

TOWN OF GATE CITY, VIRGINIA
Financial Statements and Additional Information
Year Ended June 30, 2013

TOWN OF GATE CITY, VIRGINIA
Financial Statements and Additional Information
June 30, 2013

Table of Contents

Financial Section	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements	
Governmental Funds:	
Balance Sheet - Governmental Funds	5
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Net Position - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Net Position - Governmental Funds to Statement of Activities	8
Proprietary Funds	
Statement of Net Position - Proprietary Funds	9
Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Notes to Financial Statements	12
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Net Position (Budget and Actual) - General Fund	27
Schedule of Revenues, Expenditures, and Changes in Fund Net Position (Budget and Actual) - Water Fund	28
Schedule of Revenues, Expenditures, and Changes in Fund Net Position (Budget and Actual) - Sewer Fund	29
Schedule of Funding Progress (Unaudited)	30
Additional Information	
Schedule of Expenditures of Federal Awards	31
Notes to the Schedule of Expenditures of Federal Awards	32
Statistical Section (Unaudited)	
General Government Revenues by Source - Last Ten Fiscal Years	33
General Government Expenditures by Function - Last Ten Fiscal Years	34
Assessed Value of Taxable Property and Property Tax Rates - Last Four Fiscal Years	35
Property Tax Levies and Collections - Last Ten Fiscal Years	36
Ratio of Net General Obligation Debt to Assessed Value and Net Bonded Debt per Capita - Last Four Fiscal Years	37
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 <i>Government Auditing Standards</i>	38
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	40
Schedule of Findings and Questioned Costs	42
Summary Schedule of Prior Year Audit Findings and Responses	48

Independent Auditors' Report

To the Town Council
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, each major fund, and the aggregate remaining fund information of the Town of Gate City, Virginia as of and for the year ended June 30, 2013, 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, each major fund, and the aggregate remaining fund information of the Town of Gate City, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the Town's basic financial statements. Management has elected to not include management's discussion and analysis in the Town's financial report for the year ended June 30, 2013. The budgetary comparison information on pages 27-29 is required to 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 of Gate City, Virginia's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2014, on our consideration of the Town of Gate City, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Gate City, Virginia's internal control over financial reporting and compliance.

Roddefor Moss & Co, PLLC

Kingsport, Tennessee
January 14, 2014

TOWN OF GATE CITY, VIRGINIA
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 186,446	\$ 155,409	\$ 341,855
Certificates of deposit	75,570	146,039	221,609
Accounts receivable, net	559,225	125,942	685,167
Due from other governments	13,675	-	13,675
Prepaid expenses	14,212	7,537	21,749
Capital assets			
Nondepreciable	53,846	59,805	113,651
Depreciable, net	960,910	8,299,557	9,260,467
Total assets	<u>1,863,884</u>	<u>8,794,289</u>	<u>10,658,173</u>
LIABILITIES			
Accounts payable	31,863	29,287	61,150
Accrued liabilities	30,486	3,424	33,910
Compensated absences payable	34,101	25,271	59,372
Accrued interest	2,681	5,035	7,716
Deferred revenues	493,467	-	493,467
Customer deposits	6,531	44,141	50,672
Long-term debt			
Due within one year	50,954	173,481	224,435
Due after one year	<u>261,142</u>	<u>4,113,513</u>	<u>4,374,655</u>
Total liabilities	<u>911,225</u>	<u>4,394,152</u>	<u>5,305,377</u>
NET POSITION			
Net investment in capital assets	702,660	4,072,368	4,775,028
Unrestricted	<u>249,999</u>	<u>327,769</u>	<u>577,768</u>
Total net position	<u>\$ 952,659</u>	<u>\$ 4,400,137</u>	<u>\$ 5,352,796</u>

TOWN OF GATE CITY, VIRGINIA
Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Program Revenues					Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government						
Governmental activities						
General government	\$ 525,252	\$ -	\$ -	\$ -	\$ (525,252)	\$ -
Public safety	424,195	-	64,669	-	(359,526)	-
Public works	496,021	159,071	1,359	-	(335,591)	-
Parks, cultural, and recreation	28,317	3,065	-	-	(25,252)	-
Interest on long-term debt	11,886	-	-	-	(11,886)	-
Total governmental activities	<u>1,485,671</u>	<u>162,136</u>	<u>66,028</u>	<u>-</u>	<u>(1,257,507)</u>	<u>-</u>
Business-type Activities						
Water	658,584	607,319	60,000	-	-	8,735
Sewer	550,888	428,513	-	-	-	(122,375)
Total business-type activities	<u>1,209,472</u>	<u>1,035,832</u>	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>(113,640)</u>
Total primary government	<u>\$ 2,695,143</u>	<u>\$ 1,197,968</u>	<u>\$ 126,028</u>	<u>\$ -</u>		
General Revenues and Transfers						
Property taxes					418,760	-
Other local taxes					409,401	-
Licenses, permits, and fees					123,957	-
Grants and contributions not restricted to specific programs					161,299	-
Unrestricted investment income					16,039	443
Miscellaneous					48,145	4,905
Net fund transfers					(71,917)	71,917
Total general revenues and transfers					<u>1,105,684</u>	<u>77,265</u>
Change in net position					(151,823)	(36,375)
Net position, beginning of year					1,104,482	4,436,512
Net position, end of year					<u>\$ 952,659</u>	<u>\$ 4,400,137</u>
					<u>\$ 5,352,796</u>	

See notes to financial statements.

TOWN OF GATE CITY, VIRGINIA
Balance Sheet - Governmental Fund
June 30, 2013

	<u>General Fund</u>
ASSETS	
Cash	\$ 186,446
Certificates of deposit	75,570
Taxes receivable, net	542,564
Accounts receivable, net	30,336
Prepaid expenses	<u>14,212</u>
Total assets	<u>\$ 849,128</u>
LIABILITIES	
Accounts payable	\$ 31,863
Accrued liabilities	37,017
Accrued interest	2,681
Unearned revenues	<u>505,543</u>
Total liabilities	577,104
NET POSITION	
Unassigned	<u>272,024</u>
Total liabilities and net position	<u>\$ 849,128</u>

TOWN OF GATE CITY, VIRGINIA
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position
June 30, 2013

Total fund net position of governmental funds	\$ 272,024
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,014,756
Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	12,076
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(346,197)</u>
Net position of governmental activities	<u><u>\$ 952,659</u></u>

TOWN OF GATE CITY, VIRGINIA
Statement of Revenues, Expenditures, and Changes in Fund Net Position - Governmental Funds
Year Ended June 30, 2013

	<u>General Fund</u>
Revenues	
General property taxes	\$ 406,213
Other local taxes	409,401
Permits, licenses, and fees	119,476
Fines and forfeitures	36,133
Intergovernmental	227,327
Charges for services	162,136
Revenue from use of money and property	16,039
Miscellaneous	<u>12,013</u>
Total revenues	<u>1,388,738</u>
Expenditures	
Current	
General government	490,654
Public safety	424,847
Public works	589,542
Parks, cultural, and recreation	14,794
Long-term debt service	
Principal retirement	20,869
Interest on long-term debt	<u>11,886</u>
Total expenditures	<u>1,552,592</u>
Excess of expenditures over revenues	<u>(163,854)</u>
Other Financing Sources (Uses)	
Issuance of long-term debt	187,250
Transfers from proprietary funds	51,090
Transfers to proprietary funds	<u>(123,007)</u>
Total other financing sources (uses)	<u>115,333</u>
Change in fund net position	(48,521)
Fund net position, beginning of year	<u>320,545</u>
Fund net position, end of year	<u><u>\$ 272,024</u></u>

TOWN OF GATE CITY, VIRGINIA
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Net Position -
Governmental Funds to Statement of Activities
Year Ended June 30, 2013

Change in fund net position, governmental funds	\$	(48,521)
---	----	----------

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

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 in the current period exceeds depreciation of general fixed assets.

