 23-Contingent Liabilities:

Federal programs in which the City and its component units participate were audited in accordance with the provisions of Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of the Uniform Guidance, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 24-Landfill Closure and Post-closure Care Cost:

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

The presence of certain contaminants has been detected in the groundwater, which thereby extends the monitoring period in excess of the initial requirement. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City as discussed below. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances. The cumulative amount of estimated postclosure care and corrective costs to date for this site, less cash paid for such costs to date, totals \$560,381. This amount is included in the long-term liabilities in the primary government.

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

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

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 25-Self Health Insurance:

The City established a limited risk management program for health insurance in fiscal year 2020. Premiums are paid into the health plan fund from the City and are available to pay claims, and administrative costs of the program. The self-insurance program was terminated as of July 1, 2022. During the fiscal year 2023, a total of \$110,982 was paid in benefits and administrative costs to wind down the program. As of June 30, 2023, the City believes all potential claims and liabilities that may have arisen from operation of the program have been paid and the City does not expect to incur any additional claims related to the program. The internal service fund retains \$53,896 in cash and cash equivalents that is expected to be transferred to the City’s General Fund during the 23/24 fiscal year. Changes in the claim liabilities for the current and prior two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2022-23	\$ 110,982	-	\$ (110,982)	-
2021-22	88,421	1,639,037	(1,616,476)	110,982
2020-21	132,869	1,672,753	(1,717,201)	88,421

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Note 26-Commitments and Contingencies:

Construction Commitments

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

Project	Contract Amount	Contract Amount Outstanding at June 30, 2023
City:		
Renovation 406 West Oldtown Building	\$ 2,214,500	\$ 2,138,000
VDOT McArthur W. Stuart Drive Sidewalk	69,500	24,413
VDOT Traffic Signal at Food City Intersection	41,450	29,207
VDOT East Stuart Drive Smart Scale-Phase II	272,380	66,831
East Stuart Drive Sewer Replacement	1,059,955	920,828
Main Street Pedestrian Improvements	96,021	40,163
Galax Downtown Tree Evaluation	10,000	5,890
Opportunity Zone/Enterprise Zone	71,170	3,500
Water Plant & Pump Station	219,500	1,625
Water Plant Design & Construction	3,450,000	3,354,255
Swanson Street Water/Sewer Design	128,300	98,300
Component Unit School Board:		
Galax High School HVAC & Reroof	3,393,183	479,314
Totals	\$ 11,025,959	\$ 7,162,326

Shared Service Fees

The City shares services with Carroll County and Grayson County for costs incurred for the localities courts and sheriff offices. It is the City’s policy to reimburse the Counties after year end based on funding agreements with each locality. At year end, \$610,000 was due for the current fiscal year.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2023

Note 27-Restricted and Committed Funds and Restricted Net Position:

Restrictions and commitments of fund balance and net position as of June 30, 2023 are as follow:

	Governmental Activities	Business-Type Activities			Component Unit School Fund
		Water and Sewer	Stormwater	Total	
Restricted net position:					
Blue Ridge Post book fund	\$ 14,574	\$ -	\$ -	\$ -	\$ -
Police narcotics	11,950				-
Fire Department grants	34,095	-	-	-	-
IDA Building renovation	25,000	-	-	-	-
Opioid settlement proceeds	164,283	-	-	-	-
Animal shelter	71,808	-	-	-	-
Net pension asset	-	-	-	-	248,188
Cafeteria funds	-	-	-	-	739,435
School activity funds	-	-	-	-	213,108
Total restricted net position	\$ 321,710	\$ -	\$ -	\$ -	\$ 1,200,731

	General Fund				School Board
Restricted fund balance:					
Blue Ridge Post book fund	\$ 14,574	n/a	n/a	n/a	\$ -
Police narcotics	11,950	n/a	n/a	n/a	-
Fire Department grants	34,095	n/a	n/a	n/a	-
Opioid settlement proceeds	35,782	n/a	n/a	n/a	-
Animal shelter	71,808	n/a	n/a	n/a	-
IDA Building renovation	25,000	n/a	n/a	n/a	-
Cafeteria funds	-	n/a	n/a	n/a	739,435
School activity funds	-	n/a	n/a	n/a	213,108
Total restricted fund balance	\$ 193,209				\$ 952,543

Committed funds:					
IDA Property renovation	\$ 665,890	n/a	n/a	n/a	\$ -
VDOT match	73,883	n/a	n/a	n/a	-
Total committed funds	\$ 739,773				\$ -

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Note 28-Subsequent Event:

On November 13, 2023, the City Council approved the issuance of a general obligation and water and sewer revenue bond in the amount of \$3,000,0000 (\$2,340,000 as principal forgiveness, and \$660,000 as a loan).

Note 29-Upcoming Pronouncements:

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections* - an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*, with dates ranging from reporting periods beginning after June 15, 2022 to reporting periods beginning after June 15, 2023.

Implementation Guide No. 2023-1, *Implementation Guidance Update—2023*, effective for fiscal years beginning after June 15, 2023.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

City of Galax, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 6,934,993	\$ 7,284,993	\$ 7,449,392	\$ 164,399
Other local taxes	6,909,800	6,909,800	8,097,598	1,187,798
Permits, privilege fees, and regulatory licenses	9,800	9,800	29,886	20,086
Fines and forfeitures	109,600	109,600	129,109	19,509
Revenue from the use of money and property	57,800	76,800	272,046	195,246
Charges for services	808,900	819,616	848,109	28,493
Miscellaneous	149,671	173,889	249,388	75,499
Recovered costs	223,967	223,967	230,759	6,792
Intergovernmental	8,043,946	12,012,412	10,530,718	(1,481,694)
Total revenues	\$ 23,248,477	\$ 27,620,877	\$ 27,837,005	\$ 216,128
EXPENDITURES				
Current:				
General government administration	\$ 1,825,641	\$ 1,911,491	\$ 1,814,486	\$ 97,005
Judicial administration	607,650	657,650	702,214	(44,564)
Public safety	3,509,700	3,711,509	3,578,539	132,970
Public works	3,388,462	4,073,828	3,768,590	305,238
Health and welfare	4,340,867	4,655,729	4,005,390	650,339
Education	4,115,086	4,115,086	4,115,086	-
Parks, recreation, and cultural	2,008,010	2,056,910	1,985,812	71,098
Community development	499,329	578,827	539,508	39,319
Nondepartmental	80,000	106,000	106,101	(101)
Capital projects	1,739,200	2,584,909	774,648	1,810,261
Debt service:				
Principal retirement	589,872	589,872	647,314	(57,442)
Interest and other fiscal charges	730,245	730,245	739,748	(9,503)
Total expenditures	\$ 23,434,062	\$ 25,772,056	\$ 22,777,436	\$ 2,994,620
Excess (deficiency) of revenues over (under) expenditures	\$ (185,585)	\$ 1,848,821	\$ 5,059,569	\$ 3,210,748
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,300,000)	(1,300,000)	(1,300,000)	-
Issuances of leases	-	-	146,772	146,772
Total other financing sources (uses)	\$ (1,300,000)	\$ (1,300,000)	\$ (1,153,228)	\$ 146,772
Net change in fund balances	\$ (1,485,585)	\$ 548,821	\$ 3,906,341	\$ 3,357,520
Fund balances - beginning	1,485,585	-	13,609,672	13,609,672
Fund balances - ending	\$ -	\$ 548,821	\$ 17,516,013	\$ 16,967,192

