



TOWN OF GATE CITY, VIRGINIA

FINANCIAL STATEMENTS

2014

TOWN OF GATE CITY, VIRGINIA

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2014

TOWN OF GATE CITY, VIRGINIA
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mayor and Council Members
Town of Gate City, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Gate City, Virginia (the Town), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Gate City, Virginia, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the General Fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress of Defined Benefit Pension Plan on pages 4 through 11 and page 61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Supplemental Information and Other Supplemental Information Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, included in the Supplemental Information Section, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Supplemental Information Section, including the Schedule of Expenditures of Federal Awards, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Town of Gate City, Virginia
Independent Auditors' Report

In our opinion, the Supplemental Information Section, including the Schedule of Expenditures of Federal Awards, fairly stated in all material respects in relation to the basic financial statements as a whole.

The Other Supplemental Information Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Blackburn, Childers & Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

April 7, 2015

**TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

As management of the Town of Gate City, Virginia (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities at the close of the most recent fiscal year by \$5,951,004 (net position). Of this amount, \$928,001 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased \$613,661 due to an increase in revenue and a prior year adjustment in net position.
- At the close of the current fiscal year, the Town's governmental funds reported combined fund balances of \$385,619, an increase of \$113,595 in comparison with the prior fiscal year. Approximately 85.00% of this amount (\$326,300) is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance, as applicable) for the general fund was \$331,380, or approximately 22.81% of total general fund expenditures.
- The Town's total outstanding long-term debt increased by \$147,656 during the current fiscal year due to the WSL 14-11 (Water System Hydraulics and Energy Efficiency Enhancements) capital improvement project and the capital outlay notes for Hunter's Crossing, Moccasin Hills, and Quillen Heights subdivision that were previously unreported.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) the notes to the financial statements, and 4) required supplementary information. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

The statement of net position presents financial information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, and parks, culture, and recreation. The business-type activities of the Town include a water treatment and distribution system and a Sanitation Authority.

The Sanitation Authority, although legally separate, functions for all practical purposes as a department of the Town, and therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

The Town maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and equipment savings fund, which are considered to be major funds. Data from these funds combine into a single aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds' financial statements can be found on pages 14 through 18 of this report.

Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water treatment and distribution system and Sanitation Authority. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds' financial statements provide separate information for the water treatment and distribution system and Sanitation Authority, both of which are considered to be major funds of the Town.

The enterprise fund financial statements can be found on pages 19 through 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 60 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 61 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator or a government's financial position. In the case of the Town, total assets exceeded liabilities by \$5,951,004 at the close of the most recent fiscal year.

**TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

Town of Gate City, Virginia's Comparison of Assets, Liabilities and Net Position

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
ASSETS		
Capital Assets	\$ 9,374,118	9,757,105
Other Assets	<u>1,284,055</u>	<u>1,581,138</u>
 Total Assets	 <u>10,658,173</u>	 <u>11,338,243</u>
 LIABILITIES		
Long-Term Liabilities	4,599,090	4,852,641
Other Liabilities	<u>721,740</u>	<u>534,598</u>
 Total Liabilities	 <u>5,320,830</u>	 <u>5,387,239</u>
 NET POSITION		
Net Investment in Capital Assets	4,775,028	5,010,359
Restricted	-	12,644
Unrestricted	<u>562,315</u>	<u>928,001</u>
 Total Net Position	 <u><u>\$ 5,337,343</u></u>	 <u><u>5,951,004</u></u>

By far, the largest portion of the Town's net position (84.19%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Town uses these capital assets to provide a variety of services to its citizens. Accordingly, those assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (0.21%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$928,000 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

However, the Town's overall net position increased \$613,661 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$441,446 from the prior fiscal year for an ending balance of \$1,378,649. The Town has developed cost savings measures; relocating the Police Department to Town Hall and staffing at an efficient level. The Town has also utilized departmentalized performance-based budgeting for better transparency and control.

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
REVENUES						
Program Revenues						
Charges for Services	\$ 162,136	174,917	1,035,832	1,147,817	1,197,968	1,322,734
Operating Grants and Contributions	66,028	73,444	60,000	-	126,028	73,444
Capital Grants and Contributions	-	180,512	-	128,182	-	308,694
General Revenues						
Property Taxes	418,760	500,700	-	-	418,760	500,700
Other Local Taxes	409,401	445,915	-	-	409,401	445,915
Licenses, Permits, and Fees	123,957	158,538	-	-	123,957	158,538
Grants and Contributions not Restricted to Specific Programs	161,299	-	-	-	161,299	-
Unrestricted Investment Income	16,039	14,167	443	267	16,482	14,434
Insurance Recoveries	-	7,568	-	-	-	7,568
Miscellaneous	48,145	40,576	4,905	5,199	53,050	45,775
TOTAL REVENUES	1,405,765	1,596,337	1,101,180	1,281,465	2,506,945	2,877,802
EXPENSES						
General Government	525,252	417,032	-	-	525,252	417,032
Public Safety	424,195	338,636	-	-	424,195	338,636
Public Works	496,021	504,586	-	-	496,021	504,586
Parks, Culture, and Recreation	28,317	28,737	-	-	28,317	28,737
Interest on Long-Term Debt	11,886	9,166	-	-	11,886	9,166
Water	-	-	658,584	658,755	658,584	658,755
Sanitation Authority	-	-	550,888	540,852	550,888	540,852
TOTAL EXPENSES	1,485,671	1,298,157	1,209,472	1,199,607	2,695,143	2,497,764
Excess (Deficiency) of Revenues Over (Under) Expenses	(79,906)	298,180	(108,292)	81,858	(188,198)	380,038
FUND TRANSFERS	(71,917)	-	71,917	-	-	-
Change in Net Position	(151,823)	298,180	(36,375)	81,858	(188,198)	380,038
Net Position, July 1, 2013	1,089,026	937,203	4,436,515	4,400,140	5,525,541	5,337,343
Prior Period Adjustments	-	143,266	-	90,357	-	233,623
Net Position, July 1, 2013, Restated	1,089,026	1,080,469	4,436,515	4,490,497	5,525,541	5,570,966
Net Position, June 30, 2014	\$ 937,203	1,378,649	4,400,140	4,572,355	5,337,343	5,951,004

**TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

Business-Type Activities. For the Town's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$4,572,355. The total increase in net position for business-type activities (water treatment and distribution system and Sanitation Authority) was \$172,215, or 3.91% from the prior fiscal year. The growth, in large part, is attributable to a water and sewer rate increase enacted for the fiscal year 2013-2014 budget. As a result, revenues from water and sewer activity charges for services increased \$111,985 over the previous fiscal year's amount.

Financial Analysis of Governmental Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town Council.

At June 30, 2014, the Town's governmental funds reported combined fund balances of \$385,619, an increase of \$113,595 in comparison with the prior fiscal year. Approximately 84.60% of this amount (\$326,300) constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of the fund balance is either non-spendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$14,212), 2) restricted for particular purposes (\$12,644), or 3) assigned for particular purposes (\$5,080).

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. During the fiscal year, there was a budget amendment to the general fund. The Sidewalk Project on West Jackson Street was re-evaluated and both grant receipts (revenue) and appropriations for the project were amended to reflect the actual progress of the project. There were other non-significant budget amendments to reflect actual revenue and appropriations.

Final Budget Compared to Actual Results. The most significant differences between estimated revenues and actual revenues were as follows for the East Jackson Street Sidewalk Project:

**TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Intergovernmental	\$ 473,655	260,155	253,956	(6,199)
EXPENDITURES				
Capital Outlay	\$ 407,800	226,800	228,622	(1,822)

The total general fund revenue received was \$101,963, or 7.10%, more than budgeted. The total general fund expenditures were \$21,666, or 1.51%, more than appropriations.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for governmental and business-type activities as of June 30, 2014 amounts to \$9,757,105 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, the water treatment plant, distribution system, and sewage collection system. The total increase in capital assets for the current fiscal year was approximately 4.10%.

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Capital Assets, Not Being Depreciated						
Land	\$ 53,846	36,223	59,805	59,805	113,651	96,028
Construction In Progress	-	-	-	427,272	-	427,272
Capital Assets, Being Depreciated, Net of Accumulated Depreciation						
Buildings and Improvements	285,976	267,810	137	109	286,113	267,919
Infrastructure	496,315	713,436	-	-	496,315	713,436
Distribution System	-	-	8,235,112	8,067,469	8,235,112	8,067,469
Machinery and Equipment	22,041	18,034	48,395	44,938	70,436	62,972
Vehicles	156,578	110,438	15,913	11,571	172,491	122,009
Total	<u>\$ 1,014,756</u>	<u>1,145,941</u>	<u>8,359,362</u>	<u>8,611,164</u>	<u>9,374,118</u>	<u>9,757,105</u>

Major capital asset events during the current fiscal year included the following:

- Sold the Starnes Property located on West Jackson Street
- The Construction In Progress is the WSL 14-11 (Water System Hydraulics and Energy Efficiency Enhancements) capital improvement project
- East Jackson Street Sidewalk Project

Long-Term Debt. At the end of the current fiscal year, the Town had total debt outstanding of \$4,746,746. The remainder of the Town's long-term obligations comprise pension-related debt, compensated absences, and customer deposits.