Capital outlays	\$	157,639	
Depreciation		<u>(84,657)</u>	72,982

The increase in compensated absences did not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		(26,930)
--	--	----------

Issuance of long-term debt principal is income in the governmental funds, but the issuance increases long-term liabilities in the statement of net position.		(187,250)
--	--	-----------

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		20,868
--	--	--------

Some revenues not collected as of the year end are not considered available revenues in the governmental fund. This is the change in the amounts that were not considered available in the current year.		3,047
--	--	-------

Some revenues collected as of the year end are considered available revenues in the governmental fund, however they may not be earned. This is the change in the amounts that were available yet unearned in the current year.		<u>13,981</u>
--	--	---------------

Change in net position of governmental activities	\$	<u><u>(151,823)</u></u>
---	----	-------------------------

TOWN OF GATE CITY, VIRGINIA
Statement of Fund Net Position - Proprietary Funds
June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
ASSETS			
Current Assets			
Cash	\$ 64,288	\$ 91,121	\$ 155,409
Certificates of deposit	-	146,039	146,039
Accounts receivable, net	72,182	53,760	125,942
Prepaid expenses	6,701	836	7,537
Total current assets	143,171	291,756	434,927
Noncurrent Assets			
Capital assets			
Nondepreciable	45,046	14,759	59,805
Depreciable, net	6,516,779	1,782,778	8,299,557
Total noncurrent assets	6,561,825	1,797,537	8,359,362
Total assets	6,704,996	2,089,293	8,794,289
LIABILITIES			
Current Liabilities			
Accounts payable	4,117	25,170	29,287
Accrued liabilities	3,424	-	3,424
Accrued interest	4,413	622	5,035
Notes and bonds, due within one year	147,759	25,722	173,481
Total current liabilities	159,713	51,514	211,227
Long-term debt			
Compensated absences payable	25,271	-	25,271
Customer deposits	44,141	-	44,141
Notes and bonds, due after one year	3,452,213	661,300	4,113,513
Total long-term debt	3,521,625	661,300	4,182,925
Total liabilities	3,681,338	712,814	4,394,152
FUND NET POSITION			
Net investment in capital assets	2,961,853	1,110,515	4,072,368
Unrestricted	61,805	265,964	327,769
Total fund net position	\$ 3,023,658	\$ 1,376,479	\$ 4,400,137

TOWN OF GATE CITY, VIRGINIA
Statement of Revenues, Expenditures, and Changes in Fund Net Position - Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
Operating Revenue			
Charges for services	\$ 607,319	\$ 428,513	\$ 1,035,832
Other	4,905	-	4,905
Total operating revenue	612,224	428,513	1,040,737
Operating Expenses			
Salaries and wages	166,821	23,904	190,725
Fringe benefits	51,462	4,560	56,022
Contractual services	6,709	349,200	355,909
Depreciation	199,705	93,101	292,806
Heat, light, and power	28,396	968	29,364
Insurance	19,297	-	19,297
Materials and supplies	53,220	3,183	56,403
Office	15,499	3,760	19,259
Other	19,312	11,359	30,671
Payments to contractors	1,236	12,627	13,863
Repairs and maintenance	21,767	13,131	34,898
Total operating expenses	583,424	515,793	1,099,217
Operating income (loss)	28,800	(87,280)	(58,480)
Nonoperating Revenues (Expenses)			
Grants and subsidies	60,000	-	60,000
Interest income	60	383	443
Interest on long-term debt	(75,160)	(35,095)	(110,255)
Total nonoperating expenses	(15,100)	(34,712)	(49,812)
Net income (loss) before transfers	13,700	(121,992)	(108,292)
Transfers			
Transfers in (out)	(51,090)	123,007	71,917
Net income (loss)	(37,390)	1,015	(36,375)
Fund net position, beginning of year	3,061,048	1,375,464	4,436,512
Fund net position, end of year	\$ 3,023,658	\$ 1,376,479	\$ 4,400,137

TOWN OF GATE CITY, VIRGINIA
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2013

	Business-type Activities		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 618,983	\$ 428,223	\$ 1,047,206
Other operating revenues	4,905	-	4,905
Cash payments to employees for services	(205,428)	(28,464)	(233,892)
Cash payments to suppliers for goods and services	<u>(166,662)</u>	<u>(441,567)</u>	<u>(608,229)</u>
Cash flows from operating activities	<u>251,798</u>	<u>(41,808)</u>	<u>209,990</u>
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	-	123,007	123,007
Transfers to other funds	<u>(51,090)</u>	<u>-</u>	<u>(51,090)</u>
Cash flows from noncapital financing activities	<u>(51,090)</u>	<u>123,007</u>	<u>71,917</u>
Cash Flows from Capital and Related Financing Activities			
Grants and awards for capital projects	764,449	-	764,449
Acquisition and construction of capital assets	(768,440)	(18,277)	(786,717)
Principal paid on capital debt	(120,803)	(27,765)	(148,568)
Interest paid on capital debt	<u>(75,915)</u>	<u>(35,158)</u>	<u>(111,073)</u>
Cash flows from capital and related financing activities	<u>(200,709)</u>	<u>(81,200)</u>	<u>(281,909)</u>
Cash Flows from Investing Activities			
Interest income	<u>60</u>	<u>183</u>	<u>243</u>
Increase in cash	59	182	241
Cash, beginning of year	<u>64,229</u>	<u>90,939</u>	<u>155,168</u>
Cash, end of year	<u>\$ 64,288</u>	<u>\$ 91,121</u>	<u>\$ 155,409</u>
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities			
Operating income (loss)	\$ 28,800	\$ (87,280)	\$ (58,480)
Adjustments to reconcile operating income (loss) to cash flows from operating activities			
Depreciation	199,705	93,101	292,806
Accounts receivable	8,714	(290)	8,424
Prepaid expenses	(4,737)	-	(4,737)
Accounts payable	3,510	(47,339)	(43,829)
Accrued liabilities	1,230	-	1,230
Compensated absences payable	11,626	-	11,626
Customer deposits	<u>2,950</u>	<u>-</u>	<u>2,950</u>
Cash flows from operating activities	<u>\$ 251,798</u>	<u>\$ (41,808)</u>	<u>\$ 209,990</u>

See notes to financial statements.

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements
Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Town of Gate City, Virginia (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

Financial Reporting Entity - The Town is a municipal corporation governed by an elected five-member Council and an elected Mayor. The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. It has the usual corporate powers of municipalities including taxation, entering into contracts, and issuing bonds.

Blended component units, although legally separate entities, are, in substance, part of the Town's operations. The Town has determined that the Gate City Sanitation Authority ("Authority") is a component unit of the Town and has treated the entity as a blended component unit. The Authority is included in the business-type activities and is listed as the sewer fund, which is a proprietary fund type.

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

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

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

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

Sales taxes, meals taxes, utilities taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide financial statements' governmental column, reconciliations are presented that briefly explain the adjustments necessary to reconcile ending net position and the change in net position.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

The following fund types are used by the Town:

General Fund - The General fund is the primary operating fund. It is established to account for resources devoted to financing the general services of the Town for its citizens. General tax revenues and other sources of revenue used in the operation of the Town are included in this fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Property tax revenues are recognized in the fiscal year levied. Expenditures are recognized when the related fund liability is incurred.

Proprietary Funds - The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those of businesses in the private sector. The following is a description of the proprietary fund of the Town:

Enterprise Funds - *Water and Sewer Funds* are enterprise funds that account for activities related to a water distribution and sewer treatments system. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *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 proprietary funds are charges to customers for sales and services. The Water and Sewer system also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition / Receivables - The Town's revenue recognition policy is as follows:

Property taxes - Property is assessed at its value on January 1. Property taxes attach as an enforceable lien 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 sixty days after year end. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting taxes.

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

Transactions among Town funds that would be treated as revenues and expenditures or expenses if they involved organizations external to the Town government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements. Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Noncurrent portions of long-term inter-fund loan receivables are reported as advances within the governmental funds, and are offset equally by a fund net position reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Capital Assets - Capital assets, including public domain infrastructure (eg. Roads, bridges, sidewalks and culverts) are reported in applicable governmental or business types activities column in the government wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost. Any donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend its life are not capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets.

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

<u>Asset class</u>	<u>Years</u>
Buildings	50
Building improvements	25
Infrastructure	20-50
Water and sewer	25
Machinery and equipment	5-10
Vehicles	5-10

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of Governmental Accounting Standards Board Codification Section C60, Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive benefits. The Town accrues salary related costs associated with the payment of compensated absences.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance Items - The Town has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Nonspendable items - This category includes funds that can not be spent due to their form (e.g., inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted items - This category includes funds that are mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation.