Note 1: GAAP serves as the budgetary basis of accounting

City of Galax, Virginia
Schedule of Employer's Proportionate Share of Net Pension Liability
For the Measurement Dates of June 30, 2014 through June 30, 2022

Actuarial Valuation Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
Primary Government - City Retirement Plan					
2022	80.45%	\$ 809,870	\$ 5,820,699	13.91%	97.13%
2021	80.08%	(825,604)	5,545,933	-14.89%	103.03%
2020	81.46%	3,303,238	5,616,028	58.82%	87.42%
2019	81.74%	1,772,401	5,091,178	34.81%	92.91%
2018	80.03%	991,692	4,920,951	20.15%	95.67%
2017	80.15%	1,438,898	4,979,689	28.90%	93.53%
2016	79.48%	2,944,744	4,820,666	61.09%	86.35%
2015	78.62%	2,588,972	4,692,751	55.17%	87.59%
2014	78.62%	2,321,645	4,588,421	50.60%	88.34%
Component Unit School Board (professional)					
2022	0.09024%	\$ 8,591,388	\$ 8,302,577	103.48%	82.61%
2021	0.08528%	6,620,369	7,470,332	88.62%	85.46%
2020	0.08550%	12,445,406	7,538,331	165.09%	71.47%
2019	0.08892%	11,702,378	7,374,541	158.69%	73.51%
2018	0.08914%	10,483,000	7,131,435	147.00%	74.81%
2017	0.09051%	11,130,000	7,089,186	157.00%	72.92%
2016	0.09189%	12,877,000	7,006,311	183.79%	68.28%
2015	0.09218%	11,602,000	6,853,703	169.28%	70.68%
2014	0.09215%	11,136,000	6,740,206	165.22%	70.88%

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

City of Galax, Virginia
 Schedule of Changes in Net Pension Liability and Related Ratios
 Component Unit School Board (nonprofessional)
 For the Measurement Dates of June 30, 2014 through June 30, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability									
Service cost	\$ 47,539	\$ 45,874	\$ 45,582	\$ 46,560	\$ 39,712	\$ 46,631	\$ 54,408	\$ 52,788	\$ 59,100
Interest	158,778	151,796	162,270	158,824	151,270	152,273	147,275	146,030	138,221
Differences between expected and actual experience	-	(64,268)	(78,670)	1,887	55,259	(78,673)	(38,600)	(92,264)	-
Changes of assumptions	(75,400)	74,773	(239,670)	60,027	-	(20,700)	(81,606)	(95,913)	(75,607)
Benefit payments	(174,551)	(130,017)	(116,694)	(147,720)	(127,402)	(101,759)	(81,477)	(95,913)	(75,607)
Net change in total pension liability	\$ (43,634)	\$ 78,158	\$ (148,512)	\$ (119,578)	\$ 118,789	\$ (2,228)	\$ 81,477	\$ 10,641	\$ 121,714
Total pension liability - beginning	2,392,000	2,313,842	2,462,354	2,342,776	2,223,987	2,226,215	2,144,738	2,134,097	2,012,383
Total pension liability - ending (a)	\$ 2,348,366	\$ 2,392,000	\$ 2,313,842	\$ 2,462,354	\$ 2,342,776	\$ 2,223,987	\$ 2,226,215	\$ 2,144,738	\$ 2,134,097
Plan fiduciary net position									
Contributions - employer	\$ 29,561	\$ 24,062	\$ 39,805	\$ 41,072	\$ 43,597	\$ 42,353	\$ 51,508	\$ 56,560	\$ 58,635
Contributions - employee	33,932	26,849	24,676	25,081	24,186	23,533	24,595	27,173	27,537
Net investment income	(573)	592,558	42,041	140,528	151,195	227,065	32,761	81,921	242,426
Benefit payments	(174,551)	(130,017)	(116,694)	(147,720)	(127,402)	(101,759)	(81,606)	(95,913)	(75,607)
Administrator charges	(1,729)	(1,510)	(1,447)	(1,447)	(1,329)	(1,321)	(1,140)	(1,116)	(1,285)
Other	61	56	(50)	(88)	(134)	(202)	(14)	(16)	13
Net change in plan fiduciary net position	\$ (113,299)	\$ 511,998	\$ (11,669)	\$ 57,426	\$ 90,113	\$ 189,669	\$ 26,104	\$ 68,609	\$ 251,719
Plan fiduciary net position - beginning	2,709,853	2,197,855	2,209,524	2,152,098	2,061,985	1,872,316	1,846,212	1,777,603	1,525,884
Plan fiduciary net position - ending (b)	\$ 2,596,554	\$ 2,709,853	\$ 2,197,855	\$ 2,209,524	\$ 2,152,098	\$ 2,061,985	\$ 1,872,316	\$ 1,846,212	\$ 1,777,603
School Division's net pension liability - ending (a) - (b)	\$ (248,188)	\$ (317,853)	\$ 115,987	\$ 252,830	\$ 190,678	\$ 162,002	\$ 353,899	\$ 298,526	\$ 356,494
Plan fiduciary net position as a percentage of the total pension liability	110.57%	113.29%	94.99%	89.73%	91.86%	92.72%	84.10%	86.08%	83.30%
Covered payroll	\$ 767,835	\$ 597,092	\$ 578,194	\$ 525,085	\$ 505,946	\$ 491,690	\$ 507,791	\$ 554,534	\$ 552,382
School Division's net pension liability (asset) as a percentage of covered payroll	-32.32%	-53.23%	20.06%	48.15%	37.69%	32.95%	69.69%	53.83%	64.54%