**TOWN OF GATE CITY, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Capital Outlay Note - AccuFund	\$ 7,277	-	-	-	7,277	-
Series 2012 General Obligation Bond	187,250	152,000	-	-	187,250	152,000
Series 2013 General Obligation Bond	117,569	143,388	-	-	117,569	143,388
Series 1983 Water Bond Anticipation Note	-	-	805,622	748,203	805,622	748,203
Series 1996 Water Bond	-	-	142,999	139,388	142,999	139,388
Series 2003 Water Bond	-	-	400,095	392,627	400,095	392,627
DWRLF VRA WSL 03-04	-	-	195,352	186,473	195,352	186,473
DWRLF VRA WSL 12-05	-	-	803,593	769,993	803,593	769,993
DWRLF VRA WSL 13-09	-	-	771,474	745,322	771,474	745,322
DWRLF VRA WSL 22-10	-	-	480,837	470,509	480,837	470,509
DWRLF VRA WSL 14-11	-	-	-	299,090	-	299,090
Note Payable - Hunter's Crossing	-	-	-	10,474	-	10,474
Series 1990A Sewer Revenue Bond	-	-	296,174	284,645	296,174	284,645
Series 1990B Sewer Revenue Bond	-	-	49,516	45,633	49,516	45,633
Series 1993 Sewer System Revenue Bond	-	-	341,332	330,922	341,332	330,922
Note Payable - Moccasin Hills	-	-	-	16,906	-	16,906
Note Payable - Quillen Heights	-	-	-	11,173	-	11,173
Total	<u>\$ 312,096</u>	<u>295,388</u>	<u>4,286,994</u>	<u>4,451,358</u>	<u>4,599,090</u>	<u>4,746,746</u>

The Town's total debt increased by \$147,656, or 3.21%, during the current fiscal year. The reason for the increase was that the new debt issuance for the VRA WSL 14-11 (Water System Hydraulics and Energy Efficiency Enhancements project) and the notes payable for Hunter's Crossing, Moccasin Hills, and Quillen Heights Subdivisions, the latter of which were not reported in earlier audits. The notes payable for the subdivisions listed are for water distribution and sewage collection lines.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.00% of the total assessed valuation. The current debt limitation for the Town is \$11,623,860, which is significantly in excess of the Town's outstanding general obligation debt.

Requests for Information

This financial report is designed to provide a general overview of the Town of Gate City, Virginia's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 156 East Jackson Street, Gate City, Virginia 24251.

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 335,045	20,766	355,811
Certificates of Deposit	76,139	-	76,139
Restricted Cash	-	230,962	230,962
Restricted Certificates of Deposit	-	54,341	54,341
Accounts Receivable, Net of Allowance for Uncollectibles	687,294	141,167	828,461
Intergovernmental Receivable	13,675	-	13,675
Internal Balances	(72,724)	72,724	-
Prepaid Expenses	14,212	7,537	21,749
Capital Assets not being Depreciated			
Land	36,223	59,805	96,028
Construction In Progress	-	427,272	427,272
Capital Assets, Net of Accumulated Depreciation			
Buildings and Improvements	267,810	109	267,919
Infrastructure	713,436	-	713,436
Distribution System	-	8,067,469	8,067,469
Machinery and Equipment	18,034	44,938	62,972
Vehicles	110,438	11,571	122,009
TOTAL ASSETS	2,199,582	9,138,661	11,338,243
LIABILITIES			
Accounts Payable	27,338	33,187	60,525
Accrued Liabilities	31,773	2,563	34,336
Accrued Interest	2,681	5,035	7,716
Unearned Revenues	432,021	-	432,021
Noncurrent Liabilities			
Due Within One Year	49,793	192,072	241,865
Due in More Than One Year	277,327	4,333,449	4,610,776
TOTAL LIABILITIES	820,933	4,566,306	5,387,239
NET POSITION			
Net Investment in Capital Assets	850,553	4,159,806	5,010,359
Restricted for			
Police Department Asset Seizure	11,067	-	11,067
Junior Police Academy	1,577	-	1,577
Unrestricted	515,452	412,549	928,001
TOTAL NET POSITION	\$ 1,378,649	4,572,355	5,951,004

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

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 417,032	-	-	-	(417,032)	-	(417,032)
Public Safety	338,636	18,163	72,246	-	(248,227)	-	(248,227)
Public Works	504,586	153,634	1,198	180,512	(169,242)	-	(169,242)
Parks, Culture, and Recreation	28,737	3,120	-	-	(25,617)	-	(25,617)
Interest on Long-Term Debt	9,166	-	-	-	(9,166)	-	(9,166)
TOTAL GOVERNMENTAL ACTIVITIES	1,298,157	174,917	73,444	180,512	(869,284)	0	(869,284)
BUSINESS-TYPE ACTIVITIES							
Water	658,755	654,640	-	128,182	-	124,067	124,067
Sanitation Authority	540,852	493,177	-	-	-	(47,675)	(47,675)
TOTAL BUSINESS-TYPE ACTIVITIES	1,199,607	1,147,817	0	128,182	0	76,392	76,392
TOTAL PRIMARY GOVERNMENT	2,497,764	1,322,734	73,444	308,694	(869,284)	76,392	(792,892)
GENERAL REVENUES							
Property Taxes					500,700	-	500,700
Other Local Taxes					445,915	-	445,915
Licenses, Permits, and Fees					158,538	-	158,538
Unrestricted Investment Earnings					14,167	267	14,434
Insurance Recoveries					7,568	-	7,568
Miscellaneous					40,576	5,199	45,775
TOTAL GENERAL REVENUES					1,167,464	5,466	1,172,930
Change in Net Position					298,180	81,858	380,038
Net Position, July 1, 2013					937,203	4,400,140	5,337,343
Prior Period Adjustments					143,266	90,357	233,623
Net Position, July 1, 2013, Restated					1,080,469	4,490,497	5,570,966
Net Position, June 30, 2014					\$ 1,378,649	4,572,355	5,951,004

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

TOWN OF GATE CITY, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Equipment Savings Fund	Total Governmental Funds
ASSETS			
Cash	\$ 307,662	27,383	335,045
Certificates of Deposit	76,139	-	76,139
Receivables, Net of Allowance for Uncollectibles	586,839	-	586,839
Intergovernmental Receivable	13,675	-	13,675
Prepaid Expenses	14,212	-	14,212
TOTAL ASSETS	\$ 998,527	27,383	1,025,910
LIABILITIES			
Accounts Payable	\$ 27,338	-	27,338
Accrued Liabilities	31,773	-	31,773
Due to Other Funds	72,724	-	72,724
Unearned Revenues	432,021	-	432,021
TOTAL LIABILITIES	563,856	0	563,856
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	76,435	-	76,435
FUND BALANCES			
Nonspendable			
Prepaid Expenses	14,212	-	14,212
Restricted for:			
Police Department Asset Seizure	11,067	-	11,067
Junior Police Academy	1,577	-	1,577
Assigned to:			
Community Development Block Grant Matching	5,080	-	5,080
Equipment Savings	-	27,383	27,383
Unassigned	326,300	-	326,300
TOTAL FUND BALANCES	358,236	27,383	385,619
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 998,527	27,383	1,025,910

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

TOWN OF GATE CITY, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 385,619
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,145,941
Long-term notes receivable are not an available resource and, therefore, are not reported in the funds.	100,455
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	76,435
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(329,801)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,378,649</u></u>

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

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund	Equipment Savings Fund	Total Governmental Funds
REVENUES			
General Property Taxes	\$ 424,265	-	424,265
Other Local Taxes	445,915	-	445,915
Permits, Licenses, and Fees	158,538	-	158,538
Fines and Forfeitures	18,163	-	18,163
Intergovernmental	253,956	-	253,956
Charges for Services	156,754	-	156,754
Revenue from use of Money and Property	14,148	20	14,168
Miscellaneous	65,765	-	65,765
TOTAL REVENUES	1,537,504	20	1,537,524
EXPENDITURES			
Current			
General Government	356,819	14	356,833
Public Safety	318,760	-	318,760
Public Works	472,983	-	472,983
Parks, Culture, and Recreation	15,214	-	15,214
Debt Service			
Principal Retirement	51,023	115,685	166,708
Interest	9,166	-	9,166
Bond Issue Costs	-	8,324	8,324
Capital Outlay	228,622	-	228,622
TOTAL EXPENDITURES	1,452,587	124,023	1,576,610
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	84,917	(124,003)	(39,086)
OTHER FINANCING SOURCES			
Proceeds from Issuance of Long-Term Debt	-	150,000	150,000
Net Change in Fund Balances	84,917	25,997	110,914
Fund Balances, July 1, 2013	270,638	1,386	272,024
Prior Period Adjustment	2,681	-	2,681
Fund Balances, July 1, 2013, Restated	273,319	1,386	274,705
Fund Balances, June 30, 2014	\$ 358,236	27,383	385,619

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

TOWN OF GATE CITY, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

Amounts reported for Governmental Activities in the Statement of Activities are different because:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 110,914
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	149,507
The net effect of various miscellaneous transactions involving capital assets (i.e., sales) is to increase net position.	17,623
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 the governmental funds. Compensated absences and long-term notes [forgiveness thereof] receivable changed by this amount for the current fiscal year.	(39,591)
The issuance of long-term debt (e.g., bonds and notes) 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(16,708)
Revenues in the governmental funds are recorded when they provide current financial resources to the Town; while in the Statement of Activities, those revenues were recorded at the time when they were considered earned.	<u>76,435</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 298,180</u>

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

TOWN OF GATE CITY, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
General Property Taxes	\$ 436,000	436,000	424,265	(11,735)
Other Local Taxes	400,300	400,300	445,915	45,615
Permits, Licenses, and Fees	115,900	116,400	158,538	42,138
Fines and Forfeitures	28,500	28,000	18,163	(9,837)
Intergovernmental	473,655	260,155	253,956	(6,199)
Charges for Services	156,000	162,500	156,754	(5,746)
Revenue from use of Money and Property	1,000	11,400	14,148	2,748
Miscellaneous	7,500	20,786	65,765	44,979
TOTAL REVENUES	1,618,855	1,435,541	1,537,504	101,963
EXPENDITURES				
Current				
General Government				
Town Council	15,483	15,483	11,195	4,288
Town Manager	58,247	60,947	61,141	(194)
Treasurer	64,817	64,817	62,941	1,876
Town Attorney	15,250	15,250	16,755	(1,505)
General Administration	215,434	220,800	204,787	16,013
Public Safety	315,591	315,591	318,760	(3,169)
Public Works				
Public Works	408,199	393,199	416,030	(22,831)
Highways and Streets	51,000	51,000	44,270	6,730
Garbage Department	2,000	2,000	12,683	(10,683)
Parks, Culture, and Recreation	11,800	11,800	15,214	(3,414)
Debt Service				
Principal Retirement	53,234	53,234	51,023	2,211
Interest	-	-	9,166	(9,166)
Capital Outlay	407,800	226,800	228,622	(1,822)
TOTAL EXPENDITURES	1,618,855	1,430,921	1,452,587	(21,666)
Net Change in Fund Balance	0	4,620	84,917	89,537
Fund Balance, July 1, 2013	-	-	270,638	270,638
Prior Period Adjustment	-	-	2,681	2,681
Fund Balance, July 1, 2013, Restated	0	0	273,319	273,319
Fund Balance, June 30, 2014	\$ 0	4,620	358,236	362,856