Committed items - This category includes funds that are set aside for a specific purpose by the Town's highest level of decision making authority. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on funds.

Assigned items - This category includes funds that are set aside with the intent to be used for a specific purpose by the Town's highest level of decision making authority or a body or official that has been given authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned items - This category includes excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides all resources necessary to meet unexpected expenditures and revenue shortfalls.

When both restricted and unrestricted fund balances are available for use, it is the Town's policy to use restricted fund balance first, then use unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

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

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements - GASB Statement 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Management implemented Statement 61 in the current year as required. The adoption of GASB 61 did not have any impact on the Town's financial statements.

GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in GASB and AICPA pronouncements issued on or before November 30, 1989, which did not conflict with or contradict GASB pronouncements. Management implemented Statement 62 in the current year as required. Because the Town was already following the FASB and AICPA pronouncements codified with this GASB, the adoption of GASB 62 did not have any impact on the Town's financial statements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation and their effects on a government's net position. Management implemented Statement 63 in the current year as required. The adoption of GASB 63 required mainly changes in titles for the Town as it had no deferred inflows or outflows as of June 30, 2013.

Date of Managements Review - Management of the Town has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2013 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 14, 2014, the date these financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

Prior to the June meeting the Town Manager and Treasurer submit to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budgets include proposed expenditures and the means of financing them.

Public hearings are conducted to obtain citizen comments.

Prior to June 30, the budget is legally adopted.

The Town Council places legal restrictions on expenditures at the department level or category level. Only the Town Council can revise the appropriation for each department or category. The Town Council is authorized to transfer budgeted amounts within general government departments.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds.

All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Appropriations lapse on June 30, for all Town units except for the Capital Project Funds, which carry, unexpended balances into the following year on a continuing appropriation basis.

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 3 - CASH AND INVESTMENTS

Cash - All cash of the primary government is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

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).

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013 for the Town's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water Fund	Sewer Fund	Totals
Property taxes	\$ 516,129	\$ -	\$ -	\$ 516,129
Utility taxes	7,792	-	-	7,792
Local taxes	24,963	-	-	24,963
Accounts	<u>24,433</u>	<u>120,129</u>	<u>82,583</u>	<u>227,145</u>
Gross receivables	573,317	120,129	82,583	776,029
Less allowance for uncollectible accounts	<u>14,092</u>	<u>47,947</u>	<u>28,823</u>	<u>90,862</u>
Net receivables	<u>\$ 559,225</u>	<u>\$ 72,182</u>	<u>\$ 53,760</u>	<u>\$ 685,167</u>

Governmental funds report deferred revenue 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 revenue and unearned revenue reported in the General Fund were as follows:

Type of Revenue	(Available) Unavailable	Unearned	Total
Property taxes - 2013	\$ -	\$ 383,643	\$ 383,643
Public Service Corp Taxes - 2013	-	28,534	28,534
Delinquent property taxes receivable	93,366	-	93,366
Business licenses received	<u>(81,290)</u>	<u>81,290</u>	<u>-</u>
	<u>\$ 12,076</u>		
Government-wide deferred revenues		<u>\$ 493,467</u>	
General fund deferred revenues			<u>\$ 505,543</u>

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS

At June 30, 2013, amounts due from other governmental units consisted of the following:

	<u>General Fund</u>
Commonwealth of Virginia	\$ 7,691
Scott County, Virginia	<u>5,984</u>
Total	<u>\$ 13,675</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2013 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Nondepreciable assets				
Land	<u>\$ 53,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,846</u>
Depreciable assets				
Construction in progress	\$ 14,685	\$ -	\$ 14,685	\$ -
Buildings and improvements	527,962	-	-	527,962
Infrastructure	517,505	14,685	-	532,190
Machinery and equipment	194,486	-	-	194,486
Vehicles	<u>325,974</u>	<u>157,640</u>	<u>-</u>	<u>483,614</u>
Total depreciable assets	<u>1,580,612</u>	<u>172,325</u>	<u>14,685</u>	<u>1,738,252</u>
Less accumulated depreciation				
Buildings and improvements	224,520	17,466	-	241,986
Infrastructure	24,375	11,500	-	35,875
Machinery and equipment	168,187	4,258	-	172,445
Vehicles	<u>275,603</u>	<u>51,433</u>	<u>-</u>	<u>327,036</u>
Total accumulated depreciation	<u>692,685</u>	<u>84,657</u>	<u>-</u>	<u>777,342</u>
Total depreciable assets, net	<u>\$ 887,927</u>	<u>\$ 87,668</u>	<u>\$ 14,685</u>	<u>\$ 960,910</u>

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 6 - CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Nondepreciable assets				
Land	<u>\$ 59,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,805</u>
Depreciable assets				
Construction in progress	\$ 535,367	\$ 768,441	\$ 1,303,808	\$ -
Buildings and improvements	401	-	-	401
Infrastructure	13,135,618	1,303,808	-	14,439,426
Machinery and equipment	137,606	-	-	137,606
Vehicles	<u>57,716</u>	<u>18,276</u>	<u>-</u>	<u>75,992</u>
Total depreciable assets	<u>13,866,708</u>	<u>2,090,525</u>	<u>1,303,808</u>	<u>14,653,425</u>
Less accumulated depreciation				
Buildings and improvements	237	27	-	264
Infrastructure	5,922,383	281,931	-	6,204,314
Machinery and equipment	85,655	3,556	-	89,211
Vehicles	<u>52,787</u>	<u>7,292</u>	<u>-</u>	<u>60,079</u>
Total accumulated depreciation	<u>6,061,062</u>	<u>292,806</u>	<u>-</u>	<u>6,353,868</u>
Total depreciable assets, net	<u>\$ 7,805,646</u>	<u>\$ 1,797,719</u>	<u>\$ 1,303,808</u>	<u>\$ 8,299,557</u>

Depreciation was charged to function/programs as follows:

Governmental activities:	
General government	\$ 7,668
Public safety	25,228
Public works	38,238
Parks, recreation, and community	<u>13,523</u>
Total depreciation - governmental activities	<u>\$ 84,657</u>
Business-type activities:	
Water	\$ 199,705
Sewer	<u>93,101</u>
Total depreciation - business-type activities	<u>\$ 292,806</u>

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 7 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2013. In accordance with NCGA Statement 4 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences," the Town has accrued the liability arising from outstanding claims and judgments and compensated absences.

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Governmental activities					
Notes payable	\$ 145,714	\$ -	\$ 138,437	\$ 7,277	\$ 7,277
General obligation bonds	-	304,819	-	304,819	43,677
Other liabilities:					
Compensated absences	<u>7,171</u>	<u>26,930</u>	<u>-</u>	<u>34,101</u>	<u>-</u>
Total for governmental activities	<u>\$ 152,885</u>	<u>\$ 331,749</u>	<u>\$ 138,437</u>	<u>\$ 346,197</u>	<u>\$ 50,954</u>
	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Business-type activities					
Water fund					
General obligation bonds	\$ 1,602,246	\$ 764,449	\$ 115,439	\$ 2,251,256	\$ 79,190
Revenue bonds	1,414,080	-	65,364	1,348,716	68,569
Other liabilities					
Compensated absences	13,645	11,626	-	25,271	-
Customer deposits	<u>41,191</u>	<u>2,950</u>	<u>-</u>	<u>44,141</u>	<u>-</u>
Total water fund debt	<u>3,071,162</u>	<u>779,025</u>	<u>180,803</u>	<u>3,669,384</u>	<u>147,759</u>
Sewer fund					
Revenue bonds	<u>711,396</u>	<u>-</u>	<u>24,374</u>	<u>687,022</u>	<u>25,722</u>
Total for business activities	<u>\$ 3,782,558</u>	<u>\$ 779,025</u>	<u>\$ 205,177</u>	<u>\$ 4,356,406</u>	<u>\$ 173,481</u>

Note Payable

The Town has given a note payable to a commercial bank to purchase capital assets used for governmental activities. Information about the note payable, including the amount owed as of June 30, 2013, is as follows:

	Interest rates	Note date	Maturity date	Note amount	Governmental activities
General fund					
New Peoples Bank (Accufund)	4.75%	04/17/09	04/17/14	\$ 40,075	<u>\$ 7,277</u>

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds Payable

Amounts presented in the general fund 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.