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

City of Galax, Virginia
Schedule of Employer Contributions-Pension
For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2023	\$ 470,515	\$ 470,515	\$ -	\$ 6,206,667	7.58%
2022	449,015	449,015	-	5,820,699	7.71%
2021	433,317	433,317	-	5,545,933	7.81%
2020	381,657	381,657	-	5,616,028	6.80%
2019	349,729	349,729	-	5,091,178	6.87%
2018	412,124	412,124	-	4,920,951	8.37%
2017	419,962	419,962	-	4,979,689	8.43%
2016	550,450	550,450	-	4,820,666	11.42%
2015	538,784	538,784	-	4,692,751	11.48%
Component Unit School Board (nonprofessional)					
2023	\$ 11,848	\$ 11,848	\$ -	\$ 846,980	1.40%
2022	29,561	29,561	-	767,835	3.85%
2021	24,062	24,062	-	597,092	4.03%
2020	39,805	39,805	-	578,194	6.88%
2019	41,072	41,072	-	525,085	7.82%
2018	37,389	43,597	(6,208)	505,946	8.62%
2017	36,336	42,353	(6,017)	491,690	8.61%
2016	51,508	51,508	-	507,791	10.14%
2015	56,560	56,560	-	554,534	10.20%
2014	58,635	58,635	-	552,382	10.61%
Component Unit School Board (professional)					
2023	\$ 1,450,822	\$ 1,450,822	\$ -	\$ 9,024,793	16.08%
2022	1,340,591	1,340,591	-	8,302,577	16.15%
2021	1,205,724	1,205,724	-	7,470,332	16.14%
2020	1,133,659	1,133,659	-	7,538,331	15.04%
2019	1,138,767	1,138,767	-	7,374,541	15.44%
2018	1,152,247	1,152,247	-	7,131,435	16.16%
2017	1,032,736	1,032,736	-	7,089,186	14.57%
2016	977,000	977,000	-	7,006,311	13.94%
2015	991,404	991,404	-	6,853,703	14.47%
2014	785,908	785,908	-	6,740,206	11.66%

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

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

City of Galax, Virginia
Notes to Required Supplementary Information-Pension
For the Year Ended June 30, 2023

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2021, valuations were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1: set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

City of Galax, Virginia
 Schedule of City's Proportionate Share of the Total Health Insurance OPEB Liability
 For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Proportion of the Total OPEB Liability (Asset) (TOLA) (2)	Proportionate Share of the TOLA (3)	Covered Payroll (4)	Proportionate Share of the TOLA as a Percentage of Covered Payroll (3)/(4) (5)
2022	80.4518%	\$ 274,413	\$ 6,060,434	4.53%
2021	80.0833%	292,624	5,721,952	5.11%
2020	81.4596%	550,137	5,729,054	9.60%
2019	81.7411%	511,794	5,507,715	9.29%
2018	80.0315%	382,207	6,312,885	6.05%
2017	80.0315%	378,065	6,242,457	6.06%

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

City of Galax, Virginia
 Schedule of Changes in Total Health Insurance OPEB Liability (Asset) and Related Ratios
 Component Unit - School Board
 For the Measurement Dates of June 30, 2017 through June 30, 2022

	2022	2021	2020	2019	2018	2017
Total OPEB liability						
Service cost	\$ 41,805	\$ 50,853	\$ 46,068	\$ 23,801	\$ 22,967	\$ 24,478
Interest	12,023	19,845	24,152	15,438	15,659	13,358
Changes in assumptions	(75,255)	(112,885)	8,926	205,286	(1,788)	(18,980)
Differences between expected and actual experience	-	(89,855)	-	129,194	-	-
Benefit payments	(44,258)	(41,205)	(49,914)	(51,702)	(50,454)	(19,443)
Net change in total OPEB liability	\$ (65,685)	\$ (173,247)	\$ 29,232	\$ 322,017	\$ (13,616)	\$ (587)
Total OPEB liability - beginning	<u>606,516</u>	<u>779,763</u>	<u>750,531</u>	<u>428,514</u>	<u>442,130</u>	<u>442,717</u>
Total OPEB liability - ending	<u>\$ 540,831</u>	<u>\$ 606,516</u>	<u>\$ 779,763</u>	<u>\$ 750,531</u>	<u>\$ 428,514</u>	<u>\$ 442,130</u>
Covered-employee payroll	\$ 9,308,683	\$ 8,629,772	\$ 8,200,000	\$ 8,507,940	\$ 8,458,000	\$ 8,226,508
School's total OPEB liability (asset) as a percentage of covered-employee payroll	5.81%	7.03%	9.51%	8.82%	5.07%	5.37%

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

City of Galax, Virginia
Notes to Required Supplementary Information
City and Component Unit School Board Health Insurance OPEB
For the Year Ended June 30, 2023

Primary Government

Valuation Date: 6/30/2021
 Measurement Date: 6/30/2022

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.69%
Inflation	2.25%
Healthcare Trend Rate	6.70% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.70% in FY2075 and later years
Salary Increase Rates	Based on the most recently disclosed assumptions for the pension plan in which the employee participates
Retirement Age	The average age at retirement is 65
Mortality Rates	Pub-2010 Amount Weighted General/Disabled Employee Rates projected generationally with generational mortality improvement using 75% of scale MP-2020, and other adjustments

Component Unit School Board

Valuation Date: 6/30/2021
 Measurement Date: 6/30/2022

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.69%
Inflation	2.25%
Healthcare Trend Rate	6.70% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.70% in FY2075 and later years
Salary Increase Rates	Based on the most recently disclosed assumptions for the pension plan in which the employee participates
Retirement Age	The average age at retirement is 65
Mortality Rates	Based on assumptions for Teachers published in the June 30, 2020 Virginia Retirement System actuarial valuation

City of Galax, Virginia
 Schedule of Employer's Share of Net OPEB Liability
 Group Life Insurance (GLI) Plan
 For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2022	0.0267%	\$ 321,614	\$ 5,820,699	5.53%	67.21%
2021	0.0290%	312,350	5,545,933	5.63%	67.45%
2020	0.0261%	435,969	5,616,028	7.76%	52.64%
2019	0.0270%	422,588	5,091,178	8.30%	52.00%
2018	0.0260%	394,555	4,920,951	8.02%	51.22%
2017	0.0270%	405,544	4,979,689	8.14%	48.86%
Component Unit School Board (nonprofessional)					
2022	0.0035%	\$ 42,505	\$ 767,835	5.54%	67.21%
2021	0.0029%	33,647	597,092	5.64%	67.45%
2020	0.0026%	43,223	578,194	7.48%	52.64%
2019	0.0027%	43,610	525,085	8.31%	52.00%
2018	0.0027%	41,000	505,946	8.10%	51.22%
2017	0.0027%	40,000	491,690	8.14%	48.86%
Component Unit School Board (professional)					
2022	0.0382%	\$ 459,844	\$ 8,302,577	5.54%	67.21%
2021	0.0365%	424,727	7,470,332	5.69%	67.45%
2020	0.0360%	601,282	7,538,331	7.98%	52.64%
2019	0.0377%	613,642	7,374,541	8.32%	52.00%
2018	0.0375%	569,000	7,131,435	7.98%	51.22%
2017	0.0385%	580,000	7,089,186	8.18%	48.86%