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

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-Type Activities		
	Water Fund	Sanitation Authority Fund	Total Enterprise Funds
ASSETS			
Current Assets			
Cash	\$ 20,766	-	20,766
Restricted Cash	47,921	183,041	230,962
Restricted Certificates of Deposit	-	54,341	54,341
Accounts Receivable, Net of Allowance for Uncollectibles	82,388	58,779	141,167
Due from Other Funds	64,566	8,158	72,724
Prepaid Expenses	6,701	836	7,537
Total Current Assets	222,342	305,155	527,497
Noncurrent Assets			
Capital Assets			
Land	45,046	14,759	59,805
Buildings	-	401	401
Distribution System	10,051,379	4,589,409	14,640,788
Machinery and Equipment	63,209	63,740	126,949
Furniture and Fixtures	-	10,657	10,657
Vehicles	8,218	67,774	75,992
Construction In Progress	427,272	-	427,272
Less: Accumulated Depreciation	(3,807,998)	(2,922,702)	(6,730,700)
Total Noncurrent Assets	6,787,126	1,824,038	8,611,164
TOTAL ASSETS	7,009,468	2,129,193	9,138,661
LIABILITIES			
Current Liabilities			
Accounts Payable	5,478	27,709	33,187
Accrued Liabilities	2,563	-	2,563
Accrued Interest	4,413	622	5,035
Notes and Bonds Payable, Current Portion	152,849	39,223	192,072
Total Current Liabilities	165,303	67,554	232,857
Noncurrent Liabilities			
Compensated Absences Payable	27,878	-	27,878
Customer Deposits	46,285	-	46,285
Notes and Bonds Payable, Net of Current Portion	3,609,230	650,056	4,259,286
Total Noncurrent Liabilities	3,683,393	650,056	4,333,449
TOTAL LIABILITIES	3,848,696	717,610	4,566,306
NET POSITION			
Net Investment in Capital Assets	3,025,047	1,134,759	4,159,806
Unrestricted	135,725	276,824	412,549
TOTAL NET POSITION	\$ 3,160,772	1,411,583	4,572,355

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

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities		
	Water Fund	Sanitation Authority Fund	Total Enterprise Funds
OPERATING REVENUES			
Charges for Services	\$ 654,640	493,177	1,147,817
Miscellaneous	5,199	-	5,199
TOTAL OPERATING REVENUES	659,839	493,177	1,153,016
OPERATING EXPENSES			
Salaries and Wages	151,023	21,687	172,710
Fringe Benefits	51,210	6,110	57,320
Contractual Services	13,372	354,668	368,040
Depreciation	221,496	98,217	319,713
Heat, Light, and Power	30,421	1,024	31,445
Insurance	9,273	-	9,273
Materials and Supplies	52,989	2,147	55,136
Office	14,866	3,928	18,794
Other	13,931	14,724	28,655
Payments to Contractors	-	(9)	(9)
Repairs and Maintenance	22,680	1,869	24,549
TOTAL OPERATING EXPENSES	581,261	504,365	1,085,626
OPERATING INCOME (LOSS)	78,578	(11,188)	67,390
NONOPERATING REVENUES (EXPENSES)			
Interest Income	45	222	267
Interest on Long-Term Debt	(77,494)	(36,487)	(113,981)
TOTAL NONOPERATING REVENUES (EXPENSES)	(77,449)	(36,265)	(113,714)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,129	(47,453)	(46,324)
Capital Contributions - Principal Forgiveness	128,182	-	128,182
Change in Net Position	129,311	(47,453)	81,858
Net Position, July 1, 2013	3,023,661	1,376,479	4,400,140
Prior Period Adjustment	7,800	82,557	90,357
Net Position, July 1, 2013, Restated	3,031,461	1,459,036	4,490,497
Net Position, June 30, 2014	\$ 3,160,772	1,411,583	4,572,355

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

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	Business -Type Activities		
	Water Fund	Sanitation Authority Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 630,186	483,420	1,113,606
Cash Received from Interfund Services Provided	1,750	1,809	3,559
Cash Received from Other Operating Revenues	5,199	-	5,199
Cash Paid to Employees	(200,487)	(27,797)	(228,284)
Cash Paid to Suppliers	(208,239)	(381,042)	(589,281)
Increase in Customer Deposits	2,144	-	2,144
NET CASH PROVIDED BY OPERATING ACTIVITIES	230,553	76,390	306,943
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Grants and Awards for Capital Projects	128,182	-	128,182
Acquisition and Construction of Capital Assets	(427,272)	-	(427,272)
Proceeds from Capital Debt	299,090	-	299,090
Principal Paid on Capital Debt	(148,707)	(39,905)	(188,612)
Interest Paid on Capital Debt	(77,494)	(36,487)	(113,981)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(226,201)	(76,392)	(302,593)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	46	223	269
Reinvestment of Proceeds on Restricted Certificates of Deposit	-	(37)	(37)
NET CASH PROVIDED BY INVESTING ACTIVITIES	46	186	232
NET INCREASE IN CASH	4,398	184	4,582
Cash, July 1, 2013	64,289	182,857	247,146
Cash, June 30, 2014	<u>\$ 68,687</u>	<u>183,041</u>	<u>251,728</u>

(Continued)

TOWN OF GATE CITY, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	Business -Type Activities		
	Water Fund	Sanitation Authority Fund	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 78,578	(11,188)	67,390
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities			
Depreciation	221,496	98,217	319,713
Change in Allowance for Uncollectibles	12,498	2,929	15,427
(Increase) Decrease in			
Accounts Receivable	(22,704)	(7,948)	(30,652)
Due from Other Funds	(64,566)	(8,158)	(72,724)
Increase (Decrease) in			
Accounts Payable	1,361	2,538	3,899
Accrued Liabilities	(861)	-	(861)
Compensated Absences	2,607	-	2,607
Customer Deposits	2,144	-	2,144
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 230,553</u>	<u>76,390</u>	<u>306,943</u>
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Prior Period Adjustment to Record Net Book Value of Capital Assets	<u>\$ (19,524)</u>	<u>(124,719)</u>	<u>(144,243)</u>
Prior Period Adjustment to Record Net Notes Payable	<u>\$ 11,724</u>	<u>42,162</u>	<u>53,886</u>
RECONCILIATION OF CASH ON STATEMENT OF CASH FLOWS TO STATEMENT OF NET POSITION			
Cash	\$ 20,766	-	20,766
Restricted Cash	<u>47,921</u>	<u>183,041</u>	<u>230,962</u>
	<u>\$ 68,687</u>	<u>183,041</u>	<u>251,728</u>

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

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide 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 unit. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting Entity

The Town of Gate City, Virginia (the Town) is a municipal corporation governed by an elected Mayor and five-member governing Council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, the blended component unit is appropriately presented as a fund of the primary government. The Town has no discretely presented component units at June 30, 2014.

Blended Component Unit. The Gate City Sanitation Authority (the Authority) serves all the citizens of the government and is governed by a five-member Board elected by the Town Council. The rates for user charges and bond issuance authorizations are approved by the Authority Board and the Town Council, and the Town is legally obligated to provide resources in case there are deficiencies in debt service payments and resources not available from any other remedies. The Authority is reported as an enterprise fund and does not issue separate financial statements.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its blended component unit. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation – Fund Financial Statements (Continued)

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *Equipment Savings Fund* accounts for the acquisition of the Town's equipment, other than that financed by proprietary funds.

The Town reports the following major enterprise funds:

The *Water Fund* accounts for the Town's water services.

The *Sanitation Authority Fund* accounts for the activities of the Authority, a blended component unit of the Town. The Authority operates the sewer distribution system for residents of the Town.

During the course of operations, the Town has activity between funds for various purposes. Any residual balances outstanding at fiscal year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (Continued)

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 Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, other local 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of fiscal year end). All other revenue items are considered to be measurable and available only when cash is received by the Town.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The equipment savings fund does not have an appropriated budget since other means control the use of these resources (e.g., grant awards and bond or note proceeds) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by function and department. The Town's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Appropriations in all budgets lapse at the end of the fiscal year.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Town had no items qualifying as cash equivalents at June 30, 2014.

2. Investments

Investments of the Town at June 30, 2014 include certificates of deposit with original maturities in excess of three months from the date of acquisition.

3. Restricted Assets

Resources have been set aside in demand deposits and certificates of deposit for restricted use, such as debt covenants and retirements.

4. Prepaid Expenses

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

5. Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town's practices as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair value at the date of donation.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

5. Capital Assets (Continued)

Normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life are expensed as incurred.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	50
Building Improvements	25
Infrastructure	20-50
Distribution Systems	25
Machinery and Equipment	5-10
Furniture and Fixtures	5-10
Vehicles	5-10

6. Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense / expenditure) until then. The Town has no items that qualify as a deferred outflow of resources at June 30, 2014.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

7. Net Position Flow Assumption

Sometimes the Town 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 Town's practice to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's practice to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form (i.e., prepaid expenses) or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for the specific purposes determined by a formal action of the Town's highest level of decision-making authority. The Town Council is the highest level of decision-making authority for the Town that can, by adoption of an ordinance, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

9. Fund Balance Policies (Continued)

Assigned – includes amounts that the Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts can be assigned by the Town Council.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

2. Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. Real estate taxes are payable in one installment on December 20th. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within 60 days after fiscal year end. The billings are considered past due 30 days after the tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed.

