

TOWN OF TAZEWELL, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

**TOWN OF TAZEWELL, VIRGINIA
TABLE OF CONTENTS**

INTRODUCTORY SECTION

	Page
Directory of Principal Officials	i

FINANCIAL SECTION

Independent Auditor's Report	1
Financial Statements	
Government-wide Financial Statements	
Exhibit 1 Statement of Net Assets	4
Exhibit 2 Statement of Activities	5
Fund Financial Statements	
Exhibit 3 Balance Sheet – Governmental Fund.....	6
Exhibit 4 Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund.....	7
Exhibit 5 Statement of Net Assets – Proprietary Fund.....	8
Exhibit 6 Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.....	9
Exhibit 7 Statement of Cash Flows – Proprietary Fund.....	10
Notes to Financial Statements.....	11
Required Supplementary Information	
Exhibit 8 Schedule of Revenues – Budget and Actual – Cash Basis (General Fund).....	32
Exhibit 9 Schedule of Expenditures – Budget and Actual – Cash Basis (General Fund)	34
Exhibit 10 Analysis of Funding Progress for Defined Benefit Pension Plan	38

OTHER INFORMATION SECTION

Table 1 General Government Revenues by Source.....	40
Table 2 General Government Expenditures by Function	41
Table 3 Legal Debt Margin Information.....	42

COMPLIANCE SECTION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Summary of Compliance Matters	46
Schedule of Findings and Responses	47

INTRODUCTORY SECTION

TOWN OF TAZEWELL, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2011

TOWN COUNCIL

Dr. Charles Grindstaff, Mayor
A. D. Buchanan, Jr., Vice Mayor
Chris Blankenship
David Fox
Jack Murray, Sr.
Danny Willis
Terry Mullins

APPOINTED OFFICIALS

Jerry G. Wood..... Town Manager
Linda S. Griffith Clerk/Treasurer

INDEPENDENT AUDITORS

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

ATTORNEYS

Gillespie, Hart, Altizer & Whitesell, P.C.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Tazewell, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information, where presented, has been derived from the Town's 2010 financial statements on which, in our report dated October 11, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund.

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 *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Town has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information and analysis of funding progress are on pages 31 to 37. Such information, although not a part of the basic financial statements, is required by the GASB, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The Introductory and Other Information Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 27, 2011

THIS PAGE INTENTIONALLY BLANK

FINANCIAL STATEMENTS

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2011	(For Comparative Purposes Only) 2010*
ASSETS				
Cash and cash equivalents (Note 2)	\$ 259,960	\$ 30,422	\$ 290,382	\$ 249,951
Receivables, net (Note 3)	367,542	363,609	731,151	544,198
Due from other governmental units (Note 4)	114,055	-	114,055	233,546
Internal balances (Note 5)	2,054,828	(2,054,828)	-	-
Capital assets: (Note 6)				
Not depreciated	2,007,122	243,573	2,250,695	2,123,088
Depreciated, net	2,346,100	5,685,795	8,031,895	7,815,495
Note Receivable (Note 14)	-	750,266	750,266	750,266
Total assets	<u>7,149,607</u>	<u>5,018,837</u>	<u>12,168,444</u>	<u>11,716,544</u>
LIABILITIES				
Accounts payable	175,765	300,196	475,961	510,065
Accrued payroll and related liabilities	67,955	17,555	85,510	57,047
Accrued interest payable	-	8,459	8,459	11,108
Customer deposits payable	-	73,494	73,494	61,416
Noncurrent liabilities:				
Unearned revenue (Note 14)	-	1,387,266	1,387,266	1,387,266
Due within one year (Note 7)	173,599	339,020	512,619	415,574
Due in more than one year (Note 7)	180,049	1,734,949	1,914,998	2,281,252
Total liabilities	<u>597,368</u>	<u>3,860,939</u>	<u>4,458,307</u>	<u>4,723,728</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	4,157,986	3,877,370	8,035,356	7,376,627
Unrestricted	2,394,253	(2,719,472)	(325,219)	(383,811)
Total net assets	<u>\$ 6,552,239</u>	<u>\$ 1,157,898</u>	<u>\$ 7,710,137</u>	<u>\$ 6,992,816</u>

* Restated, see Note 15.

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Totals	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	2011	(For Comparative Purposes Only) 2010
Governmental activities:								
General government administration	\$ 662,521	\$ -	\$ -	\$ -	\$ (662,521)		\$ (662,521)	\$ (694,573)
Public safety	1,461,120	414,015	102,632	539,329	(405,144)		(405,144)	(1,012,915)
Public works	1,328,161	366,462	901,162	-	(60,537)		(60,537)	83,908
Parks, recreation, and cultural	316,605	61,515	-	-	(255,090)		(255,090)	(321,280)
Interest on long-term debt	11,284	-	-	-	(11,284)		(11,284)	(15,008)
Total governmental activities	3,779,691	841,992	1,003,794	539,329	(1,394,576)		(1,394,576)	(1,959,868)
Business-type activities:								
Water and sewer	1,977,473	1,889,346	-	-		(88,127)	(88,127)	32,795
Total business-type activities	1,977,473	1,889,346	-	-		(88,127)	(88,127)	32,795
Total primary government	\$ 5,757,164	\$ 2,731,338	\$ 1,003,794	\$ 539,329	(1,394,576)	(88,127)	(1,482,703)	(1,927,073)
General revenues:								
Property taxes					764,847	-	764,847	617,556
Sales taxes					262,142	-	262,142	259,842
Meals taxes					515,228	-	515,228	419,740
Utilities taxes					29,194	-	29,194	28,140
Business license taxes					205,572	-	205,572	217,096
Bank franchise taxes					171,228	-	171,228	163,905
Other local taxes and charges					101,643	-	101,643	107,333
Intergovernmental revenue, unrestricted					134,148	-	134,148	263,028
Investment income					1,060	20	1,080	5,537
Other					14,292	650	14,942	24,664
Total general revenues					2,199,354	670	2,200,024	2,106,841
Change in net assets					804,778	(87,457)	717,321	179,768
NET ASSETS AT JULY 1, as restated, see Note 15					5,747,461	1,245,355	6,992,816	6,813,048
NET ASSETS AT JUNE 30					\$ 6,552,239	\$ 1,157,898	\$ 7,710,137	\$ 6,992,816

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

TOWN OF TAZEWELL, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
 June 30, 2011

	General Fund	
	2011	(For Comparative Purposes Only) 2010*
ASSETS		
Cash and cash equivalents	\$ 259,960	\$ 197,597
Receivables, net	367,542	179,081
Due from other governmental units	114,055	233,546
Advances due from other fund	2,054,828	2,073,280
Total assets	\$ 2,796,385	\$ 2,683,504
LIABILITIES		
Accounts payable	\$ 175,765	\$ 457,486
Accrued payroll and related liabilities	67,955	50,076
Deferred revenue	198,673	59,287
Total liabilities	442,393	566,849
FUND BALANCES		
Nonspendable:		
Advances	2,054,828	2,073,280
Assigned:		
Public works	10,748	544
Unassigned	288,416	42,831
Total fund balances	2,353,992	2,116,655
Total liabilities and fund balances	\$ 2,796,385	\$ 2,683,504
RECONCILIATION TO THE STATEMENT OF NET ASSETS		
Total fund balance	\$ 2,353,992	\$ 2,116,655
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,353,222	3,932,066
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	198,673	59,287
Long-term liabilities, including notes payable, capital leases, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(353,648)	(360,547)
Net assets of governmental activities	\$ 6,552,239	\$ 5,747,461

* Restated, see Note 15.