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

City of Galax, Virginia
 Schedule of Employer Contributions
 Group Life Insurance (GLI) Plan
 For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2023	\$ 33,516	\$ 33,516	\$ -	\$ 6,206,667	0.54%
2022	31,376	31,376	-	5,820,699	0.54%
2021	29,910	29,910	-	5,545,933	0.54%
2020	29,203	29,203	-	5,616,028	0.52%
2019	26,473	26,473	-	5,091,178	0.52%
2018	25,670	25,670	-	4,920,951	0.52%
2017	25,871	25,871	-	4,979,689	0.52%
2016	29,152	29,152	-	4,820,666	0.60%
2015	28,651	28,651	-	4,692,751	0.61%
Component Unit School Board (nonprofessional)					
2023	\$ 4,574	\$ 4,574	\$ -	\$ 846,980	0.54%
2022	4,146	4,146	-	767,835	0.54%
2021	3,225	3,225	-	597,092	0.54%
2020	3,007	3,007	-	578,194	0.52%
2019	2,730	2,730	-	525,085	0.52%
2018	2,556	2,556	-	505,946	0.51%
2017	2,557	2,557	-	491,690	0.52%
2016	2,438	2,438	-	507,791	0.48%
2015	2,662	2,662	-	554,534	0.48%
2014	2,662	2,662	-	552,382	0.48%
Component Unit School Board (professional)					
2023	\$ 48,938	\$ 48,938	\$ -	\$ 9,024,793	0.54%
2022	44,865	44,865	-	8,302,577	0.54%
2021	40,652	40,652	-	7,470,332	0.54%
2020	38,565	38,565	-	7,538,331	0.51%
2019	38,442	38,442	-	7,374,541	0.52%
2018	37,106	37,106	-	7,131,435	0.52%
2017	36,931	36,931	-	7,089,186	0.52%
2016	33,666	33,666	-	7,006,311	0.48%
2015	32,904	32,904	-	6,853,703	0.48%
2014	32,423	32,423	-	6,740,206	0.48%

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

City of Galax, Virginia
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2023

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

City of Galax, Virginia
 Schedule of Component Unit School Board's Share of Net OPEB Liability
 Teacher Employee Health Insurance Credit (HIC) Plan
 For the Measurement Dates of June 30, 2017 through June 30, 2022

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2022	0.0891% \$	1,112,651 \$	8,302,577	13.40%	15.08%
2021	0.0845%	1,084,231	7,470,332	14.51%	13.15%
2020	0.0844%	1,101,534	7,538,331	14.61%	9.95%
2019	0.0879%	1,150,959	7,374,541	15.61%	8.97%
2018	0.0882%	1,120,000	7,131,435	15.71%	8.08%
2017	0.0899%	1,141,000	7,089,186	16.09%	7.04%

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

City of Galax, Virginia
 Schedule of Employer Contributions
 Teacher Employee Health Insurance Credit (HIC) Plan
 For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2023	\$ 109,200	\$ 109,200	\$ -	\$ 9,024,793	1.21%
2022	100,461	100,461	-	8,302,577	1.21%
2021	90,337	90,337	-	7,470,332	1.21%
2020	88,831	88,831	-	7,538,331	1.18%
2019	88,495	88,495	-	7,374,541	1.20%
2018	87,717	87,717	-	7,131,435	1.23%
2017	78,738	78,738	-	7,089,186	1.11%
2016	74,267	74,267	-	7,006,311	1.06%
2015	72,649	72,649	-	6,853,703	1.06%
2014	74,805	74,805	-	6,740,206	1.11%

City of Galax, Virginia
 Notes to Required Supplementary Information
 Teacher Employee Health Insurance Credit (HIC) Plan
 For the Year Ended June 30, 2023

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

City of Galax, Virginia
 Schedule of Changes in the School Division's Net OPEB Liability and Related Ratios
 Health Insurance Credit (HIC) Plan - Component Unit School Board Non Professional
 For the Measurement Dates of June 30, 2020 through June 30, 2022

	2022	2021	2020
Total HIC OPEB Liability			
Service cost	\$ 656	\$ 876	\$ -
Interest	3,275	2,938	-
Changes in benefit terms	-	-	43,520
Differences between expected and actual experience	(4,038)	(1)	-
Changes of assumptions	5,300	921	-
Benefit payments	(777)	-	-
Net change in total HIC OPEB liability	\$ 4,416	\$ 4,734	\$ 43,520
Total HIC OPEB Liability - beginning	48,254	43,520	-
Total HIC OPEB Liability - ending (a)	\$ 52,670	\$ 48,254	\$ 43,520
Plan fiduciary net position			
Contributions - employer	\$ 6,066	\$ 4,717	\$ -
Net investment income	(128)	636	-
Benefit payments	(777)	-	-
Administrator charges	(20)	(21)	-
Net change in plan fiduciary net position	\$ 5,141	\$ 5,332	\$ -
Plan fiduciary net position - beginning	5,332	-	-
Plan fiduciary net position - ending (b)	\$ 10,473	\$ 5,332	\$ -
School division's net HIC OPEB liability - ending (a) - (b)	\$ 42,197	\$ 42,922	\$ 43,520
Plan fiduciary net position as a percentage of the total HIC OPEB liability	19.88%	11.05%	-
Covered payroll	\$ 767,835	\$ 597,092	\$ -
School Board's net HIC OPEB liability as a percentage of covered payroll	6.86%	8.08%	0.00%

Schedule is intended to show information for 10 years. Information prior to the 2020 valuation is not available. However, additional years will be included as they become available.

City of Galax, Virginia
Schedule of Employer Contributions
Health Insurance Credit (HIC) Plan - Component Unit School Board Non Professional
For the Years Ended June 30, 2021 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2023	\$ 6,691	\$ 6,691	-	\$ 846,980	0.79%
2022	6,066	6,066	-	767,835	0.79%
2021	4,717	4,717	-	597,092	0.79%

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

City of Galax, Virginia
Notes to Required Supplementary Information
Health Insurance Credit (HIC) Plan - Component Unit School Board Non Professional
For the Year Ended June 30, 2023

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Other Supplementary Information

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUND

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

NON-MAJOR GOVERNMENTAL FUND

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

City of Galax, Virginia
Combining Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2023

	School Operating Fund	School Activity Fund*	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,052,027	\$ 213,108	\$ 3,265,135
Investments	66,689	-	66,689
Due from other governmental units	2,217,861	-	2,217,861
Inventories	44,764	-	44,764
Prepaid items	154,495	-	154,495
Total assets	\$ 5,535,836	\$ 213,108	\$ 5,748,944
LIABILITIES			
Accounts payable	\$ 118,527	\$ -	\$ 118,527
Construction and retainage payable	153,232	-	153,232
Wages and withholdings payable	1,437,601	-	1,437,601
Unearned revenue	786,688	-	786,688
Total liabilities	\$ 2,496,048	\$ -	\$ 2,496,048
FUND BALANCES			
Nonspendable			
Prepaid and inventory	\$ 199,259	\$ -	\$ 199,259
Restricted			
School cafeterias	739,435	-	739,435
School activity funds	-	213,108	213,108
Unassigned			
Total fund balances	\$ 3,039,788	\$ 213,108	\$ 3,252,896
Total liabilities and fund balances	\$ 5,535,836	\$ 213,108	\$ 5,748,944
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Total fund balances per above			\$ 3,252,896
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Capital assets:			
Capital assets not being depreciated/amortized		\$ 3,433,969	
Capital assets being depreciated/amortized		18,574,334	
Accumulated depreciation/amortization		(9,550,526)	12,457,777
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The assets consist of unavailable taxes.			
Net pension asset			248,188
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			
Pension related items		\$ 2,759,587	
OPEB related items		573,601	3,333,188
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.			
Lease liabilities		\$ (51,506)	
Compensated absences		(272,493)	
Net OPEB liabilities		(2,198,028)	
Net pension liability		(8,591,388)	(11,113,415)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.			
Pension related items		\$ (2,083,984)	
OPEB related items		(437,016)	(2,521,000)
Net position (deficit) of governmental activities			\$ 5,657,634