Amounts 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 them. Some of these bonds are revenue bonds because they 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 and this makes them revenue bonds.

Amounts borrowed by the Authority 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. These bonds are revenue bonds.

Information about the Town's bonded indebtedness as of June 30, 2013 is as follows:

	Interest rates	Issue date	Maturity date	Issue amount	Amount outstanding
General					
General obligation bonds					
Bank of Marion, Series 2012	2.99%	08/30/12	08/01/17	\$ 187,250	\$ 187,250
Branch Banking and Trust, Series 2013	2.59%	10/17/13	10/17/23	150,000	<u>117,569</u>
Total general					<u>\$ 304,819</u>

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

	Interest rates	Issue date	Maturity date	Issue amount	Amount outstanding
Business-type activities					
Water					
General obligation bonds					
Virginia Resources Authority (WSL-03-04)	0.00%	12/17/04	05/01/35	\$ 266,562	\$ 195,352
Virginia Resources Authority (WSL-12-05)	0.00%	02/28/06	03/01/37	1,005,362	803,593
Virginia Resources Authority (WSL-13-09)	0.00%	06/14/12	11/01/42	784,550	771,474
Virginia Resources Authority (WSL-22-10)	3.00%	06/14/12	11/01/42	480,837	480,837
Revenue bonds					
FHA Water Bond, Series of 1984	5.00%	07/23/84	07/23/24	1,636,000	805,622
RDA Water Bond, Series of 1996	4.50%	10/23/96	10/23/36	181,000	142,999
RDA Water Bond, Series of 2003	4.50%	01/08/03	01/08/43	470,000	400,095
Total water					<u>\$ 3,599,972</u>

	Interest rates	Issue date	Maturity date	Issue amount	Amount outstanding
Gate City Sanitation Authority (sewer)					
Revenue bonds					
FHA Sewer System, Series 1990A	5.00%	08/21/90	08/21/30	\$ 446,000	\$ 296,174
FHA Sewer System, Series 1990B	5.00%	08/21/90	08/21/30	105,500	49,516
FHA Sewer System, Series 1993	5.00%	07/26/93	07/26/33	466,000	341,332
Total sewer					<u>\$ 687,022</u>

The annual aggregate maturities for bonds payable for the years subsequent to June 30, 2013 are as follows:

Year(s)	General Fund		Water		Gate City Sanitation Authority (sewer)	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 43,677	\$ 8,792	\$ 147,759	\$ 77,227	\$ 25,722	\$ 33,762
2015	49,801	7,610	151,530	73,455	27,038	32,446
2016	51,264	6,148	155,485	69,502	28,421	31,063
2017-2020	137,363	11,578	665,481	234,461	128,990	108,946
2021-2025	56,955	2,804	832,511	180,961	190,908	95,862
2026-2030	-	-	528,299	114,648	216,346	45,459
2031-2035	-	-	567,530	75,300	69,597	5,012
2036-2040	-	-	426,451	30,805	-	-
2041-2043	-	-	124,926	1,287	-	-
Total	<u>\$ 339,060</u>	<u>\$ 36,932</u>	<u>\$ 3,599,972</u>	<u>\$ 857,646</u>	<u>\$ 687,022</u>	<u>\$ 352,550</u>

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 7 - LONG-TERM DEBT (Continued)

Accrued Compensated Absences

Each employee is entitled to one week (5 working days) of paid vacation after the first year of full-time employment. After two years of full-time employment, an employee is entitled to two weeks (10 working days) of paid vacation. An additional day of paid vacation will be earned each year of employment after five years, until a maximum of twenty days vacation is accrued per year. No employee is entitled to more than twenty days of vacation per year unless prior approval of the Council has been granted.

NOTE 8 - RISK MANGEMENT

The Town is a member of the Virginia Municipal League Insurance Program (VML) 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 cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the League may assess all members an amount based upon the premium of each member in proportion to the total premiums of all members in the year in which such deficits occur.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy - Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, the employers were required to begin making the employee pay the 5% 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 of Gate City, Virginia 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 of Gate City, Virginia's contribution rate for the fiscal year ended June 30, 2013, was 8.74% of the annual covered payroll.

Annual Pension Cost - For the fiscal year ending June 30, 2013, the Town of Gate City, Virginia's annual pension cost of \$49,487 for VRS was equal to the required and actual contributions.

Three Year Trend Information for Town of Gate City, Virginia			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2013	\$ 49,487	100.00%	\$ -
6/30/2012	\$ 26,367	100.00%	\$ -
6/30/2011	\$ 28,255	100.00%	\$ -

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 9 - DEFINED BENEFIT PENSION PLAN (Continued)

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 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 of Gate City, Virginia'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 of Gate City, Virginia's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Funded Status and Funding Progress - As of June 30, 2012, the most recent actuarial valuation date, the plan was 85.46% funded. The actuarial accrued liability for benefits was \$1,331,979, and the actuarial value of assets was \$1,138,277, resulting in an unfunded actuarial accrued liability (UAAL) of \$193,702. The covered payroll (annual payroll of active employees covered by the plan) was \$549,729, and the ratio of the UAAL to the covered payroll was 35.24%.

The schedule of funding progress, presented as required supplementary 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.

NOTE 10 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013 consisted of the following:

	<u>Transfers in</u>	<u>Transfers out</u>
Primary government		
General fund	\$ -	\$ 71,917
Water fund	-	51,090
Sewer fund	<u>123,007</u>	<u>-</u>
Total transfers	<u>\$ 123,007</u>	<u>\$ 123,007</u>

Transfers are used to use restricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

TOWN OF GATE CITY, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 11 - CONTINGENCIES (INCLUDING FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS)

On September 10, 2001, the Gate City Sanitation Authority (GCSA) signed a sewer service agreement with Scott County Public Service Authority (SCPSA). The SCPSA plans to upgrade its existing plant to a level that will allow them to treat the wastewater from GCSA. The GCSA will pay a monthly user charge to the SCPSA based upon the recorded flow of wastewater from the GCSA service area. The monthly user charge will be based upon a predetermined formula and will be updated on an annual basis. The term of the agreement is for forty (40) years.

The GCSA and the SCPSA have agreed that revenues from the treatment of sewage are pledged to 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 participates in a number of federal and state programs that are fully or partially funded by grants from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town may be required to reimburse the grantor government.

As of June 30, 2013, significant amounts of grant expenditures have not been audited by the granting agency, but the Town believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the Town. Additionally, deferred revenues are recognized in those funds that have received grant monies in advance of future, reimbursable expenditures.

Required Supplementary Information

TOWN OF GATE CITY, VIRGINIA
Statement of Revenues, Expenditures, and Changes in Fund Net Position (Budget and Actual) - General Fund
Year Ended June 30, 2013

	Budget	Actual	Variance from Final Budget
Revenues			
General property taxes	\$ 461,262	\$ 406,213	\$ (55,049)
Other local taxes	475,100	409,401	(65,699)
Permits, licenses, and fees	152,460	119,476	(32,984)
Fines and forfeitures	23,500	36,133	12,633
Intergovernmental	488,355	227,327	(261,028)
Charges for services	155,160	162,136	6,976
Unrestricted investment income	16,796	16,039	(757)
Miscellaneous	<u>36,000</u>	<u>199,263</u>	<u>163,263</u>
Total revenues	<u>1,808,633</u>	<u>1,575,988</u>	<u>(232,645)</u>
Expenditures			
Current			
General government	417,578	490,654	73,076
Public safety	383,617	398,967	15,350
Public works	903,151	457,783	(445,368)
Parks, cultural, and recreation	10,300	14,794	4,494
Long-term debt service			
Principal retirement	51,437	20,869	(30,568)
Interest on long-term debt	50	11,886	11,836
Capital outlay	<u>42,500</u>	<u>157,639</u>	<u>115,139</u>
Total expenditures	<u>1,808,633</u>	<u>1,552,592</u>	<u>(256,041)</u>
Excess of revenues over expenditures	<u>-</u>	<u>23,396</u>	<u>23,396</u>
Other Financing Sources (Uses)			
Net transfers	<u>-</u>	<u>(71,917)</u>	<u>(71,917)</u>
Change in fund net position	<u>\$ -</u>	<u>(48,521)</u>	<u>\$ (48,521)</u>
Fund net position, beginning of year		<u>320,545</u>	
Fund net position, end of year		<u>\$ 272,024</u>	