TOWN OF TAZEWELL, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2011

	General Fund	
	2011	(For Comparative Purposes Only) 2010*
REVENUES		
General property taxes	\$ 758,235	\$ 616,082
Other local taxes	719,556	617,166
Permits, privilege fees, and regulatory licenses	234,322	247,085
Fines and forfeitures	39,793	43,823
Revenue from use of money and property	1,060	5,192
Charges for services	342,756	53,165
Refuse charges	366,462	345,661
Intergovernmental	1,429,278	1,655,148
Other	14,292	23,983
Total revenues	3,905,754	3,607,305
EXPENDITURES		
Current:		
General government administration	650,049	620,832
Public safety	1,370,597	1,068,147
Public works	1,182,570	1,100,605
Parks, recreation, and cultural	289,902	353,911
Capital outlay	112,164	242,268
Debt service:		
Principal retirement	76,047	99,009
Interest and fiscal charges	11,284	15,008
Total expenditures	3,692,613	3,499,780
Excess of revenues over expenditures	213,141	107,525
OTHER FINANCING SOURCES		
Capital lease proceeds	24,196	-
Net change in fund balance	237,337	107,525
FUND BALANCES AT JULY 1, as restated, see Note 15	2,116,655	2,009,130
FUND BALANCES AT JUNE 30	\$ 2,353,992	\$ 2,116,655
Net change in fund balance	\$ 237,337	\$ 107,525
Adjustments for the Statement of Activities:		
Governmental funds report capital outlays (2011 \$120,117; 2010 \$196,667) as expenditures while governmental activities report depreciation expense (2011 \$238,290; 2010 \$202,573) to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded (or was less than) depreciation in the current period, plus donated assets of \$539,329 in 2011.	421,156	13,494
The net effect of the change in revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds.	139,386	1,474
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of the difference in the treatment of long-term debt and related items.	51,851	99,009
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(44,952)	(75,555)
Change in net assets of governmental activities	\$ 804,778	\$ 145,947

*Restated, see Note 15.

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

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2011

	Business-Type Activities	
	Enterprise Fund	Water and Sewer
	(For Comparative Purposes Only)	
	2011	2010*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,422	\$ 52,354
Receivables, net	363,609	365,117
Total current assets	<u>394,031</u>	<u>417,471</u>
Noncurrent assets:		
Note Receivable	750,266	750,266
Capital assets:		
Not depreciated	243,573	21,581
Depreciated, net	5,685,795	5,984,936
Total noncurrent assets	<u>6,679,634</u>	<u>6,756,783</u>
Total assets	<u>7,073,665</u>	<u>7,174,254</u>
LIABILITIES		
Current liabilities		
Accounts payable	300,196	52,579
Accrued payroll and related liabilities	17,555	6,971
Accrued interest payable	8,459	11,108
Customer deposits payable	73,494	61,416
Current portion of noncurrent liabilities	339,020	300,271
Total current liabilities	<u>738,724</u>	<u>432,345</u>
Noncurrent liabilities:		
Advances due to other fund	2,054,828	2,073,280
Unearned revenue	1,387,266	1,387,266
Due in more than one year	1,734,949	2,036,008
Total noncurrent liabilities	<u>5,177,043</u>	<u>5,496,554</u>
Total liabilities	<u>5,915,767</u>	<u>5,928,899</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	3,877,370	3,680,845
Unrestricted	(2,719,472)	(2,435,490)
Total net assets	<u>\$ 1,157,898</u>	<u>\$ 1,245,355</u>

* Restated, see Note 15.

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 Year Ended June 30, 2011

	Business-Type Activities	
	Enterprise Fund	Water and Sewer
	2011	(For Comparative Purposes Only) 2010
OPERATING REVENUES		
Water service charges and fees	\$ 996,899	\$ 928,929
Sewer service charges and fees	868,864	843,564
Water/sewer penalties	23,583	19,432
Other revenue	650	681
Total operating revenues	<u>1,889,996</u>	<u>1,792,606</u>
OPERATING EXPENSES		
Salaries	423,319	389,741
Fringe benefits	112,079	126,109
Maintenance	116,583	217,914
Utilities	169,803	182,617
Materials and supplies	174,193	243,427
Purchased water	514,874	421,030
Administrative	89,592	96,202
Miscellaneous	2,041	40,223
Depreciation	300,768	293,672
Total operating expenses	<u>1,903,252</u>	<u>2,010,935</u>
Operating loss	<u>(13,256)</u>	<u>(218,329)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental revenue	-	338,071
Interest income	20	345
Interest expense	(74,221)	(86,266)
Net nonoperating income (expenses)	<u>(74,201)</u>	<u>252,150</u>
Change in net assets	<u>(87,457)</u>	<u>33,821</u>
NET ASSETS AT JULY 1, as restated, see Note 15	<u>1,245,355</u>	<u>1,211,534</u>
NET ASSETS AT JUNE 30	<u>\$ 1,157,898</u>	<u>\$ 1,245,355</u>

