

**TOWN OF TAZEWELL, VIRGINIA**

**FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2013**

**TOWN OF TAZEWELL, VIRGINIA  
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# **INTRODUCTORY SECTION**

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**TOWN OF TAZEWELL, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2013**

**TOWN COUNCIL**

A. D. Buchanan, Jr., Mayor  
Chris Blankenship, Vice Mayor  
Chris Brown  
Glenn L. Catron  
David H. Fox  
Terry W. Mullins  
Jack T. Murray, Sr.

**APPOINTED OFFICIALS**

Todd Day ..... Town Manager  
Linda S. Griffith ..... Clerk/Treasurer

**INDEPENDENT AUDITORS**

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

**ATTORNEYS**

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

# **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council  
Town of Tazewell, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, (the "Town") 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.

### ***Auditor's 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 *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 auditor's 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 Town'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 Town'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.

*Opinion*

**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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.**

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the analysis of funding progress for defined benefit pension plan, as listed in the table of contents, 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 historic 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.

Management has omitted the 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 an opinion on the financial statements that collectively comprise the Town's financial statements. The introductory and other information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Report on Summarized Comparative Information*

We have previously audited the Town's 2012 financial statements, and our report dated November 30, 2012, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November \_\_, 2013 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, 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 Tazewell, Virginia’s internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November \_\_, 2013

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# **FINANCIAL STATEMENTS**

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**TOWN OF TAZEWELL, VIRGINIA**

**STATEMENT OF NET POSITION  
June 30, 2013**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	
			<b>2013</b>	<b>(For Comparative Purposes Only) 2012</b>
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 115,443	\$ 44,837	\$ 160,280	\$ 207,129
Receivables, net (Note 3)	245,800	399,527	645,327	693,223
Due from other governmental units (Note 4)	115,573	-	115,573	119,297
Internal balances (Note 5)	(1,530)	1,530	-	-
Capital assets: (Note 6)				
Not depreciated	2,532,766	514,334	3,047,100	2,910,852
Depreciated, net	1,988,979	5,310,953	7,299,932	7,561,506
Note Receivable (Note 14)	-	727,070	727,070	741,623
Total assets	<u>4,997,031</u>	<u>6,998,251</u>	<u>11,995,282</u>	<u>12,233,630</u>
<b>LIABILITIES</b>				
Accounts payable	232,870	149,659	382,529	493,252
Accrued payroll and related liabilities	24,510	7,888	32,398	28,788
Accrued interest payable	223	4,243	4,466	7,354
Customer deposits	-	87,091	87,091	87,433
Noncurrent liabilities:				
Unearned revenue (Note 14)	-	1,323,379	1,323,379	1,359,886
Due within one year (Note 7)	82,961	32,293	115,254	698,174
Due in more than one year (Note 7)	117,059	1,593,143	1,710,202	1,660,407
Total liabilities	<u>457,623</u>	<u>3,197,696</u>	<u>3,655,319</u>	<u>4,335,294</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,440,647	4,223,168	8,663,815	8,255,399
Unrestricted	98,761	(422,613)	(323,852)	(357,063)
Total net position	<u>\$ 4,539,408</u>	<u>\$ 3,800,555</u>	<u>\$ 8,339,963</u>	<u>\$ 7,898,336</u>