TOWN OF GATE CITY, VIRGINIA
Schedule of Revenues, Expenditures, and Changes in Fund Net Position (Budget and Actual) - Water Fund
Year Ended June 30, 2013

	Budget	Actual	Variance from Final Budget
Operating Revenue			
Charges for services	\$ 756,141	\$ 607,319	\$ (148,822)
Other	<u>5,000</u>	<u>4,905</u>	<u>(95)</u>
Total operating revenue	<u>761,141</u>	<u>612,224</u>	<u>(148,917)</u>
Operating Expenses			
Salaries and wages	168,562	166,821	(1,741)
Fringe benefits	59,770	51,462	(8,308)
Contractual services	7,700	6,709	(991)
Depreciation	-	199,705	199,705
Heat, light, and power	32,000	28,396	(3,604)
Insurance	27,230	19,297	(7,933)
Materials and supplies	74,796	53,220	(21,576)
Office	16,060	15,499	(561)
Other	14,685	19,312	4,627
Payments to contractors	1,450	1,236	(214)
Repairs and maintenance	<u>200,577</u>	<u>21,767</u>	<u>(178,810)</u>
Total operating expenses	<u>602,830</u>	<u>583,424</u>	<u>(19,406)</u>
Operating income	<u>158,311</u>	<u>28,800</u>	<u>(129,511)</u>
Nonoperating Revenues (Expenses)			
Grants and subsidies	(50,000)	60,000	110,000
Interest income	200	60	(140)
Interest on long-term debt	<u>-</u>	<u>(75,160)</u>	<u>(75,160)</u>
Total nonoperating revenues (expenses)	<u>(49,800)</u>	<u>(15,100)</u>	<u>34,700</u>
Net income before transfers	108,511	13,700	(94,811)
Transfers			
Transfers out	<u>(108,511)</u>	<u>(51,090)</u>	<u>57,421</u>
Net income (loss)	<u>\$ -</u>	<u>(37,390)</u>	<u>\$ (37,390)</u>
Fund net position, beginning of year		<u>3,061,048</u>	
Fund net position, end of year		<u>\$ 3,023,658</u>	

See accountants' report.

TOWN OF GATE CITY, VIRGINIA
Schedule of Revenues, Expenditures, and Changes in Fund Net Position (Budget and Actual) - Sewer Fund
Year Ended June 30, 2013

	Budget	Actual	Variance from Final Budget
Operating Revenue			
Charges for services	\$ 542,017	\$ 428,513	\$ (113,504)
Other	100	-	(100)
Total operating revenue	<u>542,117</u>	<u>428,513</u>	<u>(113,604)</u>
Operating Expenses			
Salaries and wages	23,064	23,904	840
Fringe benefits	4,192	4,560	368
Contractual services	352,101	349,200	(2,901)
Depreciation	65,265	93,101	27,836
Heat, light, and power	800	968	168
Insurance	-	-	-
Materials and supplies	2,250	3,183	933
Office	6,144	3,760	(2,384)
Other	12,651	11,359	(1,292)
Payments to contractors	13,400	12,627	(773)
Repairs and maintenance	<u>24,750</u>	<u>13,131</u>	<u>(11,619)</u>
Total operating expenses	<u>504,617</u>	<u>515,793</u>	<u>11,176</u>
Operating income (loss)	<u>37,500</u>	<u>(87,280)</u>	<u>(124,780)</u>
Nonoperating Revenues (Expenses)			
Grants and subsidies	-	-	-
Interest income	500	383	(117)
Interest on long-term debt	<u>(38,000)</u>	<u>(35,095)</u>	<u>2,905</u>
Total nonoperating revenues (expenses)	<u>(37,500)</u>	<u>(34,712)</u>	<u>2,788</u>
Net income (loss) before transfers	-	(121,992)	(121,992)
Transfers			
Transfers in	<u>-</u>	<u>123,007</u>	<u>123,007</u>
Net income	<u>\$ -</u>	<u>1,015</u>	<u>\$ 1,015</u>
Fund net position, beginning of year		<u>1,375,464</u>	
Fund net position, end of year		<u>\$ 1,376,479</u>	

TOWN OF GATE CITY, VIRGINIA
Schedule of Funding Progress (Unaudited)
June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2012	\$ 1,138,277	\$ 1,331,979	\$ 193,702	85.46%	\$ 549,729	35.24%
6/30/2011	1,111,622	1,372,800	261,178	80.97%	575,569	45.38%
6/30/2010	1,072,810	1,204,919	132,109	89.04%	482,231	27.40%

Additional Information

THE TOWN OF GATE CITY, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Award Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE (Passed-Through Commonwealth of Virginia Department of Justice) Edward Byrne Memorial Justice Assistance Grant Program	16.738	12-N1038LO11	\$ 3,159
U.S. DEPARTMENT OF TRANSPORTATION (Passed-Through Commonwealth of Virginia Department of Transportation) State and Community Highway Safety	20.600		9,004
U.S. ENVIRONMENTAL PROTECTION AGENCY (Passed-Through Commonwealth of Virginia Department of Health) Capitalization Grants for Drinking Water State Revolving Funds	66.468	WSL 13-09	379,546
Capitalization Grants for Drinking Water State Revolving Funds	66.468	WSL 22-10	176,969
Total U.S. Environmental Protection Agency			556,515
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Passed-Through Commonwealth of Virginia Department of Human Services) Community Development Block Grants/ State's Program	14.228	CIG #08-21	159,299
TOTAL FEDERAL PROGRAMS			\$ 727,977

See independent auditors' report.

See notes to schedule of expenditures of federal awards.

TOWN OF GATE CITY, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards of the Town is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - BOND FUNDS

The Town of Gate City, Virginia has two outstanding bond payables to Virginia Resources Authority under the Water Supply Revolving Fund from the Virginia Department of Health Office of Drinking Water, as a pass through agency for the Environmental Protection Agency (CFDA 66.468). The bonds are funded by both federal funds and state appropriations. A reconciliation of the bond funding is provided below:

WSL 13-09	Federal	State	Total
FY 2012	\$ 240,248	\$ 63,864	\$ 304,112
FY 2013	<u>379,546</u>	<u>100,892</u>	<u>480,438</u>
	<u>\$ 619,794</u>	<u>\$ 164,756</u>	<u>\$ 784,550</u>
 WSL 22-10	 Federal	 State	 Total
FY 2012	\$ 202,892	\$ 53,934	\$ 256,826
FY 2013	<u>176,969</u>	<u>47,042</u>	<u>224,011</u>
	<u>\$ 379,861</u>	<u>\$ 100,976</u>	<u>\$ 480,837</u>
 Totals	 Federal	 State	 Total
FY 2012	\$ 443,140	\$ 117,798	\$ 560,938
FY 2013	<u>556,515</u>	<u>147,934</u>	<u>704,449</u>
	<u>\$ 999,655</u>	<u>\$ 265,732</u>	<u>\$ 1,265,387</u>

Information about the Town's bonded indebtedness as of June 30, 2013 in relation to the federally funded bonds is as follows:

	<u>Interest rates</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Issue amount</u>	<u>Amount outstanding</u>
Water Bonds Federally Funded (In part)					
General obligation bonds					
Virginia Resources Authority (WSL-13-09)	0.00%	06/14/12	11/01/42	\$ 784,550	\$ 771,474
Virginia Resources Authority (WSL-22-10)	3.00%	06/14/12	11/01/42	480,837	<u>480,837</u>
Total water bonds federally funded					<u>\$ 1,252,311</u>

Statistical Section (Unaudited)

TOWN OF GATE CITY, VIRGINIA
General Government Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Licenses, and Fees (1)	Fines and Forfeitures	Charges for Services	Miscellaneous	Revenue from		Inter- Governmental	Total
							Use of Property and Money			
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
2004	190,516	483,560	1,281	16,275	50,044	23,425	21,778		103,558	890,437

Source: Town of Gate City Finance Department

(1) In the years prior to 2009, business license revenues were included in other local taxes.