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2011

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
	(For Comparative Purposes Only)	
	2011	2010
OPERATING ACTIVITIES		
Receipts from customers	\$ 1,903,582	\$ 1,749,246
Payments to suppliers	(1,133,109)	(1,073,929)
Payments to employees	(401,371)	(387,549)
Net cash provided by operating activities	369,102	287,768
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(23,510)	(339,871)
Principal paid on debt	(290,674)	(279,011)
Capital grants received	-	338,071
Interest paid on capital debt	(76,870)	(88,512)
Net cash used in capital and related financing activities	(391,054)	(369,323)
INVESTING ACTIVITIES		
Interest received	20	345
Net decrease in cash and cash equivalents	(21,932)	(81,210)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	52,354	133,564
Ending at June 30	\$ 30,422	\$ 52,354
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (13,256)	\$ (107,244)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	300,768	293,672
Change in assets and liabilities:		
Decrease (increase) in:		
Receivables, net	1,508	(55,059)
Increase (decrease) in:		
Accounts payable	64,508	6,917
Accrued payroll and related liabilities	21,948	2,192
Advances due to other fund	(18,452)	135,591
Customer deposits payable	12,078	11,699
Net cash provided by operating activities	\$ 369,102	\$ 287,768
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Noncash proceeds for sale of capacity rights		
Capital assets	\$ -	\$ 637,000
Note receivable	-	750,266
	\$ -	\$ 1,387,266
Capital asset acquired through capital lease	\$ 17,000	\$ -
Capital asset purchases financed by accounts payable	\$ 183,109	\$ -

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Tazewell (the "Town") was established in 1916. It is a political subdivision of the Commonwealth of Virginia operating under the Mayor-Council form of government. The Town Council consists of a mayor and six other council members. The Town is part of Tazewell County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, fire and rescue, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and wastewater services.

These financial statements present the Town as the primary government. The Town has no component units – that is, entities for which the primary government is considered to be financially accountable. Furthermore, the Town has no related or jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town. 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 activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the major governmental fund and the major proprietary fund.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

Government 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 Town 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary fund:

The *enterprise fund* accounts for the financing of services to the general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges, or where management has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for management control, accountability, or other purposes. The enterprise fund consists of the activities relating to water and wastewater services.

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

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

D. Budgets and Budgetary Accounting

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

- 1) During the regular May Council meetings, the Town Manager submits a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget for the general fund is legally enacted through passage of an Appropriations Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The Appropriations Ordinance places legal restrictions on expenditures at the department or category level. The appropriations for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer amounts within general governmental departments.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted utilizing the cash basis of accounting.
- 7) Appropriations lapse on June 30 for all Town units.
- 8) All budget data presented is the final revised budget.
- 9) For the year ended June 30, 2011, the general government administration, public safety, public works, parks and recreation, and debt service categories overspent their budgets.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

The following is a reconciliation of the results of operations for the year on the budgetary basis to the GAAP basis:

	General Fund
Net change in fund balance (non-GAAP budgetary basis)	\$ 43,632
Modified accrual basis adjustments	193,705
Net change in fund balance (GAAP basis)	\$ 237,337

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end, of \$10,748, are reported as assigned fund balance since they do not constitute expenditures or liabilities. All reported amounts relate to public records.

F. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less when purchased. Also included in this classification are nonnegotiable certificates of deposit.

G. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible taxes, water and sewer billings, and ambulatory accounts receivable using historical collection data, specific account analysis, and management's estimate of the collectability of aged receivables.

H. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest was capitalized in the Water and Sewer Fund. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	25-40 years
Vehicles, machinery, and equipment	5-10 years
Distribution and transmission systems	25-40 years
Furniture and fixtures	5-10 years
Water and wastewater plants	40 years

Infrastructure assets are roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. and include all assets constructed since July 1, 2001. The retroactive reporting of general infrastructure is optional and the Town has chosen not to report these assets.

I. Deferred and Unearned Revenue

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, deferred revenue consisted of delinquent property taxes, fire services, and ambulatory services not collected within 45 days of year end.

The water and sewer fund reports unearned revenue in connection with non-cash proceeds from the sale of capacity rights to the Town's sewer treatment plant. Revenue will be recognized over the term of the agreement. As of June 30, 2011, none of the revenue has been recognized.

J. Compensated Absences

The Town's policies allow for the accumulation and vesting of limited amounts of vacation leave and personal time off until termination or retirement. Such absences are accrued when earned in the government-wide and proprietary financial statements. A liability is reported in governmental fund only when the leave is due and payable.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

K. 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 statement of net assets. 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 bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

L. Fund Equity

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – 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** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by the governing body.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

L. Fund Equity (Continued)

Restricted Amounts

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

N. Comparative data

Comparative total data for the year ended June 30, 2010 has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Note 2. 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), 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). The Town has not formally adopted deposit and investment policies that limit the Town's allowable deposits or investments or addresses the specific types of risk to which the Town may be exposed.

There was no investment activity during the year other than in certificates of deposit.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. Receivables

Receivables for individual major funds are as follows:

	General	Water and Sewer	Total
Receivables			
Taxes	\$ 347,389	\$ -	\$ 347,389
Accounts	159,495	456,358	615,853
Ambulance services	197,463	-	197,463
Gross receivables	704,347	456,358	1,160,705
Less: allowance for uncollectibles	(336,805)	(92,749)	(429,554)
	\$ 367,542	\$ 363,609	\$ 731,151

Note 4. Due from Other Governmental Units

A summary of funds due from other governmental units follows:

	General
Tazewell County	
Sales tax	\$ 42,908
Commonwealth of Virginia	
Personal property tax relief	54,820
Other various grants	16,327
	\$ 114,055

Note 5. Interfund Advances Receivable and Payable

An amount of \$2,054,828 was due to the General Fund from the Water and Sewer Fund for water and sewer expenditures paid out of the General Fund. Management is in the process of determining a repayment schedule between the funds and this balance is not expected to be paid back within a year.

For fiscal year 2012, management has budgeted \$20,000 to start reducing this amount.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 6. Capital Assets

Capital asset activity was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 1,948,576	\$ 35,000	\$ -	\$ 1,983,576
Construction in progress	152,931	64,553	193,938	23,546
	<u>2,101,507</u>	<u>99,553</u>	<u>193,938</u>	<u>2,007,122</u>
Capital assets, depreciated:				
Vehicles	1,603,455	158,118	-	1,761,573
Buildings and improvements	2,254,658	512,844	-	2,767,502
Equipment, furniture, and fixtures	946,217	82,869	18,283	1,010,803
	<u>4,804,330</u>	<u>753,831</u>	<u>18,283</u>	<u>5,539,878</u>
Less accumulated depreciation for:				
Vehicles	1,223,434	92,817	-	1,316,251
Buildings and improvements	992,797	72,623	-	1,065,420
Equipment, furniture, and fixtures	757,540	72,850	18,283	812,107
	<u>2,973,771</u>	<u>238,290</u>	<u>18,283</u>	<u>3,193,778</u>
Capital assets, depreciated, net	<u>1,830,559</u>	<u>515,541</u>	<u>-</u>	<u>2,346,100</u>
Governmental activities capital assets, net	<u>\$ 3,932,066</u>	<u>\$ 615,094</u>	<u>\$ 193,938</u>	<u>\$ 4,353,222</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 6. Capital Assets (Continued)