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF ACTIVITIES

June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	2013	(For Comparative Purposes Only) 2012
Governmental activities:								
General government administration	\$ 828,367	\$ -	\$ -	\$ -	\$ (828,367)		\$ (828,367)	\$ (770,426)
Public safety	1,590,815	207,997	99,028	-	(1,283,790)		(1,283,790)	(1,150,188)
Public works	1,391,979	395,795	1,121,057	-	124,873		124,873	78,927
Parks, recreation, and cultural	280,636	49,618	-	-	(231,018)		(231,018)	(218,369)
Interest on long-term debt	16,464	-	-	-	(16,464)		(16,464)	(16,311)
Total governmental activities	4,108,261	653,410	1,220,085	-	(2,234,766)		(2,234,766)	(2,076,367)
Business-type activities:								
Water and sewer	1,895,521	2,015,044	-	-		119,523	119,523	(71,811)
Total business-type activities	1,895,521	2,015,044	-	-		119,523	119,523	(71,811)
Total primary government	\$ 6,003,782	\$ 2,668,454	\$ 1,220,085	\$ -	(2,234,766)	119,523	(2,115,243)	(2,148,178)
General revenues:								
Property taxes					823,479	-	823,479	706,639
Sales taxes					307,375	-	307,375	281,866
Meals taxes					533,873	-	533,873	538,335
Utilities taxes					26,114	-	26,114	31,532
Business license taxes					230,253	-	230,253	242,467
Bank franchise taxes					171,060	-	171,060	172,745
Other local taxes and charges					163,752	-	163,752	130,056
Intergovernmental revenue, unrestricted					104,761	-	104,761	185,199
Investment income					2,504	32,421	34,925	20,829
Other					38,552	122,726	161,278	26,709
Total general revenues					2,401,723	155,147	2,556,870	2,336,377
Change in net position					166,957	274,670	441,627	188,199
<b>NET POSITION AT JULY 1, as restated (Note 5)</b>					4,372,451	3,525,885	7,898,336	7,710,137
<b>NET POSITION AT JUNE 30</b>					\$ 4,539,408	\$ 3,800,555	\$ 8,339,963	\$ 7,898,336

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

**TOWN OF TAZEWELL, VIRGINIA**

**BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2013**

	<b>General Fund</b>	
	<b>2013</b>	<b>(For Comparative Purposes Only) 2012</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 115,443	\$ 185,853
Receivables, net	245,800	344,044
Due from other governmental units	115,573	119,297
Total assets	\$ 476,816	\$ 649,194
<b>LIABILITIES</b>		
Accounts payable	\$ 232,870	\$ 188,595
Accrued payroll and related liabilities	24,510	45,822
Deferred revenue	119,688	213,621
Due to other fund	1,530	-
Total liabilities	378,598	448,038
<b>FUND BALANCES</b>		
Assigned:		
General government administration	1,350	-
Public works	-	25,502
Unassigned	96,868	175,654
Total fund balances	98,218	201,156
Total liabilities and fund balances	\$ 476,816	\$ 649,194
<b>RECONCILIATION TO THE STATEMENT OF NET POSITION</b>		
Total fund balances	\$ 98,218	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	4,521,745	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	119,688	
Long-term liabilities, including notes payable, accrued interest, capital leases, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(200,243)	
Net position of governmental activities	\$ 4,539,408	

**TOWN OF TAZEWELL, VIRGINIA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
June 30, 2013**

	<b>General Fund</b>	
	<b>(For Comparative Purposes Only)</b>	
	<b>2013</b>	<b>2012</b>
<b>REVENUES</b>		
General property taxes	\$ 854,002	\$ 687,229
Other local taxes	1,069,875	1,054,672
Permits, privilege fees, and regulatory licenses	263,122	270,842
Fines and forfeitures	73,316	39,955
Revenue from use of money and property	2,504	555
Charges for services	321,025	292,073
Refuse charges	395,795	356,750
Intergovernmental	1,350,960	1,647,913
Other	38,552	25,270
Total revenues	4,369,151	4,375,259
<b>EXPENDITURES</b>		
Current:		
General government administration	776,822	758,981
Public safety	1,449,227	1,371,358
Public works	1,353,225	1,557,247
Parks, recreation, and cultural	230,953	262,698
Capital outlay	228,610	417,481
Debt service:		
Principal retirement	440,504	77,591
Interest and fiscal charges	17,898	14,654
Total expenditures	4,497,239	4,460,010
Excess (deficit) of revenue over expenditures	(128,088)	(84,751)
<b>OTHER FINANCING SOURCES (USES)</b>		
Debt proceeds	25,150	350,000
Transfer out	-	(363,257)
Total other financing services (uses)	25,150	(13,257)
Net change in fund balances	(102,938)	(98,008)
<b>FUND BALANCES AT JULY 1, as restated</b>	201,156	299,164
<b>FUND BALANCES AT JUNE 30</b>	\$ 98,218	\$ 201,156
<b>Net change in fund balance</b>	\$ (102,938)	
<b>Adjustments for the Statement of Activities:</b>		
Governmental funds report capital outlays (\$228,610) as expenditures while governmental activities report depreciation expense (\$224,790) to allocate those expenditures over the life of the assets. In addition, losses on disposal (\$23,546) are reported in the Statement of Activities, not in the funds. This is the amount by which new capital assets exceeded (or was less than) depreciation in the current period.		(19,726)
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.		(93,933)
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.		415,354
Some expenses reported in the Statement of Activities, such as compensated absences and accrued interest, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(31,800)
<b>Change in net position of governmental activities</b>	\$ 166,957	