3. Compensated Absences

The Town's policy permits full-time employees to accumulate earned but unused vacation, personal, and sick time (collectively referred to as Paid Time Off (PTO)) benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. There were no current portions of compensated absences at June 30, 2014. The liability for compensated absences includes salary-related benefits, where applicable.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Revenues and Expenditures/Expenses (Continued)

3. Compensated Absences (Continued)

Full-time employees with zero to four years of service with the Town earn 4.62 hours per pay period for a total of 120 hours earned in a full year. Employees with five to nine years of service earn 6.15 hours per pay period for a total of 160 hours earned per year. Employees with 10 to 14 years of service earn 6.92 hours per pay period for a total of 180 hours. Employees with 15 or more years of service earn 7.69 hours per pay period for a total of 200 hours.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 Water fund and the Sanitation Authority fund are charges to customers for sales and services. These funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the respective system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds Balance Sheet includes a reconciliation between *Fund Balances - Total Governmental Funds* and *Net Position of Governmental Activities* as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that "Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds." The details of this \$1,145,941 are as follows:

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONTINUED)**

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position (Continued)

Land	\$ 36,223
Buildings and Improvements	527,962
Less: Accumulated Depreciation - Buildings and Improvements	(260,152)
Infrastructure	760,812
Less: Accumulated Depreciation - Infrastructure	(47,376)
Machinery and Equipment	194,486
Less: Accumulated Depreciation - Machinery and Equipment	(176,452)
Vehicles	483,614
Less: Accumulated Depreciation - Vehicles	<u>(373,176)</u>
Net Adjustment to Increase <i>Fund Balances - Total Governmental Funds</i> to arrive at <i>Net Position of Governmental Activities</i>	<u><u>\$ 1,145,941</u></u>

The final element of that reconciliation explains that “Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this (\$329,801) difference are as follows:

General Obligation Bonds	\$ (295,388)
Compensated Absences	(31,732)
Accrued Interest Payable	<u>(2,681)</u>
Net Adjustment to Reduce <i>Fund Balances - Total Governmental Funds</i> to arrive at <i>Net Position of Governmental Activities</i>	<u><u>\$ (329,801)</u></u>

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between Net Change in Fund Balances – Total Governmental Funds and Change in Net Position of Governmental Activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.” The details of this \$149,507 difference are as follows:

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONTINUED)**

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Capital Outlay	\$ 228,622
Depreciation Expense	<u>(79,115)</u>
Net Adjustment to Increase <i>Net Change in Fund Balances - Total Governmental Funds</i> to arrive at <i>Change in Net Position of Governmental Activities</i>	<u><u>\$ 149,507</u></u>

Another element of that reconciliation states that "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 the governmental funds. Compensated absences and long-term notes receivable changed by this amount for the current fiscal year." The details of this (\$39,591) difference are as follows:

Change in Compensated Absences	\$ 2,369
Forgiveness of Long-Term Notes Receivable	<u>(41,960)</u>
Net Adjustment to Decrease <i>Net Change in Fund Balances - Total Governmental Funds</i> to arrive at <i>Change in Net Position of Governmental Activities</i>	<u><u>\$ (39,591)</u></u>

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds and notes) 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. This amount is the net effect of these differences in the treatment of long-term debt and related items." The details of this (\$16,708) difference are as follows:

Debt Issued or Incurred:	
General Obligation Bonds	\$ 150,000
Principal Repayments:	
Notes Payable	(124,846)
General Obligation Bonds	<u>(41,862)</u>
Net Adjustment to Decrease <i>Change in Fund Balances - Total Governmental Funds</i> to arrive at <i>Change in Net Position of Governmental Activities</i>	<u><u>\$ (16,708)</u></u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, the Town’s bank balances, as held within one financial institution, totaled \$800,155. Federal Depository Insurance Coverage (FDIC) covers the balances up to \$250,000, with the excess being in public accounts covered under the Security for Public Deposits Act, Chapter 23 of Title 2.2, *Code of Virginia*, Sections 2.2-4400 to 2.2-4411.

B. Investments

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

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds. Below is the detail of receivables for the general fund, water fund, Sanitation Authority fund, and business-type activities in the aggregate, all including the applicable allowances for uncollectible accounts:

		Business-Type Activities		
	General Fund	Water Fund	Sanitation Authority Fund	Total Business-Type Activities
Receivables				
Property Taxes	\$ 536,561	\$ -	-	-
Other Local Taxes	41,554	-	-	-
Utilities	23,467	142,833	90,531	233,364
Gross Receivables	601,582	142,833	90,531	233,364
Less: Allowance for Uncollectibles	(14,743)	(60,445)	(31,752)	(92,197)
Net Receivables	<u>\$ 586,839</u>	<u>\$ 82,388</u>	<u>58,779</u>	<u>141,167</u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

C. Receivables (Continued)

In addition, numerous long-term promissory notes are present between the Town and area business owners for the value of façade improvements completed on their properties by the Town with Community Development Block Grant funding in fiscal years past. The terms of these notes receivable vary based on the fiscal year incurred, though each is for five fiscal years at 0.00% interest, and all but one state that the Town will forgive 20% of the face value of the note annually on the anniversary date contingent on the business owners' maintenance of their respective façade improvements in a manner which is satisfactory to the Town. The one outlier note has terms of repayment of \$250 per month at 0.00% interest. Payments of long-term notes receivable forgiven by the Town for the fiscal year ended June 30, 2014 were \$41,960. Given the contingent nature of the receipt of future payments and the history of forgiveness over payment, no current note receivable is reported.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources (unavailable revenue) and unearned revenue reported in the General Fund were as follows:

<u>Type of Revenue</u>	<u>Unavailable</u>	<u>Unearned</u>
Property Taxes - 2014	\$ -	398,310
Public Service Corp Taxes - 2014	-	33,711
Delinquent Property Taxes Receivable	<u>76,435</u>	<u>-</u>
	<u>\$ 76,435</u>	<u>432,021</u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 53,846	-	(17,623)	36,223
Capital Assets, Being Depreciated				
Buildings and Improvements	527,962	-	-	527,962
Infrastructure	532,190	228,622	-	760,812
Machinery and Equipment	194,486	-	-	194,486
Vehicles	483,614	-	-	483,614
Total Capital Assets, Being Depreciated	<u>1,738,252</u>	<u>228,622</u>	<u>0</u>	<u>1,966,874</u>
Less Accumulated Depreciation For				
Buildings and Improvements	(242,685)	(17,467)	-	(260,152)
Infrastructure	(35,875)	(11,501)	-	(47,376)
Machinery and Equipment	(172,445)	(4,007)	-	(176,452)
Vehicles	(327,036)	(46,140)	-	(373,176)
Total Accumulated Depreciation	<u>(778,041)</u>	<u>(79,115)</u>	<u>0</u>	<u>(857,156)</u>
Net Capital Assets, Being Depreciated	<u>960,211</u>	<u>149,507</u>	<u>0</u>	<u>1,109,718</u>
Net Governmental Activities Capital Assets	<u><u>\$ 1,014,057</u></u>	<u><u>149,507</u></u>	<u><u>(17,623)</u></u>	<u><u>1,145,941</u></u>

Depreciation expense was charged to the functions/programs of the governmental activities of the Town as follows:

Governmental Activities	
General Government	\$ 11,758
Public Safety	19,104
Public Works	34,730
Culture and Recreation	<u>13,523</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 79,115</u></u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Adjustments / Transfers	Ending Balance
Business-Type Activities					
Capital Assets, Not Being Depreciated					
Land	\$ 59,805	-	-	-	59,805
Construction in Progress	-	427,272	-	-	427,272
Total Capital Assets, Not Being Depreciated	59,805	427,272	0	0	487,077
Capital Assets, Being Depreciated					
Buildings	401	-	-	-	401
Distribution Systems	14,462,577	-	-	178,211	14,640,788
Machinery and Equipment	103,798	-	-	23,151	126,949
Furniture and Fixtures	10,657	-	-	-	10,657
Vehicles	75,992	-	-	-	75,992
Total Capital Assets, Being Depreciated	14,653,425	0	0	201,362	14,854,787
Less Accumulated Depreciation For					
Buildings	(263)	(28)	-	(1)	(292)
Distribution Systems	(6,208,175)	(311,886)	-	(53,258)	(6,573,319)
Machinery and Equipment	(74,696)	(3,457)	-	(3,858)	(82,011)
Furniture and Fixtures	(10,657)	-	-	-	(10,657)
Vehicles	(60,077)	(4,342)	-	(2)	(64,421)
Total Accumulated Depreciation	(6,353,868)	(319,713)	0	(57,119)	(6,730,700)
Net Capital Assets, Being Depreciated	8,299,557	(319,713)	0	144,243	8,124,087
Net Business-Type Activities Capital Assets	\$ 8,359,362	107,559	0	144,243	8,611,164

The prior period adjustment detailed in Note 4.C. is reflected within the "Adjustments / Transfers" column above.

Depreciation expense was charged to the funds of the business-type activities of the Town as follows:

Business-Type Activities	
Water	\$ 221,496
Sanitation Authority	98,217
	<u> </u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 319,713</u>

**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan

Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing, Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (the System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> <p>Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About VRS Plan 2 VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> <p>Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members").</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees
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**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p> <p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.</p> <p>Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p> <p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p> <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer.</p> <p>Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
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**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
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TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
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TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as VRS Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Normal Retirement Age Age 65.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as VRS Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as VRS Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p>Eligibility: Same as VRS Plan 1 and VRS Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as VRS Plan 1 and VRS Plan 2.</p>
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**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<ul style="list-style-type: none">• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.• The member retires on disability.• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
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**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan.</p>	<p>Purchase of Prior Service Same as VRS Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Plan Description (Continued)

Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.		
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The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 13.74% (8.74% plus 5.00% member contribution) of the annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the Town's annual pension cost of \$54,230 for VRS was equal to the required and actual contributions.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Annual Pension Cost (Continued)

Three-Year Trend Information for Town of Gate City, Virginia			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 54,230	100.00%	\$ -
June 30, 2013	49,487	100.00%	-
June 30, 2012	26,367	100.00%	-

The FY2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the unfunded actuarial accrued liability (UAAL) was 30 years.