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 21,581	\$ -	\$ -	\$ 21,581
Construction in progress	-	221,992	-	221,992
	<u>21,581</u>	<u>221,992</u>	<u>-</u>	<u>243,573</u>
Capital assets, depreciated:				
Distribution/transmission systems	5,485,253	-	22,299	5,462,954
Water and wastewater plants	6,194,257	-	-	6,194,257
Machinery and equipment	726,632	23,926	27,482	723,076
	<u>12,406,142</u>	<u>23,926</u>	<u>49,781</u>	<u>12,380,287</u>
Less accumulated depreciation	<u>6,421,206</u>	<u>300,768</u>	<u>27,482</u>	<u>6,694,492</u>
Capital assets, depreciated, net	<u>5,984,936</u>	<u>(276,842)</u>	<u>22,299</u>	<u>5,685,795</u>
Business-type activities capital assets, net	<u>\$ 6,006,517</u>	<u>\$ (54,850)</u>	<u>\$ 22,299</u>	<u>\$ 5,929,368</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 24,093
Public safety	129,955
Public works	59,088
Parks, recreation, and cultural	25,154
	<u>\$ 238,290</u>
Business-type activities:	
Water and sewer	<u>\$ 300,768</u>

In the current year, the Town took control over the Jeffersonville Rescue Squad. As part of this process, approximately \$539,000 in assets were donated to the Town.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 7. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Notes payable	\$ 236,284	\$ -	\$ 57,164	\$ 179,120	\$ 54,258
Due to County	72,081	-	10,803	61,278	14,412
Capital lease obligations	-	24,196	8,080	16,116	7,795
Compensated absences	52,182	44,952	-	97,134	97,134
	<u>\$ 360,547</u>	<u>\$ 69,148</u>	<u>\$ 76,047</u>	<u>\$ 353,648</u>	<u>\$ 173,599</u>
<u>Business-Type Activities</u>					
General obligation bonds	\$ 1,657,090	\$ -	\$ 30,305	\$ 1,626,785	\$ 30,263
Revenue bonds	665,521	-	258,329	407,192	268,765
Capital lease obligations	3,061	17,000	2,040	18,021	18,021
Compensated absences	10,607	11,364	-	21,971	21,971
	<u>\$ 2,336,279</u>	<u>\$ 28,364</u>	<u>\$ 290,674</u>	<u>\$ 2,073,969</u>	<u>\$ 339,020</u>

Water and sewer fund revenues are pledged for the payment of principal and interest for water and sewer fund bonds. Governmental activities compensated absences are generally liquidated by the general fund.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 7. Long-Term Liabilities (Continued)

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

Fiscal Year	Governmental Activities						Totals	
	Notes Payable		Capital Lease Obligations		Due to County			
	Principal	Interest	Principal	Interest	Principal	Interest		
2012	\$ 54,258	\$ 5,058	\$ 7,795	\$ 944	\$ 14,412	\$ -		
2013	61,289	3,529	8,321	417	14,412	-		
2014	63,573	1,260	-	-	14,412	-		
2015	-	-	-	-	14,412	-		
2016	-	-	-	-	3,630	-		
	<u>\$ 179,120</u>	<u>\$ 9,847</u>	<u>\$ 16,116</u>	<u>\$ 1,361</u>	<u>\$ 61,278</u>	<u>\$ -</u>		

Fiscal Year	Business-Type Activities						Totals	
	Revenue Bonds		General Obligation Bonds		Capital Lease Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest		
2012	\$ 268,765	\$ 13,627	\$ 30,263	\$ 52,465	\$ 18,021	\$ 182	\$ 393,514	\$ 72,276
2013	138,427	2,769	31,261	51,467	-	-	253,710	58,182
2014	-	-	32,293	50,436	-	-	110,278	51,696
2015	-	-	33,358	49,370	-	-	47,770	49,370
2016	-	-	34,458	48,270	-	-	38,088	48,270
2017-2021	-	-	190,109	223,531	-	-	190,109	223,531
2022-2026	-	-	223,604	190,036	-	-	223,604	190,036
2027-2031	-	-	263,001	150,639	-	-	263,001	150,639
2032-2036	-	-	309,340	104,300	-	-	309,340	104,300
2037-2041	-	-	363,842	49,798	-	-	363,842	49,798
2042-2046	-	-	115,256	2,918	-	-	115,256	2,918
	<u>\$ 407,192</u>	<u>\$ 16,396</u>	<u>\$ 1,626,785</u>	<u>\$ 973,230</u>	<u>\$ 18,021</u>	<u>\$ 182</u>	<u>\$ 2,308,512</u>	<u>\$ 1,001,016</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Original Amount</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Notes Payable:</u>						
Note Payable, Fire Truck	3.64%	06-07	06-14	\$ 400,000	\$ 179,120	\$ -
<u>Bonds:</u>						
Rural Development, General Obligation	3.25%	2003	2043	\$ 1,800,000	\$ -	\$ 1,626,785
Virginia Resource Authority, Revenue	4.00%	04-93	10-12	\$ 3,798,531	-	407,192
					\$ -	\$ 2,033,977
<u>Capital Lease Obligations:</u>						
Ford Credit	8.35%	10-10	04-13	\$ 24,196	\$ 16,116	\$ -
Fisher Scientific	18.00%	12-08	12-11	\$ 6,121	-	1,021
John Deere	-	05-11	06-12	\$ 17,000	-	17,000
					\$ 16,116	\$ 18,021

Payable to County

During 2010, the Town entered into an agreement with Tazewell County to pay back \$72,081 for sales tax amounts received in prior years due to inaccurate child count numbers within the Town. This will be paid over a five-year period at \$1,200 per month and does not include an interest component. As of June 30, 2011, the remaining balance was \$61,278.

Note 8. Defined Benefit Pension Plan and Deferred Compensation Plan

Plan Description

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent 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.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 8. Defined Benefit Pension Plan and Deferred Compensation Plan (Continued)

Plan Description (Continued)

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 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 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 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. 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.

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 report may be obtained from the VRS website at www.varetire.org/Pdf/Publications/2010-Annual-Report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(Continued)

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 8. Defined Benefit Pension Plan and Deferred Compensation Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. 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 and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2011 was 7.79% of annual covered payroll. The Town's contribution rate includes the employee's share of 5% paid by the employee.

