



TOWN OF IRON GATE, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

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**TOWN OF IRON GATE, VIRIGNIA**

**FINANCIAL REPORT**

**JUNE 30, 2013**

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**TOWN MAYOR**

Alan P. Williams

**TOWN COUNCIL MEMBERS**

Robert W. Daniel, Sr. – Vice Mayor

Freddie E. Brackenridge

Joseph A. Crawford

Richard B. Erskine

Jennifer O. Tyree

Charles Unroe

**TOWN CLERK**

Pamela E. Warren



**TOWN OF IRON GATE, VIRGINIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2013**

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TOWN OF IRON GATE, VIRGINIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2013 (CONTINUED)

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

### TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF IRON GATE, VIRGINIA

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Iron Gate, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Iron Gate, 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.

## ***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, and schedule of pension funding progress 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 schedule of pension funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Iron Gate, Virginia's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are 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 December 30, 2013, on our consideration of the Town of Iron Gate, 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 Iron Gate, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Staunton, Virginia  
December 30, 2013



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## **FINANCIAL STATEMENTS**



## **BASIC FINANCIAL STATEMENTS**



## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**



Statement of Net Position  
June 30, 2013

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash	\$ 17,216	\$ 16,324	\$ 33,540
Receivables (net of allowance for uncollectibles):			
Taxes, including penalties	2,818	-	2,818
Accounts	2,340	37,619	39,959
Due from other governments	20,766	2,725	23,491
Internal balances	(18,659)	18,659	-
Capital assets not being depreciated:			
Land	29,600	12,875	42,475
Capital assets, net of accumulated depreciation:			
Buildings and systems	88,175	738	88,913
Improvements other than buildings	347,283	904,481	1,251,764
Machinery and equipment	20,881	-	20,881
Total assets	<u>\$ 510,420</u>	<u>\$ 993,421</u>	<u>\$ 1,503,841</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 3,113	\$ 110,528	\$ 113,641
Accrued liabilities	371	-	371
Customers' deposits	-	2,000	2,000
Accrued interest payable	105	-	105
Noncurrent liabilities:			
Due within one year	14,302	-	14,302
Due in more than one year	60,806	-	60,806
Total liabilities	<u>\$ 78,697</u>	<u>\$ 112,528</u>	<u>\$ 191,225</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 415,569	\$ 918,094	\$ 1,333,663
Unrestricted	16,154	(37,201)	(21,047)
Total net position	<u>\$ 431,723</u>	<u>\$ 880,893</u>	<u>\$ 1,312,616</u>

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



**Town of Iron Gate, Virginia**

Statement of Activities  
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government administration	\$ 89,016	\$ 712	\$ -
Public safety	62,942	17,281	17,216
Public works	97,516	16,335	366
Parks, recreation, and cultural	12,456	-	-
Interest on long-term debt	1,473	-	-
Total governmental activities	<u>\$ 263,403</u>	<u>\$ 34,328</u>	<u>\$ 17,582</u>
Business-type activities:			
Water and sewer	\$ 277,483	\$ 240,968	\$ -
Total business-type activities	<u>\$ 277,483</u>	<u>\$ 240,968</u>	<u>\$ -</u>
Total primary government	<u>\$ 540,886</u>	<u>\$ 275,296</u>	<u>\$ 17,582</u>

General revenues:

Taxes:

General property taxes  
 Local sales and use taxes  
 Consumers' utility taxes  
 Merchants license  
 Cigarette tax  
 Other local taxes  
 Miscellaneous  
 Grants and contributions not restricted to specific programs  
 Unrestricted revenues from the use of money and property  
 Special item - lawsuit settlement  
 Transfers  
     Total revenues and transfers  
     Change in net position  
 Net position - beginning, as restated  
 Net position - ending

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

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
\$ (88,304)	\$ -	\$ (88,304)
(28,445)	-	(28,445)
(80,815)	-	(80,815)
(12,456)	-	(12,456)
(1,473)	-	(1,473)
<u>\$ (211,493)</u>	<u>\$ -</u>	<u>\$ (211,493)</u>
\$ -	\$ (36,515)	\$ (36,515)
\$ -	\$ (36,515)	\$ (36,515)
<u>\$ (211,493)</u>	<u>\$ (36,515)</u>	<u>\$ (248,008)</u>
\$ 46,151	\$ -	\$ 46,151
10,280	-	10,280
9,723	-	9,723
5,557	-	5,557
13,095	-	13,095
2,473	-	2,473
10,263	-	10,263
29,623	-	29,623
471	12	483
(115,528)	-	(115,528)
131,906	(131,906)	-
<u>\$ 144,014</u>	<u>\$ (131,894)</u>	<u>\$ 12,120</u>
(67,479)	(168,409)	(235,888)
499,202	1,049,302	1,548,504
<u>\$ 431,723</u>	<u>\$ 880,893</u>	<u>\$ 1,312,616</u>