**TOWN OF TAZEWELL, VIRGINIA**

**STATEMENT OF NET POSITION  
PROPRIETARY FUND**

**June 30, 2013**

	<b>Business-Type Activities</b>	
	<b>Enterprise Fund</b>	
	<b>Water and Sewer</b>	
	<b>(For Comparative Purposes Only)</b>	
	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,837	\$ 21,276
Receivables, net	399,527	349,179
Due from other funds	1,530	-
Total current assets	445,894	370,455
Noncurrent assets:		
Note receivable	727,070	741,623
Capital assets:		
Not depreciated	514,334	514,568
Depreciated, net	5,310,953	5,416,319
Total noncurrent assets	6,552,357	6,672,510
Total assets	6,998,251	7,042,965
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	149,659	304,657
Accrued payroll and related liabilities	7,888	5,485
Accrued interest payable	4,243	5,697
Customer deposits	87,091	87,433
Current portion of noncurrent liabilities	32,293	188,701
Total current liabilities	281,174	591,973
Noncurrent liabilities:		
Unearned revenue	1,323,379	1,359,886
Due in more than one year	1,593,143	1,565,221
Total noncurrent liabilities	2,916,522	2,925,107
Total liabilities	3,197,696	3,517,080
<b>NET POSITION</b>		
Net investment in capital assets	4,223,168	4,195,977
Unrestricted	(422,613)	(670,092)
Total net position	\$ 3,800,555	\$ 3,525,885

**TOWN OF TAZEWELL, VIRGINIA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
Year Ended June 30, 2013**

	<b>Business-Type Activities</b>	
	<b>Enterprise Fund</b>	
	<b>Water and Sewer</b>	
		<b>(For Comparative Purposes Only)</b>
	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Water service charges and fees	\$ 1,051,762	\$ 984,030
Sewer service charges and fees	952,423	915,172
Water/sewer penalties	10,859	25,740
Other revenue	122,726	1,439
Total operating revenues	<u>2,137,770</u>	<u>1,926,381</u>
<b>OPERATING EXPENSES</b>		
Salaries	389,177	389,815
Fringe benefits	108,042	108,548
Maintenance	72,924	103,568
Utilities	216,263	171,003
Materials and supplies	154,957	175,743
Purchased water	511,877	593,267
Administrative	83,106	96,244
Miscellaneous	14,647	17,109
Depreciation	291,394	286,646
Total operating expenses	<u>1,842,387</u>	<u>1,941,943</u>
Operating income (loss)	<u>295,383</u>	<u>(15,562)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	32,421	20,274
Interest expense	<u>(53,134)</u>	<u>(54,810)</u>
Net nonoperating income (expenses)	(20,713)	(34,536)
Transfer in	<u>-</u>	<u>363,257</u>
Change in net position	274,670	313,159
<b>NET POSITION AT JULY 1, AS RESTATED (NOTE 5)</b>	<u>3,525,885</u>	<u>3,212,726</u>
<b>NET POSITION AT JUNE 30</b>	<u><u>\$ 3,800,555</u></u>	<u><u>\$ 3,525,885</u></u>

**TOWN OF TAZEWELL, VIRGINIA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
June 30, 2013**

	<b>Business-Type Activities</b>	
	<b>Enterprise Fund</b>	
	<b>Water and Sewer</b>	
	<b>(For Comparative Purposes Only)</b>	
	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,050,573	\$ 1,927,370
Payments to suppliers	(1,175,529)	(1,458,067)
Payments to employees	(382,469)	(404,844)
Net cash provided by operating activities	492,575	64,459
<b>NONCAPITAL FINANCIAL ACTIVITIES</b>		
Transfer in	-	363,257
Net cash provided by noncapital financing activities	-	363,257
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(328,609)	(82,640)
Principal paid on debt	(169,336)	(317,088)
Debt proceeds	36,545	-
Payments on note receivable received	14,553	8,643
Interest paid on capital debt	(54,588)	(66,051)
Net cash used in capital and related financing activities	(501,435)	(457,136)
<b>INVESTING ACTIVITIES</b>		
Interest received	32,421	20,274
Net increase (decrease) in cash and cash equivalents	23,561	(9,146)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning at July 1	21,276	30,422
Ending at June 30	\$ 44,837	\$ 21,276
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 295,383	\$ (15,562)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	291,394	286,646
Change in assets and liabilities:		
Decrease (increase) in:		
Receivables, net	(50,348)	14,430
Due from other fund	(1,530)	-
Increase (decrease) in:		
Accounts payable	(12,183)	(192,585)
Accrued payroll and related liabilities	6,708	(15,029)
Customer deposits	(342)	13,939
Unearned revenue	(36,507)	(27,380)
Net cash provided by operating activities	\$ 492,575	\$ 64,459
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capitalized interest	\$ -	\$ 8,479
Capital asset purchases financed by accounts payable	\$ 54,231	\$ 197,046