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 85.37% funded. The actuarial accrued liability for benefits was \$1,424,768, and the actuarial value of assets was \$1,216,390 resulting in an unfunded actuarial accrued liability (UAAL) of \$208,378. The covered payroll (annual payroll of active employees covered by the plan) was \$578,180, and the ratio of the UAAL to the covered payroll was 36.04%.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

E. Employee Retirement Systems and Pension Plan (Continued)

Funded Status and Funding Progress (Continued)

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

F. Risk Management

The Town is a member of the Virginia Municipal League (VML) Insurance Program for all risk of loss. Each member of the risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Town pays VML contributions and assessments based upon classification and rates into a designated VML cash reserve fund out of which expenses of the Town and claims and awards are to be paid by VML. In the event of a loss, deficit, and depletion of all available excess insurance, VML may assess all members an amount based upon the premium of each member in proportion to the total premiums of all members in the fiscal year in which such deficits occur. There has been no significant reduction in insurance coverage from the prior fiscal year and the Town has not had any settlements in the last three years which were not covered by insurance.

G. Long-Term Liabilities

The following is a summary of long-term obligation transactions of the Town for the fiscal year ended June 30, 2014.

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Notes Payable	\$ 124,846	-	(124,846)	-	-
General Obligation Bonds	187,250	150,000	(41,862)	295,388	49,793
	<u>312,096</u>	<u>150,000</u>	<u>(166,708)</u>	<u>295,388</u>	<u>49,793</u>
Compensated Absences	34,101	4,990	(7,359)	31,732	-
Governmental Activities Long-Term Liabilities	<u>\$ 346,197</u>	<u>154,990</u>	<u>(174,067)</u>	<u>327,120</u>	<u>49,793</u>

For governmental activities, compensated absences are liquidated by the general fund.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Water Fund					
General Obligation Bonds	\$ 1,348,716	-	(68,498)	1,280,218	72,019
Drinking Water Revolving Loan Funds	2,251,256	299,090	(78,959)	2,471,387	79,696
Note Payable	11,724	-	(1,250)	10,474	1,134
	<u>3,611,696</u>	<u>299,090</u>	<u>(148,707)</u>	<u>3,762,079</u>	<u>152,849</u>
Compensated Absences	25,271	6,451	(3,844)	27,878	-
Customer Deposits	44,141	15,957	(13,813)	46,285	-
Total Water Fund Long-Term Liabilities	<u>3,681,108</u>	<u>321,498</u>	<u>(166,364)</u>	<u>3,836,242</u>	<u>152,849</u>
Sanitation Authority Fund					
Revenue Bonds	687,022	-	(25,822)	661,200	27,038
Notes Payable	42,162	-	(14,083)	28,079	12,185
Total Sanitation Authority Long-Term Liabilities	<u>729,184</u>	<u>0</u>	<u>(39,905)</u>	<u>689,279</u>	<u>39,223</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 4,410,292</u>	<u>321,498</u>	<u>(206,269)</u>	<u>4,525,521</u>	<u>192,072</u>

Governmental Activities

A summary of long-term debt for governmental activities through June 30, 2014 is as follows:

	Date Issued	Amount Authorized and Issued	Interest Rate	Fiscal Year of Maturity	Outstanding June 30, 2014
<u>Capital Outlay Notes</u>					
Capital Outlay Note - Town Hall	08/08/03	\$ 190,728	4.15%	2014	\$ -
Capital Outlay Note - AccuFund	04/17/09	40,075	4.75%	2014	-
					<u>0</u>
<u>General Obligation Bonds</u>					
Series 2012 General Obligation Bond	08/30/12	187,250	2.99%	2018	152,000
Series 2013 General Obligation Bond	10/17/13	150,000	2.59%	2024	143,388
					<u>295,388</u>
Total Governmental Activities Long-Term Debt					<u>\$ 295,388</u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Governmental Activities (Continued)

General obligation bonds presented for governmental activities represent borrowings to finance various equipment. All of these bonds include a pledge of tax revenues to repay the bonds and a commitment to use the full faith and credit of the Town to repay the bonds in the event that tax revenues alone are insufficient to repay the bonds. These bonds that have pledges of revenue, but do not include rate covenants, are classified as general obligation bonds.

In October 2013, a Series 2013 General Obligation bond was issued for \$150,000 for the direct payoff of the Capital Outlay Note – Town Hall and planned equipment spending. Net proceeds of \$25,991 are held in the Equipment Savings Fund.

The annual aggregate maturities for governmental activities bonds payable, which equates to total governmental activities long-term debt, for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 49,793	7,619	57,412
2016	51,257	6,156	57,413
2017	52,749	4,650	57,399
2018	54,291	3,101	57,392
2019	14,953	2,121	17,074
2020 - 2024	72,345	4,544	76,889
	<u>\$ 295,388</u>	<u>28,191</u>	<u>323,579</u>

Interest expense related to governmental activities long-term debt totaled \$9,166 for the fiscal year ended June 30, 2014.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities

A summary of long-term debt for business-type activities through June 30, 2014 is as follows:

	<u>Date Issued</u>	<u>Amount Authorized and Issued</u>	<u>Interest Rate</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding June 30, 2014</u>
<u>Water Fund</u>					
<u>Water Bonds</u>					
Series 1983 Water Bond Anticipation Note	07/23/84	\$ 1,636,000	5.00%	2024	\$ 748,203
Series 1996 Water Bond	10/23/96	181,000	4.50%	2036	139,388
Series 2003 Water Bond	01/08/03	51,800	4.50%	2040	42,730
Series 2003 Water Bond	01/08/03	418,200	4.50%	2041	349,897
					<u>1,280,218</u>
<u>Drinking Water Revolving Loan Funds (DWRLF)</u>					
DWRLF VRA WSL 03-04	12/01/04	266,562	0.00%	2035	186,473
DWRLF VRA WSL 12-05	02/01/06	1,005,362	0.00%	2037	769,993
DWRLF VRA WSL 13-09	06/14/12	784,550	0.00%	2043	745,322
DWRLF VRA WSL 22-10	06/14/12	480,837	3.00%	2043	470,509
DWRLF VRA WSL 14-11	03/14/14	848,322	3.00%	2045	299,090
					<u>2,471,387</u>
<u>Capital Outlay Note</u>					
Note Payable - Hunter's Crossing	10/01/05	17,800	0.00%	2024	<u>10,474</u>
Total Water Fund Long-Term Debt					<u><u>\$ 3,762,079</u></u>
<u>Sanitation Authority Fund</u>					
<u>Sewer Revenue Bonds</u>					
Series 1990A Sewer Revenue Bond	08/21/90	\$ 446,000	5.00%	2030	\$ 284,645
Series 1990B Sewer Revenue Bond	08/21/90	105,000	5.00%	2024	45,633
Series 1993 Sewer System Revenue Bond	07/26/93	466,000	5.00%	2033	330,922
					<u>661,200</u>
<u>Capital Outlay Notes</u>					
Note Payable - Moccasin Hills	01/31/97	132,573	0.00%	2016	16,906
Note Payable - Quillen Heights	01/07/00	45,386	0.00%	2018	11,173
					<u>28,079</u>
Total Sanitation Authority Long-Term Debt					<u><u>\$ 689,279</u></u>
Total Business-Type Activities Long-Term Debt					<u><u>\$ 4,451,358</u></u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities (Continued)

Management chose to not impute interest on the above noninterest-bearing loans and notes due to estimated immateriality of that interest for fiscal year 2014.

Water bonds and Drinking Water Revolving Loan Funds (DWRLF) presented in the water fund represent borrowings to finance various water system expansion and improvement projects. All of these bonds include a pledge of water revenues to repay the bonds and a commitment to use the full faith and credit of the Town to repay the bonds in the event that water revenues alone are insufficient to repay the bonds. These bonds that have pledges of revenue, but do not include rate covenants, are classified as general obligation bonds, and are presented as water fund obligations because they were used for expansion of the Town's water system and water revenues are pledged to repay the debt. Some of these bonds are revenue bonds because they do include a rate covenant that guarantees that the Town will set its water rates at a level that covers the operating expenses of the water fund and debt service on the bonds.

On March 14, 2014, the Town was awarded financial assistance under DWRLF VRA WSL 14-11 for an amount not to exceed \$1,211,888, which includes an \$848,322 (70%) loan with 3.00% interest and a 30-year term, and \$363,566 (30%) principal forgiveness. At June 30, 2014, \$427,272 had been drawn on the related water project, of which \$299,090 is to be repaid and \$128,182 is forgiven. The latter is reflected as Capital Contributions – Principal Forgiveness in the proprietary funds' Statement of Revenues, Expenses and Changes in Net Position.

The capital outlay note payable is to a private developer to purchase developer-installed water lines in the Hunter's Crossing subdivision.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities (Continued)

The annual aggregate maturities for water fund bonds payable within business-type activities for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 72,019	59,741	131,760
2016	75,642	56,118	131,760
2017	79,449	52,311	131,760
2018	83,445	48,315	131,760
2019	87,645	44,115	131,760
2020 - 2024	493,933	149,807	643,740
2025 - 2029	100,160	76,661	176,821
2030 - 2034	125,379	51,441	176,820
2035 - 2039	125,853	21,810	147,663
2040 - 2041	36,693	1,363	38,056
	<u>\$ 1,280,218</u>	<u>561,682</u>	<u>1,841,900</u>

The annual aggregate maturities for water fund drinking water revolving loans payable within business-type activities for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 79,696	21,210	100,906
2016	85,906	22,680	108,586
2017	86,433	22,154	108,587
2018	86,974	21,613	108,587
2019	87,533	21,054	108,587
2020 - 2024	446,639	96,290	542,929
2025 - 2029	463,360	75,570	538,930
2030 - 2034	482,771	60,158	542,929
2035 - 2039	401,831	37,623	439,454
2040 - 2044	242,679	12,019	254,698
2045	7,565	115	7,680
	<u>\$ 2,471,387</u>	<u>390,486</u>	<u>2,861,873</u>

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities (Continued)

The annual aggregate maturities for the water fund capital outlay note payable within business-type activities for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 1,134	-	1,134
2016	1,134	-	1,134
2017	1,134	-	1,134
2018	1,134	-	1,134
2019	1,134	-	1,134
2020 - 2024	4,804	-	4,804
	<u>\$ 10,474</u>	<u>0</u>	<u>10,474</u>

Interest expense related the water fund's portion of business-type activity's long-term debt totaled \$77,494 for the fiscal year ended June 30, 2014.