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## **FUND FINANCIAL STATEMENTS**

Balance Sheet  
 Governmental Funds  
 At June 30, 2013

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	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 17,216
Receivables (Net of allowances for uncollectibles):	
Taxes receivable	2,818
Accounts receivable	2,340
Due from other governmental units	20,766
Total assets	<u>\$ 43,140</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 3,113
Accrued liabilities	371
Due to other funds	18,659
Total liabilities	<u>\$ 22,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	\$ 2,352
Total deferred inflows of resources	<u>\$ 2,352</u>
<b>FUND BALANCES</b>	
Restricted:	
CDBG	\$ 500
Committed:	
Public safety	1,093
Assigned:	
Refuse and landfill	2,927
Unassigned	14,125
Total fund balances	<u>\$ 18,645</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 43,140</u>

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

Reconciliation of the Balance Sheet of Governmental Funds  
To the Statement of Net Position  
June 30, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 18,645
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	485,939
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	2,352
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(75,213)</u>
Net position of governmental activities	\$ <u><u>431,723</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2013

	<b>General Fund</b>
<b>REVENUES</b>	
General property taxes	\$ 45,567
Other local taxes	41,128
Fines and forfeitures	17,281
Revenues from use of money and property	471
Charges for services	17,047
Miscellaneous	10,263
Intergovernmental:	
Commonwealth	47,205
Total revenues	\$ <u>178,962</u>
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 88,457
Public safety	55,049
Public works	86,690
Parks, recreation and cultural	899
Debt service:	
Principal retirement	4,109
Interest	1,333
Total expenditures	\$ <u>236,537</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(57,575)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	\$ 131,906
Issuance of notes payable	65,000
Special item - settlement of lawsuit	(115,528)
Total other financing sources (uses)	\$ <u>81,378</u>
Net change in fund balances	23,803
Fund balance (deficit) - beginning, as restated	<u>(5,158)</u>
Fund balance (deficit) - ending	\$ <u><u>18,645</u></u>

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

Reconciliation of Statement of Revenues, Expenditures, and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2013

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Net change in fund balances - total governmental funds (Exhibit 5)	\$	23,803
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		(35,827)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		584
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(60,891)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>4,852</u>
Change in net position of governmental activities	\$	<u><u>(67,479)</u></u>

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



Statement of Net Position  
 Proprietary Funds  
 June 30, 2013

	<b>Enterprise Fund Water &amp; Sewer</b>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 16,324
Receivables (net of allowances for uncollectibles):	
Accounts	37,619
Due from other funds	18,659
Due from other governmental units	2,725
Total current assets	<u>\$ 75,327</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 12,875
Buildings and systems	2,094
Improvements other than buildings	1,108,255
Machinery and equipment	19,811
Accumulated depreciation	(224,941)
Total capital assets (net of accumulated depreciation)	<u>\$ 918,094</u>
Total noncurrent assets	<u>\$ 918,094</u>
Total assets	<u>\$ 993,421</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 110,528
Customers' deposits	2,000
Total liabilities	<u>\$ 112,528</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 918,094
Unrestricted	(37,201)
Total net position	<u>\$ 880,893</u>

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

Statement of Revenues, Expenses, and Changes in Net Position  
 Proprietary Funds  
 Year Ended June 30, 2013

	<b>Enterprise Fund Water &amp; Sewer</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 240,968
Total operating revenues	<u>\$ 240,968</u>
<b>OPERATING EXPENSES</b>	
Personal services	\$ 5,284
Contractual services	223,659
Other expenses	16,247
Depreciation	32,293
Total operating expenses	<u>\$ 277,483</u>
Operating income (loss)	<u>\$ (36,515)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	\$ 12
Total nonoperating revenues (expenses)	<u>\$ 12</u>
Income (loss) before transfers	\$ (36,503)
Transfers out	<u>(131,906)</u>
Change in net position	<u>\$ (168,409)</u>
Total net position - beginning, as restated	1,049,302
Total net position - ending	<u><u>\$ 880,893</u></u>