Annual Pension Cost

For fiscal year 2011, the Town's annual pension cost of \$122,537 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees 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. Both the investment rate of return and the projected salary increases included 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 payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 57,599	100%	\$ -
June 30, 2010	\$ 88,351	100%	\$ -
June 30, 2011	\$ 122,537	100%	\$ -

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 8. Defined Benefit Pension Plan and Deferred Compensation Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 98.05% funded. The actuarial accrued liability for benefits was \$4,468,036, and the actuarial value of assets was \$4,380,727, resulting in an unfunded actuarial accrued liability (UAAL) of \$87,309. The covered payroll (annual payroll of active employees covered by the plan) was \$1,455,179, and ratio of the UAAL to the covered payroll was 6.00%.

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

Note 9. Property Taxes

The major sources of property taxes are real estate and personal property taxes. The assessments are the responsibility of Tazewell County, while billing and collection are the Town's responsibilities.

Property taxes are levied annually on assessed values as of January 1 and are due by December 5. Personal property taxes do create a lien on property.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of 10% of the unpaid tax is due for late payment. Interest is accrued at 0.10% per month. The effective tax rates per \$100 of assessed value for the year ended June 30 were as follows:

Real estate	\$	0.25
Personal property	\$	0.50
Machinery and tools	\$	0.50

Note 10. Risk Management

The Risk Management Programs are as follows:

Workers' Compensation Insurance is provided through the Virginia Municipal League. During 2009-2010, total premiums paid were approximately \$66,000. Benefits are those afforded through Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates, and claims experience.

General liability and other insurance are provided through policies with a commercial insurance company. General liability and business automobile coverage have a \$2,000,000 and \$1,000,000 limit per occurrence, respectively. Property insurance is covered per statement of values and is approximately \$2,000,000. Police professional liability and public officials' liability insurance with a \$3,000,000 limit are covered through a policy with a commercial insurance company. Total premiums paid for these policies were approximately \$77,000.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 10. Risk Management (Continued)

Healthcare coverage is provided for employees through a policy with Anthem Blue Cross-Blue Shield. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for the year ended June 30 were approximately \$473,000.

There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

Note 11. Net Assets

At June 30, the Water and Sewer fund had a deficit in unrestricted net assets totaling \$(2,719,472). This deficit is anticipated to be recovered through future revenues as well as possible transfers from the General Fund.

Note 12. Commitments and Contingencies

Tazewell County Gymnasium Lease

In January 2007, the Town entered a 40 year lease agreement with Tazewell County for the Old Junior High School Gymnasium for recreational purposes with annual rent of \$1. Pursuant to the terms of the lease, the Town agreed to assume and pay the expenses related to utilities, repair, maintenance, or renovation costs, all taxes associated with the building, and hazard insurance premiums on the property.

American Legion Building Lease

In May 2007, the Town entered a 40 year lease agreement with American Legion Post #133 for the American Legion Building with annual rent of \$1. Pursuant to the terms of the lease, the Town agreed to assume and pay the expenses related to utilities, repair, maintenance, or renovation costs, all taxes associated with the building, and hazard insurance premiums on the property. Through 2011, the Town expended and capitalized approximately \$118,000 for renovations.

Litigation

The Town and the Tazewell County School Board were named in a lawsuit regarding the construction of a sidewalk. The potential outcome is unknown at this time and insurance would cover the cost should the outcome be unfavorable.

Construction Commitments

During the current year, Council approved the commencement of the Route 61 project. No costs have been incurred as of year end and the total project is expected to cost \$3 to \$3.5 million. This project will be administered by the Virginia Department of Transit. The Town also started the Drytown sewer project in the current year and incurred \$177,000 in engineering costs. The total project is expected to cost \$3 to \$3.5 million. Both projects will require a local match and additional grant funding for these projects are being pursued. Subsequent to year end, the Town was notified that they will be awarded state funding in the amount of \$600,000 for the Dry Town Sewer Project.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 13. Service Contract

Effective September 1996, the Town entered into an agreement with the Tazewell County Public Service Authority (the "PSA") to purchase water for a forty year period at which time the agreement may be renewed in additional five year increments. The Town also conveyed its water treatment plant to the PSA as part of the agreement. For 2011, the Town paid \$514,874 to the PSA for water.

Note 14. Sewer Treatment Facility Capacity

During 2010, the Town entered into an agreement with the PSA whereby the Town is allocating 40% of its sewer treatment plant capacity to the PSA in exchange for water lines valued at \$637,000 and a note receivable for \$750,266. The note has a term of 30 years, an annual interest rate of 4.07%, and monthly payments of \$3,612 beginning once the PSA begins discharge into the facility.

The PSA will also pay a monthly Treatment and Disposal Volume Charge determined by the Town's total direct and indirect costs to maintain the facility and the number of gallons discharged into the facility by the PSA. Any unexpected capital expenditures along with necessary maintenance, repairs, replacements or upgrades, of any sanitary sewer lines used to transport the PSA's flow into the facility will be paid by both parties based on their capacities in the facility. Both parties will jointly contribute \$1,000 per month to a capital reserve fund not to exceed \$50,000 to assist with unexpected capital expenditures. As of June 30, 2011, the PSA has not started discharging into the facility and none of the terms described here have begun.

Note 15. Restatement of Fund Balance and Net Assets

	<u>Fund Level</u>		<u>Entity-Wide</u>
	<u>General Fund Fund Balance</u>	<u>Water and Sewer Fund Net Assets</u>	<u>Net Assets</u>
Balance, June 30, 2010, as previously stated	\$ 1,897,570	\$ 1,356,440	\$ 6,884,816
Adjustment for revenue sharing accrual	108,000	-	108,000
Reclassify prior year expenditures/expenses	111,085	(111,085)	-
Balance, June 30, 2010, as restated	<u>\$ 2,116,655</u>	<u>\$ 1,245,355</u>	<u>\$ 6,992,816</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 16. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* was issued to address issues related to the use of the alternative measurement method, and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The statement amends GASB No. 45, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. This statement will be effective for the year ending June 30, 2012.

GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements* was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit, or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 16. New Accounting Standards (Continued)

GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* was issued to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit provider. The statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The statement will be effective for the year ending June 30, 2012.

Management has not yet evaluated the effects, if any, of adopting these standards, but does not expect them to be material.