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

City of Galax, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2023

	<u>School Operating Fund</u>	<u>School Activity Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Revenue from the use of money and property	\$ 23,566	\$ -	\$ 23,566
Charges for services	329,142	316,106	645,248
Miscellaneous	404,617	-	404,617
Recovered costs	8,205	-	8,205
Intergovernmental	23,696,238	-	23,696,238
Total revenues	<u>\$ 24,461,768</u>	<u>\$ 316,106</u>	<u>\$ 24,777,874</u>
EXPENDITURES			
Current:			
Education	\$ 24,875,060	\$ 317,376	\$ 25,192,436
Debt service:			
Principal retirement	25,580	-	25,580
Interest and other fiscal charges	294	-	294
Total expenditures	<u>\$ 24,900,934</u>	<u>\$ 317,376</u>	<u>\$ 25,218,310</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (439,166)</u>	<u>\$ (1,270)</u>	<u>\$ (440,436)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 15,354	\$ 44,838	\$ 60,192
Transfers out	(44,838)	(15,354)	(60,192)
Sale of capital assets	2,508	-	2,508
Total other financing sources and uses	<u>\$ (26,976)</u>	<u>\$ 29,484</u>	<u>\$ 2,508</u>
Net change in fund balances	<u>\$ (466,142)</u>	<u>\$ 28,214</u>	<u>\$ (437,928)</u>
Fund balances - beginning	3,505,930	184,894	3,690,824
Fund balances - ending	<u>\$ 3,039,788</u>	<u>\$ 213,108</u>	<u>\$ 3,252,896</u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:			
Net change in fund balances - total governmental funds - per above			\$ (437,928)
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/amortization expense. This is the details of items supporting this adjustment:			
Capital outlays		5,195,603	
Depreciation expense		(450,978)	4,744,625
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
State non-employer contribution to the pension plan			399,196
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Principal repayments:			
Lease liabilities			25,582
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.			
Change in compensated absences		\$ (26,059)	
Change in OPEB related items		73,781	
Change in pension related items		1,143,402	1,191,124
Change in net position of governmental activities			<u>\$ 5,922,599</u>

City of Galax, Virginia
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2023

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 23,566	\$ 23,066
Charges for services	275,700	275,700	329,142	53,442
Miscellaneous	200,500	200,500	404,617	204,117
Recovered costs	1,500	1,500	8,205	6,705
Intergovernmental	23,100,910	23,100,910	23,696,238	595,328
Total revenues	<u>\$ 23,579,110</u>	<u>\$ 23,579,110</u>	<u>\$ 24,461,768</u>	<u>\$ 882,658</u>
EXPENDITURES				
Current:				
Education	\$ 23,553,736	\$ 23,553,736	\$ 24,875,060	\$ (1,321,324)
Debt service:				
Principal retirement	25,580	25,580	25,580	-
Interest and other fiscal charges	294	294	294	-
Total expenditures	<u>\$ 23,579,610</u>	<u>\$ 23,579,610</u>	<u>\$ 24,900,934</u>	<u>\$ (1,321,324)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (500)</u>	<u>\$ (500)</u>	<u>\$ (439,166)</u>	<u>\$ (438,666)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 15,354	\$ 15,354
Transfers out	-	-	(44,838)	(44,838)
Sale of capital assets	500	500	2,508	2,008
Total other financing sources (uses)	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ (26,976)</u>	<u>\$ (27,476)</u>
Net change in fund balances	\$ -	\$ -	\$ (466,142)	\$ (466,142)
Fund balances - beginning	-	-	3,505,930	3,505,930
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,039,788</u>	<u>\$ 3,039,788</u>

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

MAJOR ENTERPRISE FUND

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

City of Galax, Virginia
Discretely Presented Component Unit
City of Galax, Virginia - Industrial Development Authority
Statement of Net Position - Proprietary Fund
June 30, 2023

	Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 41,767
Accounts receivable	20
Total current assets	\$ 41,787
Noncurrent assets:	
Inventory held for resale	\$ 858,708
Total noncurrent assets	\$ 858,708
Total assets	\$ 900,495
 NET POSITION	
Unrestricted	\$ 900,495
Total net position	\$ 900,495

City of Galax, Virginia
Discretely Presented Component Unit
City of Galax, Virginia - Industrial Development Authority
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Year Ended June 30, 2023

	Enterprise Fund
OPERATING REVENUES	
Charges for services:	
Rental income	\$ 10
Total operating revenues	\$ 10
OPERATING EXPENSES	
Miscellaneous	\$ 969
Electric	2,799
Repair and maintenance	1,131
Fuel	2,818
Total operating expenses	\$ 7,717
Operating income (loss)	\$ (7,707)
NONOPERATING REVENUES (EXPENSES)	
Contribution from primary government	\$ 92,431
Total nonoperating revenues (expenses)	\$ 92,431
Change in net position	\$ 84,724
Net position - beginning	815,771
Net position - ending	\$ 900,495

City of Galax, Virginia
Discretely Presented Component Unit
City of Galax, Virginia - Industrial Development Authority
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2023

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (15,972)
Net cash provided by (used for) operating activities	\$ (15,972)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contribution from the City of Galax	\$ 92,431
Net cash provided by (used for) noncapital financing activities	\$ 92,431
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to inventory held for resale	
Net cash provided by (used for) capital and related financing activities	\$ (85,683)
Net increase (decrease) in cash and cash equivalents	\$ (9,224)
Cash and cash equivalents - beginning	50,991
Cash and cash equivalents - ending	\$ 41,767
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (7,707)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
(Increase) decrease in accounts receivable	(10)
Increase (decrease) in due to City	(8,255)
Total adjustments	\$ (8,265)
Net cash provided by (used for) operating activities	\$ (15,972)