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

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended June 30, 2013

	<b>Enterprise Fund Water &amp; Sewer</b>
Cash flows from operating activities:	
Receipts from customers and users	\$ 220,025
Payments to suppliers	(164,290)
Payments to employees	(5,284)
Net cash provided by (used for) operating activities	<u>\$ 50,451</u>
Cash flows from noncapital financing activities:	
Transfer to other funds	\$ (131,906)
Net cash provided by (used for) noncapital financing activities	<u>\$ (131,906)</u>
Cash flows from investing activities:	
Interest income	\$ 12
Net cash provided by (used for) investing activities	<u>\$ 12</u>
Net increase (decrease) in cash and cash equivalents	\$ (81,443)
Cash and cash equivalents, beginning of year	<u>97,767</u>
Cash and cash equivalents, end of year	<u><u>\$ 16,324</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (36,515)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	\$ 32,293
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(20,218)
(Increase) decrease in due from other governmental units	(2,725)
Increase (decrease) in accounts payable	75,616
Increase (decrease) in customers' deposits	2,000
Total adjustments	<u>\$ 86,966</u>
Net cash provided by (used for) operating activities	<u><u>\$ 50,451</u></u>

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

**TOWN OF IRON GATE, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Town of Iron Gate, Virginia, conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Town's financial position. There are no separate government units that meet the criteria to be reported as component units.

**A. Financial Reporting Entity**

The Town of Iron Gate, Virginia, (the "Town") is a municipality corporation governed by an elected mayor and six-member council. The accompanying financial statements present the primary government of the Town.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

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

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 or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

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

The government reports the following governmental funds:

The *general fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following proprietary fund:

*Enterprise Fund*-accounts for the operations where the intent of the Town is that the cost of provided services to the general public be financed and recovered through user charges. Enterprise funds consist of the water and sewer fund. The water and sewer fund accounts for the operation of the town's water service and sewage collection system and is considered a major fund for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash and cash equivalents

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.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund 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."

Property taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable on December 5. The Town bills and collects its own property taxes.

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Net Position/Fund Balance(continued)**

Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance amounted to approximately \$126 at June 30, 2013 for uncollected property taxes.

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.

Net position flow assumption

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

Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No expenditure is reported for these amounts in the fund financial statements. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Town accrues salary-related payments associated with the payment of compensated absences.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**D. Assets, Liabilities and Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)**

Capital assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant and equipment and infrastructure of the primary government, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	35
Improvements other than buildings	15-35
Machinery and equipment	5

Long-term obligations

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities statement of net position.

**E. Fund Equity**

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;



NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**E. Fund Equity (Continued)**

- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.
- When fund balance resources are available for a specific purpose in more than one classification, it is generally the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

**F. Net Position**

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

**G. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town does not have any deferred outflows of resources as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town only has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Town's deferred inflows of resources as of June 30, 2013 consisted of taxes receivable of \$2,352.

**H. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board**

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**I. Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board**

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes reconciliation between the *fund balances—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$75,213) difference for the primary government are as follows:

	<b><u>Primary Government</u></b>
Notes payable	\$ (70,370)
Compensated absences	(4,738)
Accrued interest payable	<u>(105)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	\$ <u><u>(75,213)</u></u>

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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

**B. Explanation of certain differences between the governmental fund statement of revenues expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this (\$35,827) difference for the primary government are as follows:

	<b><u>Primary Government</u></b>
Depreciation expense	\$ <u>(35,827)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>(35,827)</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this (\$60,891) difference in the primary government are as follows:

	<b><u>Primary Government</u></b>
Debt issued or incurred:	
Issuance of notes payable	\$ <u>(65,000)</u>
Principal repayments:	
Notes payable	<u>4,109</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>(60,891)</u></u>

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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

**B. Explanation of certain differences between the governmental fund statement of revenues expenditures, and changes in fund balances and the government-wide statement of activities (continued)**

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$4,852 difference for the primary government is as follows:

	<b><u>Primary Government</u></b>
Compensated absences	\$ 4,992
Accrued interest	(90)
Amortization of debt issuance cost	<u>(50)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>4,852</u></u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**A. Budgetary Information**

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

1. The Town council proposes an operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financial them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. Only the Town Council can revise the appropriation for each department or category.
5. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Budget data presented in the accompanying financial statements includes the Town's original and revised budget as of June 30.