TOWN OF TAZEWELL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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 position and the statement of activities) 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.

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.

TOWN OF TAZEWELL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

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

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 non-grant 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.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. These revenues are considered available if they are collected within one year of the end of the current fiscal period.

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.

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.

TOWN OF TAZEWELL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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, 2013, the general government administration, public safety, and debt service categories overspent their budgets.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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:

	<u><b>General Fund</b></u>
Net change in fund balance (non-GAAP budgetary basis)	\$ (117,866)
Modified accrual basis adjustments	<u>14,928</u>
Net change in fund balance (GAAP basis)	<u><u>\$ (102,938)</u></u>

**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 \$1,350, 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, 2013**

**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. 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 is recognized over the term of the agreement. During the year ended June 30, 2013, \$36,507 of revenue was recognized under this agreement.

**J. Compensated Absences**

The Town's policies allow for the accumulation and vesting of limited amounts of personal time off until termination or retirement. Each employee can only carryover a maximum of 160 hours of personal time off at the end of the calendar year. 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, 2013

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 Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable 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.

Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service, or for other purposes).

TOWN OF TAZEWELL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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, 2012 has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations.

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 address 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, 2013**

**Note 3. Receivables**

Receivables for individual major funds are as follows:

	<b>General</b>	<b>Water and Sewer</b>	<b>Total</b>
Receivables			
Taxes	\$ 408,057	\$ -	\$ 408,057
Accounts	126,113	508,167	634,280
Ambulance services	131,367	-	131,367
	665,537	508,167	1,173,704
Less: allowance for uncollectibles	(419,737)	(108,640)	(528,377)
	\$ 245,800	\$ 399,527	\$ 645,327

**Note 4. Due from Other Governmental Units**

A summary of funds due from other governmental units follows:

	<b>General</b>
Tazewell County	
Sales tax	\$ 51,426
Commonwealth of Virginia	
personal property tax relief	54,820
Other various grants	9,327
	\$ 115,573

**Note 5. Interfund Receivables and Payables**

During 2013, it was determined that the intent and ability to repay interfund balances accumulated through June 30, 2012 did not exist. Council approved the write-off of prior year accumulated interfund balances in the amount of \$2,418,085.

The primary purpose of due from/to amounts at year end is the residual impact of expenditures of the general fund paid by the water and sewer fund.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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	\$ 1,983,576	\$ -	\$ -	\$ 1,983,576
Construction in progress	412,708	160,028	23,546	549,190
	<u>2,396,284</u>	<u>160,028</u>	<u>23,546</u>	<u>2,532,766</u>
Capital assets, depreciated:				
Vehicles	1,741,005	57,080	21,300	1,776,785
Buildings and improvements	2,795,821	-	-	2,795,821
Equipment, furniture, and fixtures	1,010,803	11,502	-	1,022,305
	<u>5,547,629</u>	<u>68,582</u>	<u>21,300</u>	<u>5,594,911</u>
Less accumulated depreciation for:				
Vehicles	1,387,592	93,151	21,300	1,459,443
Buildings and improvements	1,141,799	77,417	-	1,219,216
Equipment, furniture, and fixtures	873,051	54,222	-	927,273
	<u>3,402,442</u>	<u>224,790</u>	<u>21,300</u>	<u>3,605,932</u>
Capital assets, depreciated, net	<u>2,145,187</u>	<u>(156,208)</u>	<u>-</u>	<u>1,988,979</u>
Governmental activities capital assets, net	<u>\$ 4,541,471</u>	<u>\$ 3,820</u>	<u>\$ 23,546</u>	<u>\$ 4,521,745</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 6. Capital Assets (Continued)**