STATISTICAL INFORMATION

Table 1

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

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	Stormwater	Total
2022-23	\$ 1,920,420	\$ 701,527	\$ 3,637,050	\$ 3,806,300	\$ 4,025,812	\$ 4,668,937	\$ 2,272,273	\$ 561,613	\$ 555,880	\$ 3,135,219	\$ 47,330	\$ 25,332,361
2021-22	1,755,008	600,074	3,463,412	3,185,470	3,562,646	4,961,741	2,006,301	976,154	540,393	3,139,058	52,321	24,242,578
2020-21	1,673,437	597,852	4,553,484	2,601,743	3,894,635	3,838,187	1,799,188	913,010	632,166	2,808,539	51,474	23,363,715
2019-20	1,680,936	602,262	3,257,521	3,220,447	4,077,039	3,915,849	1,968,757	1,468,371	552,991	2,653,724	36,770	23,434,667
2018-19	1,443,129	601,352	3,020,982	2,530,908	3,149,532	4,036,734	1,990,183	480,407	309,463	2,560,863	79,497	20,203,050
2017-18	1,480,900	602,234	2,926,174	2,839,475	2,175,163	4,042,549	2,053,054	357,353	408,069	2,480,848	33,743	19,399,562
2016-17	1,654,893	637,709	2,806,546	3,438,660	1,770,223	4,243,256	2,122,046	544,237	267,120	2,590,357	24,152	20,099,199
2015-16	1,593,969	550,420	2,968,540	2,498,899	1,621,459	4,027,300	2,084,825	558,833	177,870	2,511,724	-	18,593,839
2014-15	1,574,606	665,677	2,796,916	2,441,402	1,425,069	3,928,234	2,023,767	560,934	198,755	2,562,104	-	18,177,464
2013-14	1,552,436	601,213	2,990,921	2,594,079	1,423,738	3,879,492	2,016,590	728,676	157,580	2,949,673	-	18,894,398

Note: Presentation on the full-accrual basis of accounting

Note: GASBS No. 87 was implemented in fiscal year 2022. Prior year information has not been adjusted to reflect the impact of GASBS No. 87.

Table 2

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

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs		
2022-23	\$ 4,793,544	\$ 9,544,674	\$ 784,530	\$ 7,600,809	\$ 8,123,899	\$ 280,175	\$ 220,819	\$ 451,866	\$ 31,800,316	
2021-22	4,545,368	10,920,089	430,009	6,783,839	7,489,678	38,163	447,412	454,109	31,108,667	
2020-21	4,180,626	6,637,314	2,626,722	6,522,881	6,883,963	48,132	246,710	464,462	27,610,810	
2019-20	3,678,687	5,874,952	2,559,715	5,988,982	6,345,025	68,375	483,073	471,764	25,470,573	
2018-19	3,925,691	5,190,990	519,804	5,689,662	6,250,609	62,778	399,998	476,982	22,516,514	
2017-18	3,922,883	4,274,797	1,646,929	5,552,609	6,071,397	44,108	104,353	478,658	22,095,734	
2016-17	3,590,458	3,861,800	1,174,823	5,320,011	6,016,025	39,160	114,616	500,048	20,616,941	
2015-16	3,447,108	3,828,543	2,052,758	5,185,806	5,940,149	29,315	222,549	505,191	21,211,419	
2014-15	3,426,178	3,637,090	2,085,511	5,008,653	5,802,799	38,320	190,713	504,695	20,693,959	
2013-14	3,411,297	3,935,728	694,719	4,890,742	5,571,854	39,350	93,493	505,750	19,142,933	

Note: Presentation on the full-accrual basis of accounting

Note: GASBS No. 87 was implemented in fiscal year 2022. Prior years information has not been adjusted to reflect the impact of GASBS No. 87

Table 3

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

Fiscal Year	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2), (3)	Parks, Recreation & Cultural	Community Development	Non-Departmental	Debt Service	Capital Projects	Totals
2022-23	\$ 1,814,486	\$ 702,214	\$ 3,578,539	\$ 3,768,590	\$ 4,005,390	\$ 25,207,231	\$ 1,985,812	\$ 539,508	\$ 106,101	\$ 1,412,936	\$ 774,648	\$ 43,895,455
2021-22	1,739,396	601,040	3,454,470	3,155,367	3,637,285	21,096,603	1,822,665	491,239	90,668	1,105,216	2,674,738	39,868,687
2020-21	1,562,805	598,663	3,175,479	3,516,971	4,039,988	16,858,769	1,572,926	930,161	80,135	1,059,712	2,497,636	35,893,245
2019-20	1,588,592	598,663	3,175,479	3,516,971	4,039,988	15,753,096	1,689,453	1,468,048	76,691	949,594	8,458,457	41,315,032
2018-19	1,441,367	601,352	3,147,204	2,441,263	3,222,801	15,605,433	1,842,219	510,011	81,253	742,584	6,003,051	35,638,538
2017-18	1,468,439	602,234	2,981,497	2,848,899	2,238,392	16,226,613	1,871,870	357,239	77,179	837,126	1,020,007	30,529,495
2016-17	1,434,109	637,709	3,024,857	2,485,242	1,782,364	15,011,725	1,868,942	556,537	98,195	891,714	960,284	28,751,678
2015-16	1,503,411	550,420	3,031,605	2,380,453	1,663,352	14,285,430	1,914,822	552,197	114,271	740,409	1,929,535	28,665,905
2014-15	1,365,936	665,677	2,926,728	2,485,768	1,455,978	14,457,429	1,856,206	437,928	373,928	786,543	2,327,615	29,139,736
2013-14	1,379,004	601,213	2,985,642	2,562,375	1,418,426	13,536,865	1,884,408	616,302	253,793	775,335	676,722	26,690,085

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

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

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Revenue from use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2022-23	\$ 7,449,392	\$ 8,097,598	\$ 29,886	\$ 129,109	\$ 295,612	\$ 1,493,357	\$ 654,005	\$ 238,964	\$ 30,126,665	\$ 48,514,588
2021-22	6,792,296	7,477,802	14,228	148,583	49,630	1,398,914	478,378	177,679	26,249,583	42,787,093
2020-21	6,520,563	6,903,229	20,104	110,403	46,326	1,041,006	354,034	180,851	23,326,872	38,503,388
2019-20	6,023,068	6,344,544	9,513	120,173	59,585	1,070,755	671,457	161,795	19,376,028	33,836,918
2018-19	5,610,024	6,246,495	14,588	118,187	61,224	1,142,323	503,927	186,568	17,213,590	31,096,926
2017-18	5,615,048	6,074,177	24,815	135,173	44,283	1,114,993	247,946	143,263	16,067,397	29,467,095
2016-17	5,099,456	6,010,288	18,839	124,835	39,260	1,094,387	167,449	164,651	16,159,406	28,878,571
2015-16	5,243,024	5,964,380	30,007	135,077	29,885	1,235,544	251,626	177,454	15,425,698	28,492,695
2014-15	5,068,041	5,785,608	21,470	119,843	39,017	1,232,726	236,417	226,067	16,351,303	29,080,492
2013-14	4,817,729	5,574,405	18,839	112,962	39,800	1,130,665	130,179	217,555	14,381,023	26,423,157

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

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

Table 5

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

Fiscal Year	Current Tax Levy	Collected within the Year of Levy		Collections in Subsequent Years		Total Collections to Date	
		Amount	Percent of Levy	Years	Amount	Amount	Percent of Levy
2022-23	\$ 7,696,089	\$ 7,342,622	95.41%	\$ -	\$ 7,342,622	95.41%	
2021-22	6,817,525	6,565,843	96.31%	109,093	6,674,936	97.91%	
2020-21	6,546,683	6,314,022	96.45%	128,449	6,442,471	98.41%	
2019-20	5,929,487	5,700,878	96.14%	168,761	5,869,639	98.99%	
2018-19	5,631,123	5,357,951	95.15%	223,978	5,581,929	99.13%	
2017-18	5,583,203	5,422,365	97.12%	148,313	5,570,678	99.78%	
2016-17	5,244,627	5,012,946	95.58%	228,281	5,241,227	99.94%	
2015-16	5,117,544	5,012,946	97.96%	102,457	5,115,403	99.96%	
2014-15	4,909,132	4,758,955	96.94%	150,079	4,909,034	100.00%	
2013-14	4,849,276	4,654,991	95.99%	194,220	4,849,211	100.00%	

Collections are inclusive of penalties and interest.