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:**

Amounts due from other governmental units at June 30, 2013, are as follows:

	Primary Government	
	Governmental Activities	Business-type Activities
County of Alleghany	\$ 794	\$ 2,725
Commonwealth of Virginia	19,972	-
Total	<u>\$ 20,766</u>	<u>\$ 2,725</u>

**NOTE 5—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

Interfund balances at June 30, 2013 consisted of the following:

Due to Sewage Disposal Fund from General Fund for the purchase of equipment and other cash advances	\$ <u>18,659</u>
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Interfund transfers for the year ended June 30, 2013 consisted of the following:

Transfers from Sewage Disposal Fund to General Fund	\$ <u>131,906</u>
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to financial various programs accounted for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

**NOTE 6 – CAPITAL ASSETS:**

A summary of the changes in the town's capital assets for governmental activities is as follows:

	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 29,600	\$ -	\$ -	\$ 29,600
Total capital assets not being depreciated	\$ 29,600	\$ -	\$ -	\$ 29,600
Capital assets being depreciated:				
Buildings and systems	\$ 123,352	\$ -	\$ -	\$ 123,352
Improvements other than buildings	471,377	-	-	471,377
Machinery and equipment	176,463	-	-	176,463
Total capital assets being depreciated	\$ 771,192	\$ -	\$ -	\$ 771,192
Accumulated depreciation:				
Buildings and systems	\$ (31,720)	\$ (3,457)	\$ -	\$ (35,177)
Improvements other than buildings	(100,077)	(24,017)	-	(124,094)
Machinery and equipment	(147,229)	(8,353)	-	(155,582)
Total accumulated depreciation	\$ (279,026)	\$ (35,827)	\$ -	\$ (314,853)
Total capital assets being depreciated, net	\$ 492,166	\$ (35,827)	\$ -	\$ 456,339
<b>Governmental activities capital assets, net</b>	<b>\$ 521,766</b>	<b>\$ (35,827)</b>	<b>\$ -</b>	<b>\$ 485,939</b>

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

**Governmental activities**

General government administration	\$ 3,458
Public works	12,460
Public safety	8,352
Parks, recreation, and cultural	11,557
Total depreciation expense - governmental activities	\$ 35,827

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

**NOTE 6 – CAPITAL ASSETS: (CONTINUED)**

A summary of the changes in the Town's capital assets for business-type activities is as follows:

	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
Capital asset not being depreciated:				
Land	\$ 12,875	\$ -	\$ -	\$ 12,875
Total capital assets not being depreciated	\$ 12,875	\$ -	\$ -	\$ 12,875
Capital assets being depreciated:				
Buildings and systems	\$ 2,094	\$ -	\$ -	\$ 2,094
Improvements other than buildings	1,108,255	-	-	1,108,255
Machinery and equipment	19,811	-	-	19,811
Total capital assets being depreciated	\$ 1,130,160	\$ -	\$ -	\$ 1,130,160
Accumulated depreciation:				
Buildings and systems	\$ (1,222)	\$ (134)	\$ -	\$ (1,356)
Improvements other than buildings	(172,384)	(31,390)	-	(203,774)
Machinery and equipment	(19,042)	(769)	-	(19,811)
Total accumulated depreciation	\$ (192,648)	\$ (32,293)	\$ -	\$ (224,941)
Total capital assets being depreciated, net	\$ 937,512	\$ (32,293)	\$ -	\$ 905,219
<b>Business-type activities capital assets, net</b>	<b>\$ 950,387</b>	<b>\$ (32,293)</b>	<b>\$ -</b>	<b>\$ 918,094</b>

Depreciation expense was charged to functions/programs of the Town's business-type activities as follows:

Business-type activities:	
Water and sewer fund	\$ 32,293
Total depreciation expense - business-type activities	\$ 32,293

**NOTE 7 – LONG-TERM OBLIGATIONS:**

**Primary Government**

**Changes in long-term obligations**

The following is a summary of changes in long-term obligations transactions for the year ended June 30, 2013:

	Balance July 1, 2012	Issuances/ Additions	Retirements/ Reductions	Balance June 30, 2013
Governmental Activities				
Notes payable	\$ 9,479	\$ 65,000	\$ 4,109	\$ 70,370
Compensated absences	9,730	-	4,992	4,738
Total	\$ 19,209	\$ 65,000	\$ 9,101	\$ 75,108