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 21,581	\$ -	\$ -	\$ 21,581
Construction in progress	492,987	94,249	94,483	492,753
	<u>514,568</u>	<u>94,249</u>	<u>94,483</u>	<u>514,334</u>
Capital assets, depreciated:				
Distribution/transmission systems	5,480,124	186,028	-	5,666,152
Water and wastewater plants	6,194,257	-	-	6,194,257
Machinery and equipment	723,076	-	-	723,076
	<u>12,397,457</u>	<u>186,028</u>	<u>-</u>	<u>12,583,485</u>
Less accumulated depreciation	<u>6,981,138</u>	<u>291,394</u>	<u>-</u>	<u>7,272,532</u>
Capital assets, depreciated, net	<u>5,416,319</u>	<u>(105,366)</u>	<u>-</u>	<u>5,310,953</u>
Business-type activities capital assets, net	<u>\$ 5,930,887</u>	<u>\$ (11,117)</u>	<u>\$ 94,483</u>	<u>\$ 5,825,287</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 36,471
Public safety	130,197
Public works	33,073
Parks, recreation, and cultural	25,049
	<u>\$ 224,790</u>
Business-type activities:	
Water and sewer	<u>\$ 291,394</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 7. Long-Term Liabilities**

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

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Notes payable	\$ 474,013	\$ 25,150	\$ 418,065	\$ 81,098	\$ 68,549
Due to County	46,874	-	14,403	32,471	14,412
Capital lease obligations	8,036	-	8,036	-	-
Compensated absences	75,736	10,715	-	86,451	-
	<u>\$ 604,659</u>	<u>\$ 35,865</u>	<u>\$ 440,504</u>	<u>\$ 200,020</u>	<u>\$ 82,961</u>
<b>Business-Type Activities</b>					
General obligation bonds	\$ 1,596,482	-	\$ 30,908	\$ 1,565,574	\$ 32,293
Revenue bonds	138,428	36,545	138,428	36,545	-
Compensated absences	19,012	4,305	-	23,317	-
	<u>\$ 1,753,922</u>	<u>\$ 40,850</u>	<u>\$ 169,336</u>	<u>\$ 1,625,436</u>	<u>\$ 32,293</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.

The Town issued a tax revenue anticipation note to cover cash shortfalls during the year, depositing proceeds in the general fund. The note was repaid in June 2013.

The activity of this short-term note was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Tax anticipation note	\$ -	650,000	650,000	\$ -

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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		Due to County			
	Principal	Interest	Principal	Interest		
2014	\$ 68,549	\$ 1,891	\$ 14,412	\$ -		
2015	6,359	405	14,412	-		
2016	6,190	176	3,647	-		
	<u>\$ 81,098</u>	<u>\$ 2,472</u>	<u>\$ 32,471</u>	<u>\$ -</u>		
Fiscal Year	Business-Type Activities				Totals	
	Revenue Bonds		General Obligation Bonds			
	Principal	Interest	Principal	Interest		
2014	\$ -	\$ -	\$ 32,293	\$ 50,436	\$ 115,254	\$ 52,327
2015	36,545	-	33,358	49,370	90,674	49,775
2016	-	-	34,458	48,270	44,295	48,446
2017	-	-	35,595	47,133	35,595	47,133
2018	-	-	36,769	45,959	36,769	45,959
2019-2023	-	-	202,859	210,781	202,859	210,781
2024-2028	-	-	238,601	175,039	238,601	175,039
2029-2033	-	-	280,640	133,000	280,640	133,000
2034-2038	-	-	330,085	83,555	330,085	83,555
2039-2043	-	-	340,916	25,753	340,916	25,753
	<u>\$ 36,545</u>	<u>\$ -</u>	<u>\$ 1,565,574</u>	<u>\$ 869,296</u>	<u>\$ 1,715,688</u>	<u>\$ 871,768</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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>
<b>Notes Payable:</b>						
Note Payable, Fire Truck	3.64%	06-07	06-14	\$ 400,000	\$ 62,416	\$ -
Note Payable, Police Cruiser	3.625%	08-12	08-16	\$ 25,150	18,682	-
					<u>\$ 81,098</u>	<u>\$ -</u>
<b>Bonds:</b>						
Rural Development, General Obligation Virginia Resources Authority,	3.25%	2003	2043	\$ 1,800,000	\$ -	\$ 1,565,574
Revenue Loan	1.55%	06-13	10-34	\$ 2,988,696	-	36,545
					<u>\$ -</u>	<u>\$ 1,602,119</u>

**Virginia Resources Authority – Revenue Loan**

During 2013, the Town received financing from the Virginia Resources Authority totaling \$2,988,696. Through June 30, 2013, \$36,545 has been drawn and used for water and sewer capital projects. The remaining undrawn amount of \$2,952,151 is anticipated to be used during 2014 for eligible projects.