Table 6

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

Fiscal Year	Real Estate (1)	Personal Property (1)	Public Service Companies (2)	Total
2022-23	\$ 475,881,450	\$ 155,047,535	\$ 25,455,130	\$ 656,384,115
2021-22	473,855,750	134,826,113	22,409,348	631,091,211
2020-21	470,460,350	125,427,710	15,987,318	611,875,378
2019-20	444,892,350	130,775,919	15,615,523	591,283,792
2018-19	445,708,250	125,888,713	15,045,922	586,642,885
2017-18	445,191,650	124,340,945	14,453,538	583,986,133
2016-17	443,176,050	118,189,339	14,114,928	575,480,317
2015-16	458,384,400	111,389,059	14,751,447	584,524,906
2014-15	457,205,000	110,616,317	15,688,304	583,509,621
2013-14	452,108,700	108,178,991	14,644,537	574,932,228

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

(2) Assessed by the State Corporation Commission.

Table 7**City of Galax, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years**

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2022-23	1.000	1.000	2.25	1.60
2021-22	0.920	0.920	2.25	1.60
2020-21	0.920	0.920	2.25	1.60
2019-20	0.845	0.845	2.25	1.50
2018-19	0.800	0.800	2.25	1.50
2017-18	0.800	0.800	2.25	1.50
2016-17	0.755	0.755	2.25	1.50
2015-16	0.730	0.730	2.25	1.50
2014-15	0.690	0.690	2.25	1.50
2013-14	0.690	0.690	2.25	1.50

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2022-23	6,730	4,758,815	\$ 32,356,451	\$ 32,356,451	6.80%	4,808
2021-22	6,747	4,738,558	33,521,715	33,521,715	7.07%	4,968
2020-21	6,720	4,704,604	33,047,789	33,047,789	7.02%	4,918
2019-20	6,437	4,448,924	29,101,006	29,101,006	6.54%	4,521
2018-19	6,423	4,457,083	18,773,923	18,773,923	4.21%	2,923
2017-18	7,042	4,451,917	10,082,453	10,082,453	2.26%	1,432
2016-17	6,775	4,431,761	9,733,271	9,733,271	2.20%	1,437
2015-16	7,034	4,583,844	8,334,169	8,334,169	1.82%	1,185
2014-15	7,034	4,572,050	9,094,306	9,094,306	1.99%	1,293
2013-14	7,035	4,521,087	8,468,456	8,468,456	1.87%	1,204

(1) Source: United States Census Bureau or Weldon Cooper Center

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

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans.
Excludes revenue bonds, landfill closure/post-closure care liability, leases, and compensated absences.

Table 9

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

Fiscal Year	Principal	Interest and other Fiscal Charges	Total Debt Service	Total General Governmental Expenditures (Excluding Capital)	Ratio of Debt Service to General Governmental Expenditures
2022-23	\$ 672,894	\$ 740,042	\$ 1,412,936	\$ 43,120,807	3.28%
2021-22	541,581	537,761	1,079,342	37,193,949	2.90%
2020-21	513,602	546,110	1,059,712	33,395,609	3.17%
2019-20	463,009	486,585	949,594	32,856,575	2.89%
2018-19	469,172	273,412	742,584	29,635,487	2.51%
2017-18	477,317	359,809	837,126	29,509,488	2.84%
2016-17	560,123	331,591	891,714	27,791,394	3.21%
2015-16	562,637	177,772	740,409	26,736,370	2.77%
2014-15	595,650	190,893	786,543	26,812,121	2.93%
2013-14	607,493	167,842	775,335	26,013,363	2.98%

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

Note: GASBS No. 87 was implemented in fiscal year 2022. Prior year information has not been adjusted to reflect the impact of GASBS No. 87.

COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galax, Virginia as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Galax, Virginia's basic financial statements and have issued our report thereon dated January 25, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

The City of Galax, Virginia's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Galax, Virginia's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Galax, Virginia's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 25, 2024



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Galax, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Galax, Virginia's major federal programs for the year ended June 30, 2023. The City of Galax, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Galax, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Galax, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Galax, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Galax, Virginia's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Galax, Virginia's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Galax, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Galax, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Galax, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Galax, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 25, 2024

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Direct payments:			
Community Facilities Loans and Grants Cluster: Community Facilities Loans and Grants	10.766	Not applicable	\$ 74,681
Pass through payments from:			
<i>Virginia Department of Social Services:</i>			
SNAP Cluster:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010122/0010123/ 0040122/0040123	323,234
Child Nutrition Cluster:			
<i>Virginia Department of Education:</i>			
School Breakfast Program	10.553	40253/41110	\$ 234,215
National School Lunch Program	10.555	40254/41106/41108	755,625
COVID-19 - Summer Food Service Program for Children	10.559	60302/60303	36,775
<i>Virginia Department of Agriculture and Consumer Services:</i>			
Food Distribution-Schools (Note C)	10.555	Not available	<u>76,395</u>
Total Child Nutrition Cluster			1,103,010
Child and Adult Care Food Program	10.558	70027/70028	311,227
Total Department of Agriculture			<u>\$ 1,812,152</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass through payments from:			
<i>Virginia Department of Social Services:</i>			
Temporary Assistance for Needy Families	93.558	0400122/0400123	\$ 158,470
Guardianship Assistance	93.090	1110122/1110123	57
Title IV-E Prevention Program	93.472	1140122/1140123	2,725
MaryLee Allen Promoting Safe and Stable Families Program	93.556	0950121/0950122/0950221	3,678
Refugee and Entrant Assistance State/Replacement Designee Administered Program:	93.566	0500122/0500123	628
Low Income Home Energy Assistance	93.568	0600422/0600423	32,908
Social Services Block Grant	93.667	1000122/1000123	155,471
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	9150121/9150122/9150123	8,096
Elder Abuse Prevention Interventions Program	93.747	8000221/8000321	5,999
Children's Health Insurance Program	93.767	0540122/0540123	1,427
Medicaid Cluster:			
Medical Assistance Program	93.778	1200122/1200123	167,276
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900121/0900122	298
CCDF Cluster:			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760122/0760123	37,942
Foster Care - Title IV E	93.658	1100122/1100123	247,741
Adoption Assistance	93.659	1120122/1120123	508,462
Adoption and Legal Guardianship Incentive Payments	93.603	1130119/1130120	1,732
<i>Virginia Department of Education:</i>			
COVID-19 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	40297	90,538
Total Department of Health and Human Services			<u>\$ 1,423,448</u>
DEPARTMENT OF JUSTICE:			
Direct payments:			
Bulletproof Vest Partnership Program	16.607	NA	\$ 2,922
Pass through payments from:			
<i>Virginia Department of Criminal Justice Services</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	120127/120128/120131/12013 4/120571	8,228
Total Department of Justice			<u>\$ 11,150</u>
DEPARTMENT OF HOMELAND SECURITY:			
Pass through payments from:			
<i>Virginia Department of Emergency Management:</i>			
Emergency Management Performance Grants	97.042	EMP-2022-EP-00004	\$ 7,500
Total Department of Homeland Security			<u>\$ 7,500</u>