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

**NOTE 7 – LONG-TERM OBLIGATIONS: (CONTINUED)**

**Primary Government: (Continued)**

Annual requirements to amortize long-term obligations and related interest at June 30, 2013, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 14,302	\$ 2,097
2015	14,784	1,615
2016	14,064	1,126
2017	13,433	686
2018	13,787	243
Total	<u>\$ 70,370</u>	<u>\$ 5,767</u>

Details of long-term obligations are as follows:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<b><u>Notes Payable</u></b>		
\$65,000 Note issued June 13, 2013, due in monthly installments of \$1,177, including an interest rate of 3.25% per annum. The note was issued to finance a portion of the cost of a court ordered payment. The note is secured by the Town Hall building.	\$ 65,000	\$ 12,187
\$10,325 USDA Note for financing the purchase of a new police car, issued December 15, 2010, due in monthly installments of \$190, including an interest rate of 3.755 per annum.	5,370	2,115
Total notes payable	<u>\$ 70,370</u>	<u>\$ 14,302</u>
Compensated absences	<u>\$ 4,738</u>	<u>\$ -</u>
Total long-term obligations	<u>\$ 75,108</u>	<u>\$ 14,302</u>

**NOTE 8—COMPENSATED ABSENCES:**

It is the Town's policy to permit employees to accumulate earned but not used annual leave and sick leave benefits. The Town pays a benefit for accumulated annual leave upon an employee's separation from service to the extent the employee meets certain criteria. Annual leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources as a result of employee resignations and retirements. Sick leave is recorded in the same manner for employees eligible for retirement. The Town has no policy to pay unused sick leave when employees resign. The Town has outstanding accrued compensated absences totaling \$4,738.



NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 9 – DEFINED BENEFIT PENSION OBLIGATION:**

**A. 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 service 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 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 early at age 55 with at least five years of service credit or age 50 with at least 10 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.

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 amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 (CONTINUED)**

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**NOTE 9 – DEFINED BENEFIT PENSION OBLIGATION: (CONTINUED)**

**A. Plan Description (Continued)**

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be downloaded from the VRS Web site at <http://www.varetire.org/PDF/Publications/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, VA, 23218-2500.

**B. 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, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 4.42% of annual covered payroll.

**C. Annual Pension Cost**

For fiscal year 2013, the Town's annual pension cost of \$4,509 was equal to the Town's required and actual contributions.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 4,509	100.00%	\$ -
June 30, 2012	9,350	100.00%	-
June 30, 2011	7,568	100.00%	-

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 9 – DEFINED BENEFIT PENSION OBLIGATION: (CONTINUED)**

**C. Annual Pension Cost (Continued)**

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age 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, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% 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 projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Accrued Actuarial Liability was 30 years.

**D. Funded Status and Funding Progress:**

As of June 30, 2012, the most recent actuarial valuation date, the Town's plan was 76.64% funded. The actuarial accrued liability for benefits was \$275,761, and the actuarial value of assets was \$211,346, resulting in an unfunded actuarial accrued liability (UAAL) of \$64,415. The covered payroll (annual payroll of active employees covered by the plan) was \$105,213, and ratio of the UAAL to the covered payroll was 61.22%.

The schedule of funding progress, presented as Required Supplementary Information following the note 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—DEPOSITS AND INVESTMENTS:**

**Deposits**

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

**Investments**

Statutes authorize the Town 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), 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).

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

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**NOTE 10—DEPOSITS AND INVESTMENTS: (CONTINUED)**

Credit Risk of Debt Securities

Custodial credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's investing activities are managed under the custody of the Treasurer. The Town has not adopted a policy regarding credit risk of debt securities.

Interest Rate Risk

The Town has no policy regarding interest rate risk.

**NOTE 11—UPCOMING PRONOUNCEMENTS:**

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that area administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town has not determined the impact of this pronouncement on its financial statements.

**NOTE 12—SPECIAL ITEM:**

On June 19, 2013 the circuit court of the County of Alleghany issued a final order for the settlement of a lawsuit brought by a citizen. The settlement resulted in a payment from the town to the citizen in the amount of \$115,528. This item has been reported apart from expenditures because it is unusual in nature and infrequent in occurrence.

**NOTE 13—LITIGATION:**

At June 30, 2013, there were no matters of litigation involving the Town of which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

**NOTE 14—RISK MANAGEMENT:**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as a common risk management and insurance program for member municipalities. The Town is not self-insured.