TOWN OF GATE CITY, VIRGINIA
General Government Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works	Parks, Cultural, and Recreation	Community Development	Nondepartmental	Debt Service	Total
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
2004	409,956	227,375	327,728	-	5,508	-	52,549	1,023,116

Source: Town of Gate City Finance Department

TOWN OF GATE CITY, VIRGINIA
Assessed Value of Taxable Property and Property Tax Rates
Last Four Fiscal Years

Assessed Value of Taxable Property

Fiscal Year	Tax Year	Real Estate	Personal Property	Mobile Homes	Public Utility	Total
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
2010	2009	95,179,200	-	-	5,271,221	100,450,421

Property Tax Rates

Fiscal Year	Tax Year	Real Estate	Personal Property	Mobile Homes	Public Utility
2013	2012	\$ 0.330	\$ -	\$ -	\$ 0.330
2012	2011	0.330	-	-	0.330
2011	2010	0.330	-	-	0.330
2010	2009	0.330	-	-	0.330

Source: Town of Gate City Finance Department

TOWN OF GATE CITY, VIRGINIA
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Tax Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax		Total Tax Collections	Percent of Total Tax Collections of		Outstanding Delinquent Taxes (1)		Percent of Delinquent Taxes to Levy
					Collections (1)(2)			Tax Levy				
2013	2012	\$ 382,494	\$ 356,268	93.14%	\$ 0	\$ 0	356,268	93.14%	\$ 26,226		6.86%	
2012	2011	378,972	322,729	85.16%	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	93.22%	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		1.08%	
2008	2007	309,400	297,265	96.08%	9,612		306,877	99.18%	2,523		0.82%	
2007	2006	261,814	243,912	93.16%	15,842		259,754	99.21%	2,060		0.79%	
2006	2005	260,611	239,096	91.74%	19,779		258,875	99.33%	1,736		0.67%	
2005	2004	254,501	248,873	97.79%	4,096		252,969	99.40%	1,532		0.60%	
2004	2003	188,746	185,796	98.44%	2,067		187,863	99.53%	883		0.47%	

Notes:

- (1) Exclusive of penalties and interest
- (2) Does not include land redemptions

Source: Town of Gate City Finance Department

TOWN OF GATE CITY, VIRGINIA
Ratio of Net General Obligation Debt to Assessed Value and Net
Bonded Debt Per Capita
Last Four Fiscal Years

Fiscal Year	Tax Year	Population (1)	Assessed Value	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Net Bonded Debt Value Per Capita	
2013	2012	2043	\$ 115,907,400	\$ 4,591,813	3.96%	\$ 2,248
2012	2011	2043	114,840,100	3,727,723	3.25%	1,825
2011	2010	2043	114,994,300	3,377,828	2.94%	1,653
2010	2009	2034	95,179,200	3,575,092	3.76%	1,758

Note:

(1) U.S. Census Bureau (for census years) and Cooper Center (for non-census years)

Source: Town of Gate City Finance Department

Compliance Section

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

To the Town Council
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 the general fund of the Town of Gate City, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as Items 13-01, 13-03, 13-04, 13-05, 13-06, and 13-14.

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 as Items 13-02, 13-07, 13-08, and 13-09.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Gate City, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 13-10, 13-11, 13-12, 13-13, and 13-14.

Town of Gate City, Virginia's Response to Findings

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

Purpose of this Report

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

Roddefor Moss & Co, PLLC

Kingsport, Tennessee
January 14, 2014



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

To the Town Council
Town of Gate City, Virginia

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Basis for Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468

As described in the accompanying schedule of findings and questioned costs, the Town of Gate City, Virginia did not comply with requirements regarding Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468 as described in finding numbers 13-12 and 13-13 for Procurement and Suspension and Debarment and Davis Bacon Act. Compliance with such requirements is necessary, in our opinion, for the Town of Gate City, Virginia to comply with the requirements applicable to that program.

Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Town of Gate City, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468 for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 13-14.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 13-14 to be a material weakness.

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.

The Town of Gate City, Virginia's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Gate City, Virginia's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Roderick Moss & Co, PLLC

Kingsport, Tennessee
January 14, 2014

TOWN OF GATE CITY, VIRGINIA
Schedule of Findings and Questioned Costs

Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of The Town of Gate City, Virginia.
2. Four significant deficiencies disclosed during the audit of the financial statements are reporting in the 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*. Five material weaknesses were also reported.
3. Five instances of material noncompliance to the financial statements of the Town of Gate City, Virginia, were discovered during the audit. Three of which specifically related to the major federal award program.
4. One material weakness relating to the audit of the major federal award program is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the Capitalization Grants for Drinking Water State Revolving Funds expresses a qualified opinion.
6. Three audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as major programs was Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468.
8. The threshold for distinguishing between Type A and B programs was \$171,462.
9. The Town of Gate City, Virginia did not qualify as a low-risk auditee.

Findings - Financial Statement Audit

Item 13-01 Material Weakness

Condition: Auditee relies upon auditor to prepare the required financial statement footnote disclosures.

Auditors' Recommendation: Management should obtain appropriate training in order to prepare their financial statements, or consider contracting with a third-party to perform this service.

Management's Response: We agree, however, at this time we are not ready to bear that financial burden. We will continue to evaluate the possibility of retaining third-party services.

Item 13-02 Significant Deficiency

Condition: There is currently a general lack of documented policies and procedures related to accounting and reporting. As a result, there are instances of improper accounting entries recorded that require subsequent correcting journal entries. The Town is currently relying on reviews by an outside consultant to analyze year-end trial balances and make corrections before performing final closes and preparing financial statements. This process appears to generally be identifying most errors; however, a better process would be the correct recording of entries initially and prior to review by supervisors or consultants. Heavy reliance on this review process could result in some errors not being detected and corrected on a timely basis.

Auditors' Recommendation: Ensure that documented policies and procedures cover all aspects of the Town's financial operations, including both manual and IT-driven procedures. In addition, ensure that training is provided to all appropriate accounting and departmental personnel.

Management's Response: We agree and will implement the recommended change to our processes.

Item 13-03 Material Weakness

Condition: The Town lacks segregation of duties in the accounting department, particularly in the areas of account classification and the preparation of the financial statements.

TOWN OF GATE CITY, VIRGINIA
Schedule of Findings and Questioned Costs (Continued)

Findings - Financial Statement Audit (Continued)

Item 13-03 Material Weakness (Continued)

Auditors' Recommendation: The Town should provide training to the town manager or members of the council so that the treasurer is not the individual charged with coding transactions, as well as reviewing the financial information.

Management's Response: We agree and will implement the recommended change to our processes.

Item 13-04 Material Weakness

Condition: The Town failed to adjust accrued group health insurance liability. The group health insurance is accrued by the Town's accounting system with each payroll (26 for the year), however, the rate used to accrue insurance is based on 24 payroll periods. This resulted in a material overstatement of current year insurance expense.

Auditors' Recommendation: The Town needs to review the rates used and ensure that they agree to the actual payroll periods. Monthly, the amount paid needs to be reconciled to the amount accrued with any reconciling item being investigated and adjusted as necessary.

Management's Response: We agree and will implement the recommended change to our processes.

Item 13-05 Material Weakness

Condition: Compensated absences accrued were materially understated. In the current year, the Town changed their policies regarding compensated absences from a system which included sick and vacation time to a system which has only a general paid time off allowance. When the conversion was made, employees were allowed to roll forward any unused time from the prior system. The carried forward time was not included in the current year calculation of accrued compensated absences.

Auditors' Recommendation: Carefully review any policy changes made for possible effects on the related accounting so that errors such as this can be avoided in the future.

Management's Response: We agree and will implement the recommended change to our processes.

Item 13-06 Material Weakness

Condition: Liability insurance expense was materially overstated. The liability insurance for the first quarter of the 2014 fiscal year was paid in June of 2013 and charged to expense.

Auditors' Recommendation: When expenses are paid in advance they need to be posted to a prepaid account. A corresponding journal entry needs to be recorded as of the date the expense is incurred to reduce the prepaid amount and record the expense in the proper period.

Management's Response: We agree and will implement the recommended change to our processes.

Item 13-07 Significant Deficiency

Condition: The accounting system allows for duplicate check numbers.