CITY OF GALAX, VIRGINIA
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2023

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF TRANSPORTATION:			
Pass through payments from:			
<i>Virginia Department of Motor Vehicles:</i>			
Highway Planning and Construction Highway Safety Cluster:	20.205	108898/115462/119912/ 113354/111430/119448	\$ 745,110
State and Community Highway Safety	20.600	FSC-2022-52383-22383/ FOP-2022-52361-22361/BPT- 2023-53275-23275	\$ 11,799
National Priority Safety Programs Total Highway Safety Cluster	20.616	FM6OT-2022-52306-22306	1,077
Total Department of Transportation			<u>12,876</u> <u>\$ 757,986</u>
DEPARTMENT OF TREASURY:			
Direct payments:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not applicable	\$ 3,127,477
Pass through payments from:			
<i>Virginia Tourism Corporation:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	NA	28,950
<i>Virginia Department of Housing and Community Development:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	NA	22,300
<i>Virginia Department of Education:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	600540/45277	402,300
Total Department of Treasury			<u>3,581,027</u> <u>\$ 3,581,027</u>
EXECUTIVE OFFICE OF THE PRESIDENT:			
Direct payments:			
High Intensity Drug Trafficking Areas Program	95.001	Not applicable	\$ 21,379
Total Executive Office of the President			<u>\$ 21,379</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass through payments from:			
<i>Virginia Department of Housing and Community Development:</i>			
COVID-19 Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	202051UNCV19	\$ 4,800
Total Department of Housing and Urban Development			<u>\$ 4,800</u>
DEPARTMENT OF EDUCATION:			
Pass through payments from:			
<i>Virginia Department of Education:</i>			
Career and Technical Education -- Basic Grants to States	84.048	60031/600311005	\$ 34,006
English Language Acquisition State Grants	84.365	60512	28,372
Supporting Effective Instruction State Grants	84.367	61480	72,545
Rural Education	84.358	43481	72,486
Title I Grants to Local Educational Agencies	84.010	42901	696,846
Student Support and Academic Enrichment Program	84.424	60281	38,063
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	43071/40287	\$ 304,857
Special Education - Preschool Grants	84.173	40286/62521	12,963
Education Stabilization Fund:		40298/50195/60173/60177/60	
COVID-19 Governor's Emergency Education Relief Fund	84.425C	170	\$ 451,716
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D	70037	12,535
COVID-19 American Rescue Plan - Emergency and Secondary School Emergency Relief (ARP ESSER)	84.425U	50193/41112/86834	2,225,211
Total Education Stabilization Fund			<u>2,689,462</u>
Total Department of Education			<u>\$ 3,949,600</u>

CITY OF GALAX, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
APPALACHIAN REGIONAL COMMISSION:			
Pass through payments from:			
Virginia Department of Housing and Community Development Appalachian Area Development	23.002	2102AVA20400	\$ 7,500
Total Appalachian Regional Commission			<u>\$ 7,500</u>
Total Expenditures of Federal Awards			<u><u>\$ 11,576,542</u></u>
Notes to Schedule of Expenditures of Federal Awards:			
Note A--Basis of Presentation: The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Galax, Virginia under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Galax, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Galax, Virginia.			
Note B--Summary of Significant Accounting Policies (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. (2) Pass-through entity identifying number are presented where available. (3) The City did not elect the 10% de minimis indirect cost rate because they only request direct costs for reimbursement.			
Note C--Food Distribution Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.			
Note D--Loan Balances The City has received federal funding through loans. At June 30, 2023, the outstanding balances of these loans were			<u>\$ 16,950,205</u>
Note E--Relationship to the Financial Statements: Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:			
Note F-- Subrecipients The City did not have any subrecipients for the year ended June 30, 2023.			
Primary government:			
General Fund-Intergovernmental			\$ 10,530,718
Less: Revenue from the Commonwealth			(4,885,532)
Water and Sewer Fund-Intergovernmental			234,681
Less: Non-federal intergovernmental revenue			(160,000)
Component Unit School Board:			
School Operating Fund-Intergovernmental			23,696,238
Less: Revenue from Local Governments			(4,100,291)
Less: Revenue from the Commonwealth			<u>(13,739,272)</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards:			<u><u>\$ 11,576,542</u></u>

City of Galax, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section, 200.516 (a)?

No

Identification of major programs:

Assistance Listing #	Name of Federal Program or Cluster
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds
84.425	COVID-19 Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

No

City of Galax, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023 (Continued)

Section II - Financial Statement Findings

2023-001

Criteria:	Identification of adjustments to the financial statements that were not detected by the entity's internal controls indicates that a material weakness may exist.
Condition:	The School Board's financial statements required several adjusting entries to ensure such statements complied with Generally Accepted Accounting Principles.
Cause of Condition:	During the closing process, the School Board failed to identify all year end accounting adjustments necessary for the financial statements to be prepared in accordance with current reporting standards.
Effect of Condition:	There is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Recommendation:	In the future, financial statements should be reviewed and adjusted as necessary to comply with current reporting standards.
Management's Response:	The School Board's consulting accountant was not available for assistance in closing out the books during the current fiscal year. School Board Staff closed the books and failed to identify all adjustments required under current GASB requirements. School Board Staff will review all proposed audit adjustments and will consider these adjustments when closing the books in the future.

Section III - Federal Award Findings and Questioned Costs

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

City of Galax, Virginia

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

2022-001 - Material Weakness

Finding Type: Material weakness

Condition: The School Board's financial statements required year end adjusting entries to ensure such statements complied with Generally Accepted Accounting Principles.

Recommendation: In the future, funds should be reviewed and adjusted as necessary to comply with current reporting standards.

Current Status: Finding 2022-001 was recurring in fiscal year 2023 and reported as 2023-001.