The Town has Workers Compensation coverage with the Virginia Municipal Group Self Insurance Association (Association) for workers compensation insurable risks identified by the Town. The Town has General Liability coverage with the Virginia Municipal Liability Pool (Pool) for all general liability risks. Each Association and Pool member jointly and severally agrees to assume, pay, and discharge any liability. The Town pays the Association and Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and Pool, and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association or Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

TOWN OF IRON GATE, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 (CONTINUED)

**NOTE 15—RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS:**

Beginning net position and beginning fund balances have been restated in the financial statements as detailed below:

	Governmental Fund Financial Statements	
	General Fund	Business-type Activities
Fund balances/net position as previously reported, July 1, 2012	\$ (1,461)	\$ 261,986
Adjustments:		
To transfer beginning water receivable balances to the water and sewer fund	(7,757)	7,757
To transfer water service fixed assets to the water and sewer fund	-	779,559
To remove customer deposit liability for connection fees which are not refundable	4,060	-
Fund balances/net position as restated, July 1, 2012	<u>\$ (5,158)</u>	<u>\$ 1,049,302</u>

	Government-wide Financial Statements	
	Governmental Activities	Business-type Activities
Net position as previously reported, July 1, 2012	\$ 1,282,458	\$ 261,986
Adjustments:		
To transfer beginning water receivable balances to the water and sewer fund	(7,757)	7,757
To transfer water service fixed assets to the water and sewer fund	(779,559)	779,559
To remove customer deposit liability for connection fees which are not refundable	4,060	-
Net position as restated, July 1, 2012	<u>\$ 499,202</u>	<u>\$ 1,049,302</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**



Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
General Fund  
Year Ended June 30, 2013

	Budget Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
General property taxes	\$ 43,699	\$ 45,567	\$ 1,868
Other local taxes	58,649	41,128	(17,521)
Fines and forfeitures	-	17,281	17,281
Revenues from use of money and property	678	471	(207)
Charges for services	110,670	17,047	(93,623)
Miscellaneous	12,935	10,263	(2,672)
Intergovernmental:			
Commonwealth	42,860	47,205	4,345
Total revenues	<u>\$ 269,491</u>	<u>\$ 178,962</u>	<u>\$ (90,529)</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	\$ 44,847	\$ 88,457	\$ (43,610)
Public safety	52,821	55,049	(2,228)
Public works	127,315	86,690	40,625
Parks, recreation and cultural	6,000	899	5,101
Nondepartmental	38,508	-	38,508
Debt service:			
Principal retirement	-	4,109	(4,109)
Interest	-	1,333	(1,333)
Total expenditures	<u>\$ 269,491</u>	<u>\$ 236,537</u>	<u>\$ 32,954</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (57,575)</u>	<u>\$ (57,575)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	\$ -	\$ 131,906	\$ 131,906
Issuance of notes payable	-	65,000	65,000
Special item - lawsuit settlement	-	(115,528)	(115,528)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 81,378</u>	<u>\$ 81,378</u>
Net change in fund balance	\$ -	\$ 23,803	\$ 23,803
Fund balance (deficit) - beginning - as restated	-	(5,158)	-
Fund balance (deficit) - ending	<u>\$ -</u>	<u>\$ 18,645</u>	<u>\$ 23,803</u>

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



Schedule of Pension Funding Progress  
As of June 30, 2013

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Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded Actuarial Accrued Liability (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as % of Covered Payroll ( (b-a)/c )
06/30/12	\$ 211,346	\$ 275,761	\$ 64,415	76.64%	\$ 105,213	61.22%
06/30/11	204,000	261,407	57,407	78.04%	81,723	66.96%
06/30/10	195,120	249,843	54,723	78.10%	81,723	70.25%
06/30/09	192,486	153,962	(38,524)	125.02%	80,683	-47.75%
06/30/08	196,414	212,514	16,100	92.42%	70,433	22.86%

## **SUPPORTING SCHEDULES**

Schedule of Revenues - Budget and Actual  
Governmental Funds  
Year Ended June 30, 2013