Sewer revenue bonds presented within the Sanitation Authority fund represent borrowings to finance various sewer system expansion and improvement projects. These bonds are exclusively obligations of the Authority and include a rate covenant that guarantees that the Authority will set its sewer rates at a level that covers the operating expenses of the Authority and debt service on the bonds. Therefore, these bonds are revenue bonds.

The capital outlay notes payable are to private developers to purchase developer-installed sewer lines in the Moccasin Hills and Quillen Heights subdivisions.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities (Continued)

The annual aggregate maturities for sewer fund bonds payable within business-type activities for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 27,038	32,446	59,484
2016	28,421	31,063	59,484
2017	29,876	29,608	59,484
2018	31,404	28,080	59,484
2019	33,011	26,473	59,484
2020 - 2024	187,525	105,314	292,839
2025 - 2029	210,364	56,216	266,580
2030 - 2033	113,561	9,588	123,149
	<u>\$ 661,200</u>	<u>318,788</u>	<u>979,988</u>

The annual aggregate maturities for sewer fund capital outlay notes payable within business-type activities for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 12,185	-	12,185
2016	11,623	-	11,623
2017	3,451	-	3,451
2018	820	-	820
	<u>\$ 28,079</u>	<u>0</u>	<u>28,079</u>

Interest expense related the Sanitation Authority fund's portion of business-type activity's long-term debt totaled \$36,487 for the fiscal year ended June 30, 2014.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Business-Type Activities (Continued)

The annual aggregate maturities for total business-type activities' long-term debt for the fiscal years subsequent to June 30, 2014 are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2015	\$ 192,072	113,397	305,469
2016	202,726	109,861	312,587
2017	200,343	104,073	304,416
2018	203,777	98,008	301,785
2019	209,323	91,642	300,965
2020 - 2024	1,132,901	351,411	1,484,312
2025 - 2029	773,884	208,447	982,331
2030 - 2034	721,711	121,187	842,898
2035 - 2039	527,684	59,433	587,117
2040 - 2044	279,372	13,382	292,754
2045	7,565	115	7,680
	<u>\$ 4,451,358</u>	<u>1,270,956</u>	<u>5,722,314</u>

Interest expense related the business-type activities long-term debt totaled \$113,981 for the fiscal year ended June 30, 2014.

H. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2014 is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	General	\$ 64,566
Sanitation Authority	General	8,158
Total		<u>\$ 72,724</u>

**TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

NOTE 3 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (CONTINUED)

H. Interfund Receivables and Payables (Continued)

Due to/from Other Funds (Continued)

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts specifically pertain to Town-wide operating cash balances being held in the general fund whereby water and Sanitation Authority fund revenues are deposited and any proprietary fund expenses paid.

NOTE 4 - OTHER INFORMATION

A. Contingencies

On September 10, 2001, the Authority signed a sewer service agreement with Scott County Public Service Authority (SCPSA). The SCPSA upgraded its existing plant to a level that allowed them to treat the wastewater from the Authority. The Authority pays a monthly user charge to the SCPSA based upon the recorded flow of wastewater from the Authority's service area. The monthly user charge is based upon a predetermined formula and is updated on an annual basis. The term of the agreement is for forty (40) years.

The Authority and the SCPSA have agreed that revenues from the treatment of sewage are pledged to the Rural Utilities Service and the Department of Environmental Quality in an amount sufficient to retire the debt and provide adequate debt reserve accounts.

The Town generally follows the practice of recording liabilities from claims and legal actions only when it is probable that both 1) an asset has been impaired or a liability has been incurred, and 2) the amount of loss can be reasonably estimated. No material pending or threatened claims, litigation or assessments, asserted or unasserted, against the Town exist at this time. The Town has entered into construction contracts in the water fund, which were not completed at fiscal year end. These are for water projects and will be paid with revenue bonds.

B. Economic Dependency

The Town depends on financial resources flowing from, or associated with, both the federal government and the Commonwealth of Virginia. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.

TOWN OF GATE CITY, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE 4 - OTHER INFORMATION (CONTINUED)

C. Prior Period Adjustments

During fiscal year 2014, management chose to remove long-term assets and liabilities from the internal tracking of governmental funds and properly track those activities external to the funds for government-wide reporting. Though the net effect of this removal was concluded to be immaterial to the financial statements as a whole, the purpose of the adjustment was correction of an error, and thus, appropriately a prior period adjustment. Therefore, beginning net position on the government-wide Statement of Activities and beginning fund balance on both the governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balances and the general fund's Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual were increased by \$2,681.

Multiple long-term notes receivable due to the Town from area businesses and/or their owners had not been recognized in the government-wide financial statements in the fiscal year of commencement. As a result, accounts receivable, net of uncollectibles was increased \$140,585 in the government-wide Statement of Net Position. Accordingly, beginning net position on the government-wide Statement of Activities was increased by \$140,585.

Several notes payable and the related capital assets were discovered to have been unrecorded in the proper prior years. As a result, gross property of the water fund was increased \$23,403, with the related accumulated depreciation being increased \$3,879, for an increase in net capital assets of \$19,524. The offsetting note payable recorded was net of prior year payments expensed for an increase in beginning long-term liabilities of \$11,724. Therefore, beginning net position of the water fund was increased \$7,800. In addition, gross property of the Sanitation Authority fund was increased \$177,959, with the related accumulated depreciation being increased \$53,240, for an increase in net capital assets being \$124,719. The offsetting notes payable recorded were net of prior year payments expensed for an increase in beginning long-term liabilities of \$42,162. Therefore, beginning net position of the Sanitation Authority fund was increased \$82,557. As a result, beginning net position on both the government-wide Statement of Activities and the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position were increased \$90,357.

TOWN OF GATE CITY, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
For the Fiscal Year Ended June 30, 2014

	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/(c))
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
June 30, 2013	\$ 1,216,390	\$ 1,424,768	\$ 208,378	85.37%	\$ 578,180	36.04%
June 30, 2012	1,138,277	1,331,979	193,702	85.46%	549,729	35.24%
June 30, 2011	1,111,622	1,372,800	261,178	80.97%	575,569	45.38%

See Independent Auditors' Report.

SUPPLEMENTAL INFORMATION

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance, July 1, 2013	Cash Receipts	Expenditures	Balance, June 30, 2014
<u>FEDERAL AWARDS</u>						
<u>GENERAL FUND</u>						
Pass-Through Virginia Department of Criminal Justice Services						
16.738	Byrne Justice Assistance Grant Program - 13-O1038LO12	U.S. Department of Justice	\$ 3,165	-	3,165	-
Pass-Through Virginia Department of Transportation						
20.205	Transportation Enhancement Program - EN08-221-104	U.S. Department of Transportation	-	180,512	180,512	-
20.600	Child and Adult Care Food Program, 2013 - 2014	U.S. Department of Transportation	8,325	-	8,325	-
			<u>8,325</u>	<u>180,512</u>	<u>188,837</u>	<u>0</u>
Total General Fund Federal Awards			<u>11,490</u>	<u>180,512</u>	<u>192,002</u>	<u>0</u>
<u>WATER FUND</u>						
Pass-Through Virginia Department of Health (See NOTE 2 Below)						
66.468	Drinking Water SRF 14-11 Loan	U.S. Environmental Protection Agency	-	242,263	242,263	-
66.468	Drinking Water SRF 14-11 Principal Forgiveness	U.S. Environmental Protection Agency	-	103,827	103,827	-
Total Water Fund Federal Awards			<u>0</u>	<u>346,090</u>	<u>346,090</u>	<u>0</u>
TOTAL FEDERAL AWARDS			<u>\$ 11,490</u>	<u>526,602</u>	<u>538,092</u>	<u>0</u>

BASIS OF PRESENTATION

NOTE 1: The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the Town of Gate City, Virginia under programs of the federal government for the fiscal year ended June 30, 2014. The schedule is presented using the accrual basis of accounting.

NOTE 2: Of the total financial assistance awarded (See Note 3.G in the notes to the financial statements), 70% was in the form of a loan and 30% was principal forgiveness. Thereafter, approximately 81% of each was federally funded and 19% funded by the Commonwealth of Virginia (the Commonwealth). For the fiscal year ended June 30, 2014, \$427,272 was drawn on the approved financial assistance under Drinking Water SRF 14-11. Of these draws, \$299,090 is to be repaid, of which \$242,263 was federally funded and \$56,827 funded by the Commonwealth, and \$128,182 has been forgiven, of which \$103,827 was federally funded and \$24,355 funded by the Commonwealth.

See Independent Auditors' Report.

**OTHER SUPPLEMENTAL
INFORMATION
(UNAUDITED)**

TOWN OF GATE CITY, VIRGINIA
GENERAL GOVERNMENT REVENUES BY SOURCE (UNAUDITED)
Last Ten Fiscal Years

Schedule 1

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Licenses, and Fees (1)	Fines and Forfeitures	Charges for Services	Miscellaneous	Revenue from Use of Property and Money	Inter- Governmental	Total
2014	\$ 424,265	\$ 445,915	\$ 158,538	\$ 18,163	\$ 156,754	\$ 65,765	\$ 14,168	\$ 253,956	\$ 1,537,524
2013	406,213	409,401	119,476	36,133	162,136	12,013	16,039	227,327	1,388,738
2012	407,485	455,124	123,118	24,865	115,940	16,598	17,317	205,393	1,365,840
2011	413,028	463,275	145,124	20,286	120,687	5,300	21,240	485,145	1,674,085
2010	301,160	446,600	149,400	20,818	118,490	4,728	19,747	256,554	1,317,497
2009	277,098	443,220	121,450	25,384	91,017	25,006	24,758	94,874	1,102,807
2008	332,131	543,337	1,294	16,457	114,768	23,965	20,357	107,660	1,159,969
2007	284,066	462,741	2,344	40,729	99,777	150,793	14,271	129,957	1,184,678
2006	258,617	485,397	1,548	37,497	50,708	13,811	16,408	90,694	954,680
2005	275,319	469,941	914	16,749	51,797	16,404	17,238	86,597	934,959

Note:

(1) In the fiscal years prior to 2009, business license revenues were included in Other Local Taxes.