Auditors' Recommendation: Additional procedures should be put into place to ensure that although the system will allow for duplicate numbers, manual processes will not allow such duplication to result in fraud. One such procedure would be to review the prior check run to determine the last check number used each time a new check run is to occur.

Management's Response: We agree and will implement the recommended change to our processes.

TOWN OF GATE CITY, VIRGINIA
Schedule of Findings and Questioned Costs (Continued)

Findings - Financial Statement Audit (Continued)

Item 13-08 Significant Deficiency

Condition: The Town implemented a new accounting system in the spring of 2009. All of the employees in the Town's finance department have been hired since the new accounting system was placed in service and none of them have received formal training in how to use and manage this new accounting system. This is a deficiency in the structure and operation of the accounting system.

Auditor's Recommendation: Governmental accounting is considerably more involved than the accounting policies and procedures used by most commercial enterprises. The Town treasurer and the Town clerk need formal training in the use of this accounting system.

Management's Response: We agree, however, at this time we are not ready to bear that financial burden. We will continue to evaluate the possibility of providing additional training to our employees.

Item 13-09 Significant Deficiency

Condition: The Town does not have a system in place to identify when taxes (other than property) are not timely remitted. Although the failure to have such a system did not result in a material misstatement in the current year, it has the potential to result in significant misstatements.

Auditor's Recommendation: We understand that Town does not know the amount to be received until it is remitted and thus cannot record an accurate receivable. It is not necessary to know the exact remittance amount to develop an adequate tracking system. One possible method of identifying delinquent payments could be to prepare a schedule of taxes (other than property) by type and taxpayer. Then, charge an employee with the responsibility of checking off when they have been remitted and following up with any taxpayers who have not submitted their payment by the applicable due date.

Management's Response: We agree and will implement the recommended changes to our processes.

Item 13-10 Noncompliance

Condition: The Town failed to set the sewer rates at a sufficient level to support the expenses and debt service of the sewer fund which is a violation of a bond covenant related to indebtedness to the Rural Development Authority. This is a matter of noncompliance with the requirements related to a bond covenant.

Auditors' Recommendation: Sewer rates should be reevaluated to determine the amounts necessary to support the expenses and debt service of the sewer fund.

Management's Response: We agree. Sewer rates were raised this year.

Item 13-11 Noncompliance

Conditions: During the year, the Virginia Department of Housing and Community Development (DHCD) conducted a compliance review of the Town's Community Development Block Grant (CDBG) project. They reported several significant findings which are listed below:

- 1) 2011 CDBG Grant Management Manual (Chapter 6, page 66), "DHCD must approve and sign all construction change orders prior to their execution." Two buildings were not approved for building facades.
- 2) 2011 CDBG Grant Management Manual (Chapter 6, page 61), "Prior to contract award, the Grantee must contact the Community Development Specialist and receive confirmation from DHCD that the apparent low bidder is not on a list of debarred contractors." The Town had not requested verification of the non-debarment status of contractors working on the façade portion.

TOWN OF GATE CITY, VIRGINIA
Schedule of Findings and Questioned Costs (Continued)

Findings - Financial Statement Audit (Continued)

Item 13-11 Noncompliance (Continued)

- 3) As outlined in “A Contractor’s Guide to Prevailing Wage Requirements for Federally-Assisted Construction Projects”, the prime contractor must submit payrolls weekly beginning with the start of construction through the last week of work performed. The prime contractor is responsible for the full compliance of all subcontractors on the contract. The Town had not received such payroll documentation from one of the subcontractors working on the CDBG project.
- 4) 2011 CDBG Grant Management Manual (Chapter 6, page 61-62), “After the Notice of Award is issued, the Grantee, Engineer, Contractor, all known subcontractors, representatives of funding agencies and all key local and state officials must attend the Pre-construction Conference. Minutes of the meeting must be taken either by someone present or through the use of a tape recorder.” The Town did not have record of the pre-construction conferences for several façades.
- 5) 2011 CDBG Grant Management Manual (Chapter 8, page 106), “A minimum of at least one worker per trade and 25% of the total number of workers must be interviewed. Interviews must be conducted during construction a minimum of once a month.” No interviews were performed for the one of the contractors and the “Log of Reviewing Employees on the Payroll” was not completed.
- 6) As outlined in the Town’s adopted Façade Improvement Program Design, “A five (5) year lien will be placed on the building by the Town, requiring maintenance of the façade.” The Town had not recorded such liens for several of the buildings included in the project.
- 7) 2011 CDBG Grant Management Manual (Chapter 4, page 28), “The Grantee’s Fair Housing Certifications commits the Grantee to take affirmative steps to further fair housing during each program year in which the CDBG Agreement is active.” The Town did not have any fair housing activities.
- 8) The Town requested funds which were in excess of actual expenditures by \$8,484.19. The DHCD requested that these funds be submitted to the Treasurer of Virginia.
- 9) The Town failed to execute a “Program Income Plan” setting forth what would become of program income returned to the Town should any façade participant fail to fulfill their requirements and be required to settle the lien placed on their property.

Auditors’ Recommendation: The Town must take the appropriate corrective action as requested by the grantor agency. The Town needs to carefully review all contracts and grant awards for specific requirements which may be outside of their normal practices. Most notably those regarding procurement as the Town is otherwise exempted from many of the requirements of the Virginia Procurement Act due to having a population of less than 3,500.

Management’s Response: We subsequently took the appropriate action required by DHCD. All of the findings noted by the DHCD Official have been appropriately addressed and are considered closed by the State. Prior to entering into a significant grant contract such as this, we will take the appropriate time to review the grantor requirements with not only management personnel, but also accounting personnel and outside consultants as necessary to ensure that all parties involved are aware of their responsibilities.

TOWN OF GATE CITY, VIRGINIA
Schedule of Findings and Questioned Costs (Continued)

Findings and Questioned Costs - Major Federal Award Programs Audit

13-12 Noncompliance

Condition: Debarment verification was not performed for contractors used on the water projects funded by CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds.

Criteria: When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity and its principals, as defined in 2 CFR section 180.995 and agency adopting regulations, are not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available on the Internet, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause: There are no procedures in place to ensure that the required verification is performed.

Effect: Failure to comply with requirements for procurement and suspension and debarment when using grant funds may result in disallowance of costs submitted for reimbursement.

Context: The only construction contractor used on the water project was selected for verification that the appropriate debarment testing or verification procedures had been performed. Verification of the vendor's status was later performed and the vendor was not found to be suspended or debarred.

Questioned Costs: None

Auditors' Recommendation: The Town should perform debarment testing for all vendors prior to fully executing any contract or agreement. The Town should not rely on another entity to perform this testing on their behalf. Documentation of this testing needs to be maintained in the Town's files.

View of Responsible Officials and Planned Corrective Actions: We agree and will implement the recommended change to our processes.

13-13 Noncompliance

Condition: The contract with the main contractor used on the water projects funded by CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds did not have the required language regarding the Davis-Bacon Act.

Criteria: Non-federal entities shall include in their construction contracts subject to Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, 'Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction'). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Cause: There are no procedures in place to ensure that the contracts with vendors comply with all of the requirements set forth by the funding source.

Effect: Failure to comply with the requirements of the Davis Bacon Act when using grant funds may result in disallowance of costs submitted for reimbursement.

Context: The only construction contractor used on the water project was selected for verification that the appropriate language was included in the contract. The contract used by the Town did not have the required language. The contractor did, however, provide the Town with the weekly certified payrolls.

TOWN OF GATE CITY, VIRGINIA
Schedule of Findings and Questioned Costs (Continued)

Findings and Questioned Costs - Major Federal Award Programs Audit (Continued)

13-13 Noncompliance

Questioned Costs: None

Auditors' Recommendation: The Town should engage their lawyer or other council to review their contracts with vendors and related funding sources to ensure that all requirements are met.

View of Responsible Officials and Planned Corrective Actions: We agree and will implement the recommended change to our processes.

13-14 Noncompliance and Material Weakness

Condition: The Town's internal controls over compliance could not be relied upon to support a low assessed level of control risk for the program audited as major.

Criteria: The A-102 Common Rule and OMB Circular A110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause: The Town has not developed adequate control procedures to ensure that grant and award requirements are fulfilled.

Effect: The Town had multiple compliance findings in the current year related to CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds which was audited as a major program as well CFDA 14.228 Community Development Block Grants/ State's Program which was reviewed for compliance by the funding agency.