**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 amount was to be paid over a five-year period at \$1,200 per month and does not include an interest component. As of June 30, 2013, the remaining balance was \$32,471.

**Line of Credit**

Subsequent to year end, the Town entered into a line of credit in the amount of \$350,000 with First Community Bank. The line bears interest at 4.25% and matures in October 2014.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 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.

**TOWN OF TAZEWELL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

**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 3.00%. During years of no inflation or deflation, the COLA is -0-%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 10.95% of annual covered payroll.

**Annual Pension Cost**

For fiscal year 2013, the Town's annual pension cost of \$107,345 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions (a) an investment rate of return (net of administrative expenses) of 7.00% (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the 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 unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**Annual Pension Cost (Continued)**

**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, 2011	\$ 122,537	100%	\$ -
June 30, 2012	\$ 127,457	100%	\$ -
June 30, 2013	\$ 107,345	100%	\$ -

**Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 88.83% funded. The actuarial accrued liability for benefits was \$5,084,173, and the actuarial value of assets was \$4,516,210, resulting in an unfunded actuarial accrued liability (UAAL) of \$567,963. The covered payroll (annual payroll of active employees covered by the plan) was \$1,544,808, and ratio of the UAAL to the covered payroll was 36.77%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) 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

TOWN OF TAZEWELL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**Note 10. Risk Management**

The Risk Management Programs are as follows:

**Workers' Compensation Insurance** is provided through the Virginia Municipal League. During 2012-2013, total premiums paid were approximately \$56,200. 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 \$53,000.

**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 \$472,000.

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 Position**

At June 30, the Water and Sewer fund had a deficit in unrestricted net position totaling \$422,613. 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 2013, the Town expended and capitalized approximately \$118,151 for renovations.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 12. Commitments and Contingencies (Continued)**

**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 management believes insurance would cover the cost should the outcome be unfavorable.

**Construction Commitments**

In 2012, Council approved the commencement of the Route 61 project. To date, \$504,000 has been incurred and the total project is expected to cost \$3.0 to \$3.5 million. This project will be administered by the Virginia Department of Transit. The Town was awarded \$2.1 million of state and federal funding for this project. The Town also started the Drytown sewer project in the prior year and has incurred \$484,000 in engineering costs to date. The total project is expected to cost \$4.0 to \$4.5 million. The Town was awarded state and federal funding in the amount of \$720,000 for the Dry Town Sewer Project. The remaining cost will be financed by the Virginia Revolving Loan Program. Both projects will require a local match and additional grant funding. Financing for the local match is being pursued.

**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 2013, the Town paid approximately \$512,000 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 began discharge into the facility in 2012.

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. Through June 30, 2013, the PSA has paid \$23,196 to the Town against the note receivable.

In addition, under this agreement, an annual true up of the volume charges to the PSA for wastewater and treatment and disposal charges will be calculated each year based on the Town’s actual expenses incurred for the preceding fiscal year. The Town’s policy is to recognize revenue for this true up in the year calculated and billed.

TOWN OF TAZEWELL, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**Note 15. New Accounting Standards**

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 66, *Technical Corrections – 2013 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans replaces the requirements of GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans replaces the requirements of GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

TOWN OF TAZEWELL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

**Note 15. New Accounting Standards (Continued)**

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with *GASB Statement No. 34*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

Management has not yet evaluated the effects, if any, of adopting these standards.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**TOWN OF TAZEWELL, VIRGINIA**