Source: Town of Gate City, Virginia Finance Department

See Independent Auditors' Report.

TOWN OF GATE CITY, VIRGINIA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (UNAUDITED)
Last Ten Fiscal Years

Schedule 2

Fiscal Year	General Government	Public Safety	Public Works	Parks, Culture, and Recreation	Community Development	Capital Outlay (1)	Debt Service	Total
2014	\$ 356,833	\$ 318,760	\$ 472,983	\$ 15,214	\$ -	\$ 228,622	\$ 184,198	\$ 1,576,610
2013	490,654	424,847	589,542	14,794	-	-	32,755	1,552,592
2012	443,315	346,618	429,784	12,016	-	-	28,964	1,260,697
2011	921,179	276,742	460,761	13,935	-	-	31,719	1,704,336
2010	474,625	258,995	415,686	13,623	-	-	39,589	1,202,518
2009	704,063	442,082	260,106	52,732	44,877	-	41,744	1,545,604
2008	274,095	321,331	389,371	26,941	-	-	45,739	1,057,477
2007	282,612	341,809	359,311	-	-	-	42,025	1,025,757
2006	262,780	316,931	346,885	-	-	-	49,886	976,482
2005	217,557	274,339	268,465	-	-	-	58,262	818,623

Note:

(1) In the fiscal year ended June 30, 2014, Capital Outlay expenditures were broken out into a separate column. In the fiscal years prior to 2014, these expenditures were included in the function they related to.

Source: Town of Gate City, Virginia Finance Department

See Independent Auditors' Report.

TOWN OF GATE CITY, VIRGINIA
ASSESSED VALUE OF TAXABLE PROPERTY AND PROPERTY TAX RATES (UNAUDITED)
Last Four Fiscal Years

Schedule 3

Assessed Value of Taxable Property

Fiscal Year	Tax Year	Real Estate	Public Utility	Total
2014	2013	\$ 116,238,600	\$ 8,646,400	\$ 124,885,000
2013	2012	115,907,400	8,462,335	124,369,735
2012	2011	114,840,100	7,709,833	122,549,933
2011	2010	114,994,300	8,302,844	123,297,144

Property Tax Rates (per \$100)

Fiscal Year	Tax Year	Real Estate	Public Utility
2014	2013	\$ 0.33	\$ 0.33
2013	2012	0.33	0.33
2012	2011	0.33	0.33
2011	2010	0.33	0.33

Source: Town of Gate City, Virginia Finance Department

See Independent Auditors' Report.

TOWN OF GATE CITY, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
Last Ten Fiscal Years

Schedule 4

Fiscal Year	Tax Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)(2)	Total Tax Collections	Percent of Total Tax Collections of Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Levy
2014	2013	\$ 383,480	\$ 351,346	91.62%	\$ -	\$ 351,346	91.62%	\$ 32,134	8.37%
2013	2012	382,494	356,268	93.14%	-	356,268	93.14%	26,226	6.85%
2012	2011	378,972	322,729	85.15%	35,618	358,347	94.56%	20,625	5.44%
2011	2010	379,481	349,922	92.21%	19,494	369,416	97.35%	10,065	2.65%
2010	2009	314,091	292,794	93.21%	15,041	307,835	98.01%	6,256	1.99%
2009	2008	311,612	298,930	95.93%	9,326	308,256	98.92%	3,356	1.07%
2008	2007	309,400	297,265	96.07%	9,612	306,877	99.18%	2,523	0.81%
2007	2006	261,814	243,912	93.16%	15,842	259,754	99.21%	2,060	0.78%
2006	2005	260,611	239,096	91.74%	19,779	258,875	99.33%	1,736	0.66%
2005	2004	254,501	248,873	97.78%	4,096	252,969	99.40%	1,532	0.60%

Note:

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

Source: Town of Gate City, Virginia Finance Department

See Independent Auditors' Report.

TOWN OF GATE CITY, VIRGINIA
RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND
NET BONDED DEBT PER CAPITA (UNAUDITED)
Last Four Fiscal Years

Schedule 5

Fiscal Year	Tax Year	Population (1)	Assessed Value	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt Per Capital
2014	2013	2043	\$ 116,238,600	\$ 1,575,606	1.36%	\$ 771
2013	2012	2043	115,907,400	1,535,966	1.33%	2,248
2012	2011	2043	114,840,100	1,602,246	1.39%	1,825
2011	2010	2043	114,994,300	3,377,828	2.93%	1,653

Note:

(1) Obtained from the U.S. Census Bureau

Source: Town of Gate City, Virginia Finance Department

See Independent Auditors' Report.

**INTERNAL CONTROL AND
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**

Mayor and Council Members
Town of Gate City, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Gate City, Virginia (the Town), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated April 7, 2015.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. These are 2014-001, 2013-001 and 2013-010.

Town of Gate City, Virginia
Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. These are 2014-002 through 2014-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 and 2013-010.

The Town of Gate City, Virginia's Responses to Findings

The Town's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blackburn, Childers & Steagall, P.C.
BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

April 7, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Mayor and Council Members
Town of Gate City, Virginia

Report on Compliance for the Major Federal Program

We have audited the Town of Gate City, Virginia's (the Town) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Town's major federal program for the fiscal year ended June 30, 2014. The Town's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Town of Gate City, Virginia
Independent Auditors' Report on Compliance for the Major
Program and on Internal Control over Compliance

Opinion on the Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

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


BLACKBURN, CHILDERS & STEAGALL, PLLC
Johnson City, Tennessee

April 7, 2015

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Town of Gate City, Virginia (the Town).
2. Three material weaknesses and three significant deficiencies in internal control were disclosed by the audit of the Town's financial statements.
3. One instance of noncompliance material to the financial statements of the Town , which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit of the financial statements.
4. No significant deficiencies in internal control over the major federal award program were reported.
5. The auditors' report on compliance for the major federal award program for the Town expresses an unmodified opinion on the major federal program.
6. The audit disclosed no audit findings over the major federal award program that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was CFDA No. 66.468 Drinking Water SRF 14-11.
8. The dollar threshold used to distinguish between Type A and Type B programs, as described in Section 520(b) of OMB Circular A-133, was \$300,000.
9. The Town of Gate City, Virginia did not qualify as a low-risk auditee.

SECTION II - FINANCIAL STATEMENT AUDIT

Current Fiscal Year Findings

2014-001 Material Weakness: Numerous Account Balance Misstatements

Criteria: The Town Council, or those charged with governance, relies on management to accumulate and capture relevant and timely financial data reportable to them for their decision making. The processes and controls in place throughout the fiscal year should be adequate for management to provide materially correct financial information to those charged with governance and the external auditors for financial statement preparation.

Condition: Throughout the fiscal year 2014 audit, numerous audit adjustments were required in order to materially state the fund and government-wide account balances for financial reporting.

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION II - FINANCIAL STATEMENT AUDIT (CONTINUED)

Current Fiscal Year Findings (Continued)

2014-001 Material Weakness: Numerous Account Balance Misstatements (Continued)

Condition (Continued): Quantitatively material adjustments were required to capital assets, accumulated depreciation, including current fiscal year depreciation expense, notes receivable, accounts payable, and notes and bonds payable. These adjustments were not only to record previously unrecorded transactions, but also to adjust unreconciled balances. In addition, the multitude of other individually immaterial adjustments revealed a qualitatively material issue regarding the Town's annual reconciliations of all accounts other than cash. Based on the current fiscal year audit procedures and inquiries performed, it is apparent that management relied heavily on the predecessor auditors as an extension of the Town's internal control structure. This not only includes their reliance on locating misstatements, but also to initially post activity.

Effect: The financial information presented for audit and to the Town Council was not materially correct.

Recommendation: All balance sheet accounts should be reconciled to the subsidiary ledger or related AccuFund or external report monthly. In addition, the accounting records should be assessed for not only what information and balances are present, but also what is not present (i.e., accruals) or perhaps requires additional accrual (i.e., compensated absences, wage accruals, accounts receivable, etcetera) to ensure that all relevant transactions are captured appropriately and timely. Income statement accounts should be reviewed for reasonableness in light of the balance sheet reconciliations performed. Any variances should be resolved at that time. In regards to the Town's depreciation expense, we realize that the Town does not maintain their own capital asset program, though we recommend that management adjust depreciation monthly based on estimates of the prior fiscal year's activity so that, at fiscal year end, and the annual audit, any adjustments required would be likely immaterial to adjust to actual. Though the Town is a small office environment, the quantity of funds and transactions held and incurred by the Town requires more frequent reconciliation and monitoring of balances and activities. We feel strongly that this increased frequency in reconciliation should reveal some of these variances in a timelier manner, and allow for a smoother audit and more materially correct balances being presented to the Town Council on a monthly basis. Furthermore, it is imperative that management understand their responsibility for their accounting records and financial statements.

Management Response: Agreed. Balance sheet accounts should be reconciled on a monthly basis. The Town should procure a CPA who can assist the Treasurer on a monthly basis with this activity.

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION II - FINANCIAL STATEMENT AUDIT (CONTINUED)

Current Fiscal Year Findings (Continued)

2014-002 Significant Deficiency: Journal Entries

Criteria: Journal entries entered into the accounting system of the Town affect the final balances used for decision making and planning, and the ability to rely on those balances is crucial to the reliability of the financial information utilized.