Context: Internal controls for grant and award management could not be tested as they do not exist.

Questioned Costs: None

Auditors' Recommendation: The Town needs to develop a written system of internal controls designed to ensure compliance with the requirements associated with Federal awards. Due to the size of the Town, we recommend consulting with other municipalities and grantor agencies to reduce the costs associated with such an undertaking.

View of Responsible Officials and Planned Corrective Actions: We agree and will implement the required change to our processes.

TOWN OF GATE CITY, VIRGINIA
Summary Schedule of Prior Year Findings and Responses

FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* IDENTIFIED IN A PRIOR YEAR

Item 12-01

Condition: Auditee relies upon auditor to prepare the required financial statements and footnote disclosures.

Auditors' Recommendation: Management should obtain appropriate training in order to prepare their financial statements, or consider contracting with a third-party to perform this service.

Current Status: This is not resolved and has been repeated as a 2013 finding.

Item 12-02

Condition: The financial information as initially presented to the auditors was materially misstated due to a lack of adequate review of such information by Town staff.

Auditors' Recommendation: The treasurer, town manager, and other knowledgeable Town staff should review relevant financial information prior to submitting the information to the auditors. Such review should include basic analytical procedures such as comparing to prior year and budget and documenting the evaluation of the variances identified.

Current Status: Management engaged an outside party to assist with the year-end close process which entailed reconciling various accounts and converting the proprietary funds to the full accrual basis of accounting. Although there were still some audit adjustments made in the current year, the majority of accounts were fairly stated.

Item 12-03

Condition: The Town has not adequately documented their internal control procedures.

Auditors' Recommendation: Memos, policies, or other documents should be written to describe the internal control procedures for each transaction class, i.e. cash receipts or cash disbursements, acquisition of property, utility billing, financial close, etc. This will assist in insuring that procedures are followed and will also lead Town staff to evaluate where there are opportunities to strengthen the controls.

Current Status: This is not resolved and has been repeated as a 2013 finding.

Item 12-04

Condition: The Town lacks segregation of duties in the accounting department, particularly in the areas of account classification and the preparation of the financial statements.

Auditors' Recommendation: The Town should provide training to the town manager or members of the council so that the treasurer is not the individual charged with coding transactions, as well as reviewing the financial information.

Current Status: This is not resolved and has been repeated as a 2013 finding.

Item 12-05

Condition: Accounting system allows for duplicate check numbers.

Auditors' Recommendation: Additional procedures should be put into place to ensure that although the system will allow for duplicate numbers, manual processes will not allow such duplication to result in fraud. One such procedure would be to review the prior check run to determine the last check number used each time a new check run is to occur.

TOWN OF GATE CITY, VIRGINIA
Summary Schedule of Prior Year Findings and Responses (Continued)

Item 12-05 (Continued)

Current Status: This is not resolved and has been repeated as a 2013 finding.

Item 12-06

Condition: The Town held several checks for a significant period of time after they had been issued in the accounting system. This resulted in inaccurate account balances and expenditures recorded in the accounting system.

Auditors' Recommendation: The Town must not initiate the check in the accounting system if it is the Town's intension to deny release of the payment. If the determination to deny payment is made after a check has been printed, the printed check should be voided. A new check with a new number should be initiated at such time that payment is authorized.

Current Status: No checks were held in the current year.

Item 12-07

Condition: The Town recorded and paid an invoice twice. Further, when the subsequent credit for overpayment was issued, the Town failed to adjust the June 30, 2012 balances as necessary.

Auditors' Recommendation: When a credit from a vendor is received, the Town needs to undergo an internal investigation to determine if the initial recording was appropriate and make adjustments as considered necessary to fairly state the financial information.

Current Status: There were no significant duplicate payments or misapplied payments in the current year.

Item 12-08

Condition: The Town failed to make various adjustments necessary to convert the accounting information to the modified or full accrual basis of accounting. Such adjustments include accrual of revenues unbilled and liabilities for which an invoice had not yet been received. Those adjustments also include the adjustments for items which may be prepaid, such as insurance.

Auditors' Recommendation: Financial close procedures need to be documented so that known transactions requiring adjustment will not be overlooked in the future.

Current Status: Management engaged an outside party to assist with the year-end close process which entailed reconciling various accounts and converting the proprietary funds to the full accrual basis of accounting. Although there were still some audit adjustments made in the current year, the majority of accounts were fairly stated.

Item 11-02

Condition: The Town failed to set the sewer rates at a sufficient level to support the expenses and debt service of the Gate City Sanitation Authority which is a violation of a bond covenant related to indebtedness to the Rural Development Authority. This is a matter of noncompliance with the requirements related to a bond covenant.

Auditors' Recommendation: Sewer rates should be reevaluated to determine the amounts necessary to support the expenses and debt service of the Gate City Sanitation Authority.

Current Status: The Sanitation Authority evaluated and raised the sewer rates effective April of 2012. The fiscal year 2013 revenues were expected to be sufficient to cover the expenses and debt service of the Sanitation Authority. However, costs also increased substantially and the increased revenues were not sufficient. The sewer rate was raised again in July of 2013. This is not resolved and will be repeated as a 2013 finding.

TOWN OF GATE CITY, VIRGINIA
Summary Schedule of Prior Year Findings and Responses (Continued)

Item 10-05

Condition: Transactions in the Town's water and sewer funds were accounted for using the modified accrual basis used by the general fund. This is a material weakness in internal controls related to failing to follow the appropriate accounting method for business-type activities.

Auditors' Recommendation: The accounting basis for the water and sewer funds should be the accrual method of accounting in which capital assets are recorded in the statement of net assets (and be depreciated) instead of as an expenditure and debt service payments should be charged against the liability being paid and interest expense instead of being charged to the general ledger as a debt service expenditure.

Current Status: Management engaged an outside party to assist with the year-end close process which entailed reconciling various accounts and converting the proprietary funds to the full accrual basis of accounting. Although there were still some audit adjustments made in the current year, the majority of accounts were fairly stated.

Item 10-09

Condition: The Town failed to follow the filing system required by the terms of the CDBG grant. This was noted in a compliance audit by the grantor. This is a matter of noncompliance with the requirements related to a grant contract.

Auditors' Recommendation: All grant contracts should be read carefully to determine the requirements and appropriate files relating to revenues, expenditures, reports, and correspondence should be filed by grant.

Current Status: Although the files were not maintained as specifically required by the CDBG grant, the grantor agency has accepted the corrective action which was taken by the Town and has finalized the program with no further action required.

Item 10-11

Condition: The Town implemented a new accounting system in the spring of 2009. All of the employees in the Town's finance department have been hired since the new accounting system was placed in service and none of them have received formal training in how to use and manage this new accounting system. This is a deficiency in the structure and operation of the accounting system.

Auditors' Recommendation: Governmental accounting is considerably more involved than the accounting policies and procedures used by most commercial enterprises. The Town treasurer and the Town clerk need formal training in the use of this accounting system.

Current Status: Due to the transition to a new town manager as well as general financial concerns, the staff has not yet received training for the accounting system. This is not resolved has been repeated as a 2013 finding.

Item 10-13

Condition: Audit procedures determined that the general ledger balances for accounts payables by fund did not agree to the subsidiary ledger totals. This is a general material weakness because material differences between general ledger balances and subsidiary ledger balances might fail to be detected and corrected.

Auditors' Recommendation: All subsidiary ledgers for accounts and other liabilities payable should be reconciled to the general ledger balance monthly and any adjustments required to correct the general ledger balance need to be documented and posted.

Current Status: Current year reconciliations were performed.

TOWN OF GATE CITY, VIRGINIA
Summary Schedule of Prior Year Findings and Responses (Continued)

Item 10-15

Condition: The Town failed to set the water rates at a sufficient level to support the expenses and debt service of the water fund which is a violation of a bond covenant related to indebtedness to the Rural Development Authority. This is a matter of noncompliance with the requirements related to a bond covenant.

Auditors' Recommendation: Water rates should be reevaluated to determine the amounts necessary to support the expenses and debt service of the water fund.

Current Status: The Town evaluated and raised the water rates effective April of 2012. The fiscal year 2013 revenues were sufficient to cover the expenses and debt service of the water fund.