**REQUIRED SUPPLEMENTARY
INFORMATION**

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CASH BASIS
 GENERAL FUND
 Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
General property taxes:				
Real property taxes	\$ 619,566	\$ 619,566	\$ 586,980	\$ (32,586)
Public service corporation taxes	24,000	24,000	29,976	5,976
Personal property taxes	99,000	99,000	91,220	(7,780)
Penalties and interest on delinquent taxes	20,955	20,955	50,059	29,104
Total general property taxes	<u>763,521</u>	<u>763,521</u>	<u>758,235</u>	<u>(5,286)</u>
Other local taxes:				
Meals taxes	472,000	472,000	505,611	33,611
Cigarette taxes	32,000	32,000	33,100	1,100
Franchise license tax	32,000	32,000	29,194	(2,806)
Bank stock tax	142,000	142,000	171,228	29,228
Total other local taxes	<u>678,000</u>	<u>678,000</u>	<u>739,133</u>	<u>61,133</u>
Permits, privilege fees, and regulatory licenses:				
Planning and zoning	1,000	1,000	980	(20)
Decal fees	35,000	35,000	27,770	(7,230)
Business license taxes	200,000	200,000	196,870	(3,130)
Total permits and privilege fees	<u>236,000</u>	<u>236,000</u>	<u>225,620</u>	<u>(10,380)</u>
Fines and forfeitures:				
Court fines	70,000	70,000	38,593	(31,407)
Parking fines	500	500	1,200	700
Total fines and forfeitures	<u>70,500</u>	<u>70,500</u>	<u>39,793</u>	<u>(30,707)</u>
Revenue from use of money and property:				
Interest earned	5,000	5,000	1,060	(3,940)
Total revenue from use of money and property	<u>5,000</u>	<u>5,000</u>	<u>1,060</u>	<u>(3,940)</u>

(Continued)

TOWN OF TAZEWELL, VIRGINIA

EXHIBIT 8

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CASH BASIS
 GENERAL FUND
 Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (Continued)				
Charges for services:				
Waste collection charges	\$ 370,000	\$ 370,000	\$ 351,904	\$ (18,096)
Recreation	15,000	15,000	56,587	41,587
Fire	20,000	20,000	13,819	(6,181)
Rescue	-	-	237,831	237,831
Miscellaneous charges	3,000	3,000	8,181	5,181
Total charges for services	<u>408,000</u>	<u>408,000</u>	<u>668,322</u>	<u>260,322</u>
Other revenues:				
Miscellaneous	35,000	35,000	24,078	(10,922)
Total other revenues	<u>35,000</u>	<u>35,000</u>	<u>24,078</u>	<u>(10,922)</u>
Total revenue from local sources	<u>2,196,021</u>	<u>2,196,021</u>	<u>2,456,241</u>	<u>260,220</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Local sales and use taxes	300,000	300,000	264,879	(35,121)
Personal property tax reimbursement	60,000	60,000	54,820	(5,180)
Rolling stock	5,000	5,000	5,748	748
Fire programs	9,500	9,500	-	(9,500)
Litter control grant	2,500	2,500	2,353	(147)
Other	40,000	40,000	190,409	150,409
Total non-categorical aid	<u>417,000</u>	<u>417,000</u>	<u>518,209</u>	<u>101,209</u>
Categorical aid:				
Highway and street maintenance grant	856,000	856,000	898,809	42,809
Law enforcement aid	107,350	107,350	102,632	(4,718)
Total categorical aid	<u>963,350</u>	<u>963,350</u>	<u>1,001,441</u>	<u>38,091</u>
Total intergovernmental revenues	<u>1,380,350</u>	<u>1,380,350</u>	<u>1,519,650</u>	<u>139,300</u>
Total general fund revenues	<u>\$ 3,576,371</u>	<u>\$ 3,576,371</u>	<u>\$ 3,975,891</u>	<u>\$ 399,520</u>

TOWN OF TAZEWELL, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Expenditures				
General government administration:				
Mayor and Town Council:				
Wages - elected officials	\$ 6,000	\$ 6,000	\$ 5,000	\$ 1,000
Council support	30,000	30,000	26,733	3,267
Travel, training, and education	1,000	1,000.00	-	1,000
Dues and professional memberships	4,000	4,000	2,180	1,820
Council community support	50,000	50,000	45,033	4,967
Public officials insurance	18,000	18,000	5,522	12,478
Total Mayor and Town Council	<u>109,000</u>	<u>109,000</u>	<u>84,468</u>	<u>24,532</u>
Town Attorney/legal services:				
Wages	600	600	600	-
Health insurance	6,650	6,650	7,008	(358)
Legal services	5,000	5,000	6,400	(1,400)
Total Town Attorney/legal services	<u>12,250</u>	<u>12,250</u>	<u>14,008</u>	<u>(1,758)</u>
Administration:				
Wages	185,464	185,464	212,678	(27,214)
Fringes/benefits	69,833	69,833	74,438	(4,605)
Professional services	22,000	22,000	17,702	4,298
Advertising	3,000	3,000	9,170	(6,170)
Building maintenance	10,000	10,000	18,436	(8,436)
Postage and delivery services	9,000	9,000	6,863	2,137
Motor fuel expense	1,500	1,500	1,149	351
Vehicle maintenance	500	500	107	393
Utilities	20,500	20,500	29,656	(9,156)
Internet fees	12,000	12,000	20,929	(8,929)
Travel, training, and education	17,000	17,000	12,288	4,712
Dues and professional memberships	6,000	6,000	4,221	1,779
General liability insurance	16,000	16,000	10,787	5,213
Office supplies	30,000	30,000	49,030	(19,030)
Equipment	10,000	10,000	10,983	(983)
Equipment maintenance	12,000	12,000	42,979	(30,979)
Bank service charge	500	500	665	(165)
Administrative reserve	65,000	65,000	14,189	50,811
Miscellaneous	2,500	2,500	15,303	(12,803)
Total administration	<u>492,797</u>	<u>492,797</u>	<u>551,573</u>	<u>(58,776)</u>
Total general government administration	<u>614,047</u>	<u>614,047</u>	<u>650,049</u>	<u>(36,002)</u>

(Continued)

TOWN OF TAZEWELL, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
 GENERAL FUND
 Year Ended June 30, 2011