**EXHIBIT 8**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
General property taxes:				
Real property taxes	\$ 689,593	689,593	663,536	\$ (26,057)
Public service corporation taxes	30,000	30,000	31,177	1,177
Personal property taxes	102,200	102,200	112,439	10,239
Penalties and interest on delinquent taxes	51,000	51,000	78,028	27,028
Total general property taxes	<u>872,793</u>	<u>872,793</u>	<u>885,180</u>	<u>12,387</u>
Other local taxes:				
Meals taxes	540,000	540,000	533,873	(6,127)
Cigarette taxes	30,000	30,000	26,391	(3,609)
Franchise license tax	29,000	29,000	26,114	(2,886)
Bank stock tax	170,000	170,000	171,060	1,060
Total other local taxes	<u>769,000</u>	<u>769,000</u>	<u>757,438</u>	<u>(11,562)</u>
Permits, privilege fees, and regulatory licenses:				
Planning and zoning	1,000	1,000	860	(140)
Decal fees	28,000	28,000	32,008	4,008
Business license taxes	210,000	210,000	230,254	20,254
Total permits and privilege fees	<u>239,000</u>	<u>239,000</u>	<u>263,122</u>	<u>24,122</u>
Fines and forfeitures:				
Court fines	40,000	40,000	72,669	32,669
Parking fines	1,000	1,000	647	(353)
Total fines and forfeitures	<u>41,000</u>	<u>41,000</u>	<u>73,316</u>	<u>32,316</u>
Revenue from use of money and property:				
Interest earned	1,000	1,000	2,504	1,504
Total revenue from use of money and property	<u>1,000</u>	<u>1,000</u>	<u>2,504</u>	<u>1,504</u>

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**

**EXHIBIT 8**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues (Continued)</b>				
Charges for services:				
Waste collection charges	\$ 393,000	\$ 393,000	\$ 400,095	\$ 7,095
Recreation	41,000	41,000	44,405	3,405
Fire	20,000	20,000	11,666	(8,334)
Rescue	250,000	250,000	259,904	9,904
Miscellaneous charges	-	-	5,060	5,060
Total charges for services	<u>704,000</u>	<u>704,000</u>	<u>721,130</u>	<u>17,130</u>
Other revenues:				
Debt proceeds	20,000	20,000	25,150	5,150
Miscellaneous	15,000	15,000	38,552	23,552
Total other revenues	<u>35,000</u>	<u>35,000</u>	<u>63,702</u>	<u>28,702</u>
Total revenue from local sources	<u>2,661,793</u>	<u>2,661,793</u>	<u>2,766,392</u>	<u>104,599</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Local sales and use taxes	252,000	252,000	305,055	53,055
Personal property tax reimbursement	55,000	55,000	54,820	(180)
Rolling stock	6,000	6,000	6,420	420
Fire programs	9,500	9,500	-	(9,500)
Litter control grant	2,500	2,500	2,884	384
Other	75,000	75,000	49,564	(25,436)
Total non-categorical aid	<u>400,000</u>	<u>400,000</u>	<u>418,743</u>	<u>18,743</u>
Categorical aid:				
Highway and street maintenance grant	898,809	898,809	1,118,173	219,364
Law enforcement aid	99,028	99,028	99,028	-
Total categorical aid	<u>997,837</u>	<u>997,837</u>	<u>1,217,201</u>	<u>219,364</u>
Total intergovernmental revenues	<u>1,397,837</u>	<u>1,397,837</u>	<u>1,635,944</u>	<u>238,107</u>
Total general fund revenues	<u>\$ 4,059,630</u>	<u>\$ 4,059,630</u>	<u>\$ 4,402,336</u>	<u>\$ 342,706</u>