Condition: During the testing of management's journal entries posted to the fiscal year 2014 books of the Town, numerous issues were noted that, as a whole, are considered an internal control weakness in the journal entry and oversight function. These issues include the lack of preparer and/or reviewer signoffs and lack of supporting documentation in approximately half of the entries tested, and two of the entries tested covered more than one fund and the individual fund adjustments did not balance.

Effect: The accounts and transactions of the Town are at risk for misappropriation due to fraud or error.

Recommendation: In small office environments, the controls surrounding the oversight and monitoring of journal entries posted are assessed on a case-by-case basis, as the Town Manager's presentation to the Town Council could be considered a "big picture" view of the Town's transactions and balances, and thus, adequate oversight of the entries posted to arrive at those balances. Though for the Town, it appears as though balance sheet balances and transactions are not remitted to the Town Manager by the Treasurer on a monthly basis for preparation of the Council presentation, but rather only profit and loss, budget, accounts receivable, and accounts payable information. This results in the conclusion that journal entries posted are not properly reviewed, nor prepared based on best practices. We recommend that, at a minimum, the Town Manager and Council review cash and certificate of deposit transactions and/or balances on a monthly basis.

Management Response: Agreed. The Town will supplement journal entry documentation with a Journal Voucher which will contain the preparer and reviewer signature. The Town has also began using a Credit Card Transaction Approval form. The Town Manager will submit monthly cash and investment (CD) balances along with the Finance Report.

2014-003 Significant Deficiency: Restricted Cash Accounts in the Sanitation Authority Fund

Criteria: Restricted asset accounts are to be created in accordance with the requirements of external contributors, grantors, debt covenants, and/or enabling legislation. In addition, any and all requirements of this non-all-inclusive listing of potential restrictors should be followed by the Town.

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION II - FINANCIAL STATEMENT AUDIT (CONTINUED)

Current Fiscal Year Findings (Continued)

2014-003 Significant Deficiency: Restricted Cash Accounts in the Sanitation Authority Fund (Continued)

Condition: The Town currently holds restricted cash deposits and a restricted certificate of deposit in the Sanitation Authority Fund. These accounts are labeled to reflect the belief that these are for bond covenants and debt service. The balances held at fiscal year end greatly exceed the required amounts noted in review of the active bond and note documents, and management was uncertain as to the reasoning for the larger restricted balances. In addition, one bond document stated that “the entire gross income and revenues of the system shall be set aside and deposited in an insured bank in a special fund which is hereby created and which shall be known as the Gate City Sanitation Revenue Fund Account”. Thereafter, the document states that this account should be used to pay for the operations, maintenance and debt service of the Sanitation Authority. Whereas the aforementioned restricted accounts did not fluctuate between current and prior fiscal years other than interest, it is apparent that they are not increasing as a result of operational revenues and expenses, as these transactions are being posted to the General Fund.

Effect: The restricted cash and certificate of deposit balances within the Sanitation Authority Fund cannot currently be substantiated as restricted, and could be available resources for spending. In addition, the structure of the Sanitation Authority Fund and the flow of transactions and cash through the fund do not appear to be in accordance with bond covenants.

Recommendation: We recommend that the Town re-assess the requirements on the Sanitation Authority Fund for bond covenants and debt service, and unrestrict a portion of the funds, if necessary, in order to utilize these available resources. We further recommend that management review the bond documents and discuss these matters with the Sanitation Authority Board in order to ensure that the Sanitation Authority Fund is structured as required by bond covenants.

Management Response: Agreed. These are older Rural Development Bonds that need to be re-assessed.

2014-004 Significant Deficiency: Allowances for Utility Receivables and Excessive Days Collections in Accounts Receivable

Criteria: Under best business practices, utility shutoff and termination policies are formalized to hold customers accountable for payment delinquencies, and thus, a decrease in long-term accounts receivable, and an increase in cash flow expectations.

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION II - FINANCIAL STATEMENT AUDIT (CONTINUED)

Current Fiscal Year Findings (Continued)

2014-004 Significant Deficiency: Allowances for Utility Receivables and Excessive Days Collections in Accounts Receivable (Continued)

Condition: The allowances for uncollectibles in the General Fund, Water Fund, and Sanitation Authority Fund for garbage collection, water, and sewer services, respectively, all appear excessive in comparison to the respective accounts receivable balances at fiscal year end. Specifically, management has stated that their practice is to recognize an allowance equal to the category of 90+ days on the accounts receivable aging. The allowances are reflective of that practice, though they are approximately 43%, 50%, and 43% of garbage collection, water, and sewer utility receivables, respectively, at fiscal year end. These percentages are excessive and show that the Town's collection efforts are inadequate. This is further shown by the ratio of the number of days that collections are in the respective accounts receivable balances. These are 45 ½, 67 ½, and 55 days for garbage collection, water, and sewer collections, respectively. Whereas a normal billing cycle to payment is 30 days, collections appear to frequently run delinquent. It was also noted that the Town's water shutoff policy was to be applicable for any delinquencies in excess of 10 days overdue. It does not appear that the Town is following their policy for water services.

Effect: The Town's business-type functions are not able to fully utilize their revenues due to a lag in cash flow from consistently delinquent utility bills.

Recommendation: We recommend that the Town revisit their utility shutoff policy, and update it accordingly for a reasonable practice that will be followed consistently. In addition, we recommend that the Town increase their efforts to collect bills more timely by considering discounts for early payment, collection follow-up calls, etcetera which could greatly increase cash flow.

Management Response: Agreed. Management and Town Council will need to review the Water Cut-Off Policy.

Prior Fiscal Year Findings Not Implemented

2013-001 Material Weakness: Preparation of Financial Statements and Related Note Disclosures

Criteria: Under current professional standards, the Town is responsible for the internal control process which includes the preparation of fiscal year end financial statements in accordance with accounting principles generally accepted in the United States of America.

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION II - FINANCIAL STATEMENT AUDIT (CONTINUED)

Prior Fiscal Year Findings Not Implemented (Continued)

2013-001 Material Weakness: Preparation of Financial Statements and Related Note Disclosures (Continued)

Condition: The financial statement preparation process should be performed in a manner such that there is only a remote likelihood that a misstatement of the Town's financial statements, that is more than inconsequential, will not be prevented or detected. As part of the audit, we prepared the financial statements, related note disclosures, and Schedule of Expenditures of Federal Awards from information provided by Town personnel.

Effect: The financial statements, related note disclosures, and Schedule of Expenditures of Federal Awards, which are management's responsibility, were not prepared by the Town.

Recommendation: We understand that the Town's preparation of their own financial statements, related note disclosures, and the Schedule of Expenditures of Federal Awards may not be cost-beneficial at this time, though we recommend that Town management improve monthly and fiscal year end financial reporting by increasing their efforts to understand governmental accounting practices and pronouncements, and to capture all information and transactions accordingly.

Management Response: Agreed. Hiring a CPA to help assist the Town Treasurer on a monthly basis could greatly improve our efforts.

2013-010 Material Weakness: Material Net Loss in Sanitation Authority Fund

Criteria: Under current bond covenants, the Sanitation Authority should set rates annually to ensure that it can impose and collect fees, rates, and charges, so that gross revenues will be sufficient at all times to provide for the payment of the operation, maintenance, and repair of the system and repayment of all bonds. Furthermore, enterprise funds in general should be self-supporting each fiscal year.

Condition: Per review of bond documents during the current fiscal year audit, although gross revenues are currently able to sustain the bond payments, related cash and noncash expenses of the system are depleting the revenues to the point of a net loss.

Effect: The Sanitation Authority appears noncompliant with its bond covenants and enterprise fund requirements.

TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION II - FINANCIAL STATEMENT AUDIT (CONTINUED)

Prior Fiscal Year Findings Not Implemented (Continued)

2013-010 Material Weakness: Material Net Loss in Sanitation Authority Fund (Continued)

Recommendation: We understand that the process of estimating sanitation fees has been an ongoing annual process, and that expectations do not always align with actual events, though it is imperative that the Sanitation Authority and the Town work together to ensure that this enterprise fund is self-supporting in the future.

Management Response: Disagree. The Sanitation Authority contracts treatment out to the Scott County Public Service Authority. Much of the maintenance and repairs are covered under the service provided. As a result of the Sanitation Authority contracted treatment, many of the assets that are still being depreciated are no longer in use. The sewage collection lines are the only asset that the Sanitation Authority provides repair and maintenance.

Auditor Rebuttal: Based on discussions with management, it appears to be agreed upon that the non-cash item, depreciation, is the adjustment that changed the status of the Sanitation Authority Fund to a net loss from a net income position. Though this is a non-cash item, and though we agree that the Town and the Sanitation Authority contract with the Scott County Public Service Authority for such maintenance as described above by management, it does not change the net loss position incurred by the Town's Sanitation Authority at fiscal year end which is noncompliant with the fiscal year 2014 active bond covenants for this fund.

Prior Fiscal Year Findings Implemented

2013-002 Significant Deficiency: Internal Controls Documentation

2013-003 Material Weakness: Lack of Segregation of Duties

2013-004 Material Weakness: Group Health Insurance Liability

2013-005 Material Weakness: Material Adjustment of Compensated Absences

2013-006 Material Weakness: Material Adjustment of Liability Insurance

2013-007 Significant Deficiency: Allowance for Duplicate Check Numbers on Accounting System

2013-008 Significant Deficiency: Employee Training on Accounting System

2013-009 Significant Deficiency: Maintenance of Other Local Tax Listings

**TOWN OF GATE CITY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL PROGRAM AUDIT

Current Fiscal Year Findings

None Reported.

Prior Fiscal Year Findings Not Implemented

None Reported.

Prior Fiscal Year Findings Implemented

2013-011 Significant Deficiency: Compliance Review Findings of Community Development Block Grant

2013-012 Significant Deficiency: Debarment Noncompliance with Drinking Water State Revolving Funds Grant

2013-013 Significant Deficiency: Davis-Bacon Noncompliance with Drinking Water State Revolving Funds Grant

2013-014 Material Weakness: Lack of Adequate Controls in Community Development Block Grant and Drinking Water State Revolving Funds Grant