Expenditures (Continued)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Safety:				
Police department:				
Wages	\$ 505,000	\$ 505,000	\$ 557,364	\$ (52,364)
Fringes/benefits	181,716	181,716	182,147	(431)
Professional services	25,000	25,000	15,858	9,142
Advertising	1,000	1,000	2,165	(1,165)
Building maintenance	5,000	5,000	2,410	2,590
Postage and delivery services	1,000	1,000	942	58
Motor fuel expense	35,000	35,000	44,525	(9,525)
Vehicle maintenance	20,000	20,000	22,397	(2,397)
Utilities	18,000	18,000	18,521	(521)
Uniforms	15,000	15,000	13,948	1,052
Travel, training, and education	15,000	15,000	21,815	(6,815)
Dues and professional memberships	1,000	1,000	707	293
General liability insurance	16,000	16,000	10,413	5,587
Office supplies	15,000	15,000	14,140	860
Equipment	15,000	15,000	3,869	11,131
Equipment maintenance	10,000	10,000	9,679	321
Capital outlay	25,000	25,000	-	25,000
Internet fees	12,000	12,000	15,302	(3,302)
Public safety	14,000	14,000	17,164	(3,164)
Narcotics task force	7,000	7,000	7,000	-
Southwest Regional Jail	6,000	6,000	5,792	208
Miscellaneous	2,000	2,000	3,346	(1,346)
Total police department	<u>944,716</u>	<u>944,716</u>	<u>969,504</u>	<u>(24,788)</u>
Volunteer fire department:				
Personnel cost	16,000	16,000	18,335	(2,335)
Building maintenance	2,000	2,000	2,591	(591)
Motor fuel expense	4,000	4,000	3,577	423
Utilities	7,000	7,000	6,760	240
General liability insurance	9,000	9,000	11,146	(2,146)
Miscellaneous	-	-	2,620	(2,620)
Supplies	20,000	20,000	10,740	9,260
Equipment	-	-	9,047	(9,047)
Equipment maintenance	2,000	2,000	2,651	(651)
Internet fees	10,000	10,000	9,385	615
Vehicle maintenance	4,000	4,000	10,187	(6,187)
3rd party billing	20,000	20,000	590	19,410
Fire fund transfer	10,500	10,500	11,993	(1,493)
Total volunteer fire department	<u>104,500</u>	<u>104,500</u>	<u>99,622</u>	<u>4,878</u>
Volunteer rescue squad:				
Rescue squad expense	-	-	259,395	(259,395)
Total volunteer rescue squad	<u>-</u>	<u>-</u>	<u>259,395</u>	<u>(259,395)</u>
Total public safety	<u>1,049,216</u>	<u>1,049,216</u>	<u>1,328,521</u>	<u>(279,305)</u>

(Continued)

TOWN OF TAZEWELL, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
 GENERAL FUND
 Year Ended June 30, 2011

Expenditures (Continued)	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Public works:				
Sanitation:				
Wages	\$ 118,000	\$ 118,000	\$ 90,747	\$ 27,253
Fringes/benefits	59,766	59,766	56,297	3,469
Uniforms	3,000	3,000	2,661	339
Equipment maintenance	500	500	-	500
Fuel	25,000	25,000	25,083	(83)
Miscellaneous	200	200	872	(672)
Supplies	500	500	99	401
Vehicle maintenance	18,000	18,000	23,360	(5,360)
Total sanitation	<u>224,966</u>	<u>224,966</u>	<u>199,119</u>	<u>25,847</u>
Administration:				
Wages	334,000	334,000	433,474	(99,474)
Fringes/benefits	184,631	184,631	180,349	4,282
Signage	4,000	4,000	3,433	567
Fuel	32,000	32,000	43,538	(11,538)
Utilities	19,000	19,000	32,105	(13,105)
Vehicle maintenance	25,000	25,000	32,154	(7,154)
Building maintenance	2,000	2,000	7,836	(5,836)
Miscellaneous	1,000	1,000	4,910	(3,910)
Supplies	15,000	15,000	18,146	(3,146)
Uniforms	12,000	12,000	14,435	(2,435)
Travel, training, and education	7,500	7,500	3,995	3,505
General liability insurance	9,000	9,000	10,495	(1,495)
Internet fees	10,000	10,000	12,926	(2,926)
Equipment	15,000	15,000	7,871	7,129
Equipment maintenance	20,000	20,000	8,680	11,320
Snow removal	32,000	32,000	45,999	(13,999)
Total public works administration	<u>722,131</u>	<u>722,131</u>	<u>860,346</u>	<u>(138,215)</u>
Paving	100,000	100,000	-	100,000
Street lights	56,000	56,000	56,143	(143)
Street, bridge, sidewalk maintenance	40,000	40,000	66,963	(26,963)
Total public works	<u>1,143,097</u>	<u>1,143,097</u>	<u>1,182,571</u>	<u>(39,474)</u>

(Continued)

TOWN OF TAZEWELL, VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
 GENERAL FUND
 Year Ended June 30, 2011

Expenditures (Continued)	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Parks, recreation, and cultural:				
Wages	\$ 103,170	\$ 103,170	\$ 106,736	\$ (3,566)
Fringes/benefits	42,431	42,431	42,970	(539)
Advertising	500	500	300	200
Utilities	15,000	15,000	9,422	5,578
Uniforms	2,000	2,000	1,973	27
Travel, training, and education	3,000	3,000	1,073	1,927
Dues and professional memberships	200	200	-	200
Motor fuel expense	2,500	2,500	1,479	1,021
Adult activities	-	-	2,409	(2,409)
Building maintenance	15,000	15,000	14,802	198
Miscellaneous	1,000	1,000	14,682	(13,682)
Supplies	12,000	12,000	10,477	1,523
Youth activities	-	-	11,047	(11,047)
Equipment maintenance	6,000	6,000	2,524	3,476
Internet fees	10,000	10,000	12,081	(2,081)
General liability insurance	10,000	10,000	10,362	(362)
Equipment	3,000	3,000	1,650	1,350
Vehicle maintenance	-	-	1,737	(1,737)
Other recreation	3,000	3,000	4,394	(1,394)
Pool operation	-	-	34,425	(34,425)
Parks and playground	3,000	3,000	-	3,000
Groundskeeping	10,000	10,000	5,359	4,641
Total parks, recreation, and cultural	<u>241,801</u>	<u>241,801</u>	<u>289,902</u>	<u>(48,101)</u>
Non-departmental:				
Capital equipment reserve fund	50,000	50,000	-	50,000
Capital improvements	320,000	320,000	393,885	(73,885)
Construction and related	50,000	50,000	-	50,000
Sanitation fund	20,000	20,000	-	20,000
Contingency	23,463	23,463	-	23,463
Total non-departmental	<u>463,463</u>	<u>463,463</u>	<u>393,885</u>	<u>69,578</u>
Debt service:				
Principal retirement	56,922	56,922	76,047	(19,125)
Interest and other fiscal charges	7,825	7,825	11,284	(3,459)
Total debt service	<u>64,747</u>	<u>64,747</u>	<u>87,331</u>	<u>(22,584)</u>
Total general fund expenditures	<u>\$ 3,576,371</u>	<u>\$ 3,576,371</u>	<u>\$ 3,932,259</u>	<u>\$ (355,888)</u>

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
 June 30, 2011

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 2008	\$ 4,379,185	\$ 3,772,382	\$ (606,803)	116.09%	\$ 1,242,524	-48.84%
June 30, 2009	\$ 4,381,353	\$ 4,034,254	\$ (347,099)	108.60%	\$ 1,279,479	-27.13%
June 30, 2010	\$ 4,380,727	\$ 4,468,036	\$ 87,309	98.05%	\$ 1,455,179	6.00%