<b>Fund, Major and Minor Revenue Source</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance with Final Budget- Positive (Negative)</b>
General Fund:				
Revenue from local sources:				
General property taxes:				
Property tax - current	\$ 43,052	\$ 43,052	\$ 44,736	\$ 1,684
Penalties and interest	647	647	831	184
Total general property taxes	\$ 43,699	\$ 43,699	\$ 45,567	\$ 1,868
Other local taxes:				
Sales tax	\$ 11,238	\$ 11,238	\$ 10,280	\$ (958)
Meals tax	-	-	2,108	2,108
Merchants license	2,726	2,726	5,557	2,831
Motor vehicle licenses	6,381	6,381	-	(6,381)
Cigarette tax	14,550	14,550	13,095	(1,455)
Consumption tax	-	-	365	365
Utility tax	23,754	23,754	9,723	(14,031)
Total other local taxes	\$ 58,649	\$ 58,649	\$ 41,128	\$ (17,521)
Fines and forfeitures	\$ -	\$ -	\$ 17,281	\$ 17,281
Revenue from use of money and property:				
Revenue from use of money	\$ 678	\$ 678	\$ 342	\$ (336)
Revenue from use of property	-	-	129	129
Total revenue from the use of money and property	\$ 678	\$ 678	\$ 471	\$ (207)
Charges for services:				
Reconnect fees	\$ 4,670	\$ 4,670	\$ -	\$ (4,670)
Water	90,000	90,000	-	(90,000)
Garbage collection	16,000	16,000	16,335	335
Other charges for services	-	-	712	712
Total changes for services	\$ 110,670	\$ 110,670	\$ 17,047	\$ (93,623)
Miscellaneous revenue:				
Miscellaneous revenue	\$ 12,515	\$ 12,515	\$ 8,139	\$ (4,376)
Housing Program revenue	420	420	2,124	1,704
Total miscellaneous revenue	\$ 12,935	\$ 12,935	\$ 10,263	\$ (2,672)
Total revenue from local sources	\$ 226,631	\$ 226,631	\$ 131,757	\$ (94,874)
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Rolling stock taxes	\$ 2,000	\$ 2,000	\$ 4,860	\$ 2,860
Personal property tax reimbursement	-	-	6,869	6,869
Communications tax	-	-	17,894	17,894
Total non-categorical aid	\$ 2,000	\$ 2,000	\$ 29,623	\$ 27,623

Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
General Fund: (continued)				
Intergovernmental: (continued)				
Revenue from the Commonwealth: (continued)				
Categorical aid:				
Other categorical aid:				
Fire department assistance	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Law enforcement grant	32,560	32,560	9,216	(23,344)
Litter control grant	300	300	366	66
Total categorical aid	<u>\$ 40,860</u>	<u>\$ 40,860</u>	<u>\$ 17,582</u>	<u>\$ (23,278)</u>
Total revenue from the Commonwealth	<u>\$ 42,860</u>	<u>\$ 42,860</u>	<u>\$ 47,205</u>	<u>\$ 4,345</u>
Total General Fund	<u><u>\$ 269,491</u></u>	<u><u>\$ 269,491</u></u>	<u><u>\$ 178,962</u></u>	<u><u>\$ (90,529)</u></u>

**Schedule of Expenditures - Budget and Actual  
Governmental Funds  
Year Ended June 30, 2013**

<b>Fund, Major and Minor Revenue Source</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance with Final Budget- Positive (Negative)</b>
General Fund:				
General Government Administration:				
Legislative:				
Town Council	\$ 250	\$ 250	\$ -	\$ 250
Total legislative	\$ 250	\$ 250	\$ -	\$ 250
General and Financial Administration:				
Town Clerk	\$ 30,047	\$ 30,047	\$ 46,487	\$ (16,440)
Legal and accounting services	10,150	10,150	21,015	(10,865)
Other general and financial administration	4,400	4,400	20,955	(16,555)
Total general and financial administration	\$ 44,597	\$ 44,597	\$ 88,457	\$ (43,860)
Total general Government Administration	\$ 44,847	\$ 44,847	\$ 88,457	\$ (43,610)
Public Safety:				
Law enforcement and traffic control:				
Police department	\$ 49,821	\$ 49,821	\$ 50,249	\$ (428)
Fire and Rescue services:				
Volunteer fire department	3,000	3,000	4,800	(1,800)
Total public safety	\$ 52,821	\$ 52,821	\$ 55,049	\$ (2,228)
Public Works:				
Maintenance of general buildings and grounds:				
General properties	\$ 76,719	\$ 76,719	\$ 25,425	\$ 51,294
Personnel services	50,596	50,596	53,375	(2,779)
Utilities	-	-	7,890	(7,890)
Total public works	\$ 127,315	\$ 127,315	\$ 86,690	\$ 40,625
Parks, recreation and cultural				
Parks and recreation:				
Park maintenance	\$ 2,000	\$ 2,000	\$ 899	\$ 1,101
Cultural enrichment:				
Christmas parade	4,000	4,000	-	4,000
Total parks, recreation and cultural	\$ 6,000	\$ 6,000	\$ 899	\$ 5,101
Nondepartmental:				
Fringes	\$ 14,777	\$ 14,777	\$ -	\$ 14,777
Insurance	23,731	23,731	-	23,731
Total nondepartmental	\$ 38,508	\$ 38,508	\$ -	\$ 38,508
Debt service:				
Principal retirement	\$ -	\$ -	\$ 4,109	\$ (4,109)
Interest	-	-	1,333	(1,333)
Total debt service	\$ -	\$ -	\$ 5,442	\$ (5,442)
Total General Fund	\$ 269,491	\$ 269,491	\$ 236,537	\$ 32,954

## **COMPLIANCE**



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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

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### TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF IRON GATE, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Iron Gate, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Iron Gate, Virginia's basic financial statements, and have issued our report thereon dated December 30, 2013.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Iron Gate, 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 Town of Iron Gate, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Iron Gate, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 responses to be material weaknesses. [Reference 2013-1 and 2013-2].

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. [Reference 2013-1 and 2013-2].



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Iron Gate, 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 responses as items [Reference 2013-1 and 2013-2].

### **Town of Iron Gate, Virginia's Response to Findings**

The Town of Iron Gate, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Iron Gate, 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.

*Robinson, Farmer, Cox Associates*

Staunton, Virginia  
December 30, 2013

**Town of Iron Gate, Virginia  
Schedule of Findings and Responses  
Year Ended June 30, 2013**

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**Financial Statement Findings**

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**Section I-Summary of Auditors' Results**

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Financial Statements

Type of auditors' report issued	<u>unmodified</u>
Internal control over financial reporting:	
- Material weakness(es) identified?	<u>  x  </u> yes <u>      </u> no
- Significant deficiency(ies) identified?	<u>  x  </u> yes <u>      </u> no
Non compliance material to financial statements noted?	<u>      </u> yes <u>  x  </u> no

**Section II-Financial Statement Findings/Noncompliance**

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Finding 2013-1 Material Weakness:

Criteria: A system of internal controls over financial reporting includes controls over the general ledger and the preparation of the financial statements. The auditor cannot be a compensating control for the client.

Condition: Material audit adjustments were required in order for the Town's financial statements to be fairly stated in accordance with generally accepted accounting principles (GAAP) for governments.

Cause: Internal controls over financial reporting under GAAP were inadequately designed.

Effect: Because of the failure to adjust financial accounts, such as capital asset-related and debt-related accounts, accrued revenues and expenditures, and misclassifications of transactions between funds, the financial statements, prior to the posting of audit adjustments, were not fairly stated.

Recommendation: The Town should implement procedures to ensure that all adjustments for GAAP financial reporting have been made at the close of the Town's fiscal year.

Management's Response: Town management concurs with the finding.

A. Comments on Findings and Recommendations: We intend to review our operations and processes to determine if changes are warranted and if those changes will be cost beneficial.

B. Actions Planned or Taken:

Finding 2013-2 Material Weakness:

Criteria: A key concept of internal controls is segregation of duties. No one employee should have access to cash collections, cash disbursements, and the recording of these transactions in the Town's general ledger.

Condition: The Town Clerk has sole responsibility for the deposit and disbursement of cash, the recording of transactions, and the reconciliation of records with bank statements.

Cause: Duties can not be adequately segregated due to the small staff of the Town and internal controls over financial duties are inadequately designed.

Effect: There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's controls over financial reporting.

Recommendation: While we recognize there the Town does not have adequate staff to properly segregate duties, we recommend that, at a minimum, Town Council should monitor the Clerk's activities. This monitoring should include approval of bank reconciliations, review of bank statements, approval of invoices prior to payment, signature of checks, and approval of monthly financial statements. Approval of all reports should be indicated by Council member either signing the reports or at least initialing and dating them.

Management's Response:

A. Comments on Findings and Recommendations: The Town management concurs with the finding.

B. Actions Planned or Taken: The Town is taking steps to assign a member of council to provide regular oversight of the clerk's activities. All checks issued will be signed by two parties in lieu of using a signature stamp.

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