OTHER INFORMATION SECTION

TABLE 1

TOWN OF TAZEWELL, VIRGINIA

GENERAL GOVERNMENT REVENUES BY SOURCE
Last Five Fiscal Years (1)

Fiscal Years Ended June 30,	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services (2)	Refuse Charges	Inter-governmental	Other	Totals
2011	\$ 758,235	\$ 719,556	\$ 234,322	\$ 39,793	\$ 1,060	\$ 342,756	\$ 366,462	\$ 1,429,278	\$ 14,292	3,905,754
2010*	616,082	617,166	247,085	43,823	5,192	53,165	345,661	1,655,148	23,983	3,607,305
2009	597,883	636,725	227,192	71,818	11,939	62,093	330,905	1,411,671	32,210	3,382,436
2008	551,644	532,414	218,272	56,683	64,053	68,416	305,258	1,577,495	384,200	3,758,435
2007	595,067	519,159	241,440	45,193	10,386	55,328	295,776	1,265,029	210,954	3,238,332

(1) Consists solely of general fund revenues.

(2) Increase in 2011 due to new ambulatory and fire services.

* Restated, see Note 15.

TOWN OF TAZEWELL, VIRGINIA

TABLE 2

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
Last Five Fiscal Years (1)

<u>Fiscal Years Ended June 30,</u>	<u>General Government Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks, Recreation, and Cultural</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Totals</u>
2011	\$ 650,049	\$ 1,370,597	\$ 1,182,570	\$ 289,902	\$ 112,164	\$ 87,331	\$ 3,692,613
2010*	620,832	1,068,147	1,100,605	353,911	242,268	114,017	3,499,780
2009	613,854	1,084,062	1,189,028	358,884	139,231	94,379	3,479,438
2008	667,697	1,362,242	1,084,981	258,905	434,347	320,063	4,128,235

TOWN OF TAZEWELL, VIRGINIA

TABLE 3

LEGAL DEBT MARGIN INFORMATION
Last Five Fiscal Years

	2011	2010	2009	2008	2007
Debt limit	\$ 25,071,740	\$ 21,830,100	\$ 21,798,160	\$ 21,691,900	\$ 21,798,160
Total net debt applicable to limit	2,247,234	2,561,956	2,939,976	3,215,382	3,682,693
Legal debt margin	<u>\$ 22,824,506</u>	<u>\$ 19,268,144</u>	<u>\$ 18,858,184</u>	<u>\$ 18,476,518</u>	<u>\$ 18,115,467</u>
Total net debt applicable to the limit as a percentage of debt limit	9%	12%	13%	15%	17%

Legal Debt Margin Calculation for Fiscal Years 2011 and 2010

	2011	2010
Assessed value	<u>\$ 250,717,400</u>	<u>\$ 218,301,000</u>
Debt limit (10% of assessed value)	\$ 25,071,740	\$ 21,830,100
Less debt applicable to limit:		
Revenue bonds	407,192	665,521
General obligation bonds	1,626,785	1,657,090
Other long-term obligations	213,257	239,345
Legal debt margin	<u>\$ 22,824,506</u>	<u>\$ 19,268,144</u>

COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Members of Town Council
Town of Tazewell, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 27, 2011. 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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be material weaknesses in internal control over financial reporting.

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 Items 08-1 and 08-2 described in the accompanying schedule of findings and responses to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are reported as Items 11-1 and 11-2 in the accompanying schedule of findings and responses.**

We noted certain other matters that we reported to management of the Town in a separate letter dated October 27, 2011.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 27, 2011

TOWN OF TAZEWELL, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2011

As more fully described in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts, and grants shown below:

STATE COMPLIANCE MATTERS

Code of Virginia:

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Debt Provisions
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

State Agency Requirements:

Highway Maintenance Funds

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF TAZEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2011

A. FINDINGS – FINANCIAL STATEMENT AUDIT

08-1: Segregation of Duties (Material Weakness)

Condition:

In general, internal control is designed to safeguard assets and help prevent losses from employee dishonesty or error. A fundamental concept of internal control is the separation of duties. The basic premise of this concept is that no one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. Due to the limited size of the Finance Department, a proper separation of duties has not been established and maintained.

Recommendation:

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

Management's Response:

Management concurs and is in the process of implementing controls, where possible, to alleviate such findings.

08-2: Financial Reporting Controls (Material Weakness)

Condition:

As more fully discussed in the letter on internal control matters, we noted a significant number of control deficiencies over the financial reporting process. These deficiencies resulted in material audit adjustments and are summarized as follows:

- There is no documentation of internal reviews over various financial system updates, changes, or billing reports.
- The trial balance is not reviewed for accuracy or completeness and is not reconciled to subsidiary ledgers.
- We detected unrecorded balances related to allowance for doubtful accounts, unbilled receivable accruals, accounts payable, payroll, and capital assets.
- Improper accounting of debt related items and capital leases.
- Inadequate access controls over information technology systems.
- Improper accounting for grant related expenditures and the resulting revenue accrual.
- Prior period adjustment relating to accounts payable classifications and unrecorded grant receivables in the prior year.

TOWN OF TAZEWELL, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

08-2: Financial Reporting Controls (Material Weakness) (Continued)

Recommendation:

Management should review the current financial reporting process and related controls to avoid such instances in the future.

Management's Response:

Management concurs and is in the process of implementing controls, where possible, to alleviate such findings. Management is also currently working on an accounting manual.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

11-1: General Fund Budget Appropriations

Condition:

As noted in the budget-to-actual schedule beginning on page 31, certain general fund expenditure categories exceeded budgeted appropriations.

Recommendation:

Steps should be taken to ensure budgetary compliance.

Management's Response:

Management will monitor expenses and adjust the budget or issue amendments if necessary.

11-2: Exonerations and Abatements

Condition:

Two out of five abatements tested for personal property and real estate were not supported by proper approval.

Recommendation:

Procedures should be implemented to ensure that all exonerations and abatements are properly approved before payment.

Management's Response:

Management concurs with this finding.

TOWN OF TAZEWELL, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

B. FINDINGS – COMMONWEALTH OF VIRGINIA (Continued)

11-3: Outstanding Checks

Condition:

During our audit, we noted five checks that were outstanding for over one year. The Uniform Disposition of Unclaimed Property Act states that after a period of one year, all unrepresented checks must be turned over to the State of Virginia and an Unclaimed Property Report filed.

Recommendation:

Steps should be taken to submit all checks outstanding more than one year to the State.

Management's Response:

Management concurs with this finding.