**TOWN OF TAZEWELL, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND**

**June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
General government administration:				
Mayor and Town Council:				
Wages - elected officials	\$ 6,000	\$ 6,000	\$ 6,000	\$ -
Council support	25,000	25,000	24,345	655
Travel, training, and education	1,000	1,000	84	916
Dues and professional memberships	2,500	2,500	3,900	(1,400)
Council community support	50,000	50,000	44,592	5,408
Public officials insurance	18,000	18,000	5,468	12,532
Total Mayor and Town Council	<u>102,500</u>	<u>102,500</u>	<u>84,389</u>	<u>18,111</u>
Town Attorney/legal services:				
Wages	600	600	600	-
Health insurance	7,000	7,000	6,744	256
Legal services	6,000	6,000	27,073	(21,073)
Total Town Attorney/legal services	<u>13,600</u>	<u>13,600</u>	<u>34,417</u>	<u>(20,817)</u>
Administration:				
Wages	226,000	226,000	275,044	(49,044)
Fringes/benefits	83,251	83,251	109,416	(26,165)
Professional services	16,000	16,000	30,632	(14,632)
Advertising	5,000	5,000	7,589	(2,589)
Building maintenance	15,000	15,000	13,748	1,252
Postage and delivery services	8,000	8,000	8,152	(152)
Motor fuel expense	1,500	1,500	2,238	(738)
Vehicle maintenance	100	100	67	33
Utilities	30,000	30,000	29,184	816
Internet fees	20,000	20,000	20,178	(178)
Travel, training, and education	14,000	14,000	10,009	3,991
Dues and professional memberships	5,000	5,000	6,776	(1,776)
General liability insurance	15,000	15,000	10,262	4,738
Office supplies	46,000	46,000	31,844	14,156
Equipment	15,000	15,000	4,851	10,149
Equipment maintenance	35,000	35,000	55,328	(20,328)
Bank service charge	500	500	1,769	(1,269)
Administrative reserve	15,000	15,000	5,708	9,292
Miscellaneous	5,000	5,000	13,908	(8,908)
Total administration	<u>555,351</u>	<u>555,351</u>	<u>636,703</u>	<u>(81,352)</u>
Total general government administration	<u>671,451</u>	<u>671,451</u>	<u>755,509</u>	<u>(84,058)</u>

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND**

**June 30, 2013**

<b>Expenditures (Continued)</b>	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
Public Safety:				
Police department:				
Wages	\$ 545,000	\$ 545,000	\$ 578,904	\$ (33,904)
Fringes/benefits	204,839	204,839	205,354	(515)
Professional services	20,000	20,000	20,011	(11)
Advertising	2,000	2,000	2,462	(462)
Building maintenance	2,500	2,500	1,829	671
Postage and delivery services	1,000	1,000	1,218	(218)
Motor fuel expense	45,000	45,000	48,605	(3,605)
Vehicle maintenance	25,000	25,000	40,580	(15,580)
Utilities	19,000	19,000	21,604	(2,604)
Uniforms	15,000	15,000	23,480	(8,480)
Travel, training, and education	22,000	22,000	17,669	4,331
Dues and professional memberships	1,000	1,000	1,487	(487)
General liability insurance	12,000	12,000	10,420	1,580
Office supplies	15,000	15,000	13,247	1,753
Equipment	5,000	5,000	9,002	(4,002)
Equipment maintenance	8,000	8,000	14,910	(6,910)
Capital outlay	25,000	25,000	-	25,000
Internet fees	15,000	15,000	10,026	4,974
Public safety	25,000	25,000	56,353	(31,353)
Narcotics task force	7,000	7,000	7,000	-
Southwest Regional Jail	6,000	6,000	1,728	4,272
Miscellaneous	3,000	3,000	12,437	(9,437)
Total police department	1,023,339	1,023,339	1,098,326	(74,987)
Volunteer fire department:				
Personnel cost	18,000	18,000	16,380	1,620
Building maintenance	3,000	3,000	4,809	(1,809)
Motor fuel expense	5,000	5,000	3,014	1,986
Utilities	9,000	9,000	5,003	3,997
General liability insurance	12,000	12,000	12,728	(728)
Miscellaneous	-	-	49,427	(49,427)
Supplies	20,000	20,000	2,782	17,218
Equipment	10,000	10,000	-	10,000
Equipment maintenance	2,500	2,500	6,208	(3,708)
Internet fees	12,000	12,000	9,720	2,280
Vehicle maintenance	5,000	5,000	4,696	304
Capital outlay	-	-	-	-
Third-party billing	3,000	3,000	-	3,000
Fire fund transfer	9,500	9,500	12,332	(2,832)
Total volunteer fire department	109,000	109,000	127,099	(18,099)
Volunteer rescue squad:				
Rescue squad expense	305,000	305,000	268,077	36,923
Total volunteer rescue squad	305,000	305,000	268,077	36,923
Total public safety	1,437,339	1,437,339	1,493,502	(56,163)

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
June 30, 2013**

<b>Expenditures (Continued)</b>	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		<b>Positive (Negative)</b>
Public works:				
Sanitation:				
Wages	\$ 101,500	\$ 101,500	\$ 108,213	\$ (6,713)
Fringes/benefits	65,868	65,868	62,651	3,217
Uniforms	3,000	3,000	1,990	1,010
Equipment maintenance	500	500	-	500
Fuel	30,000	30,000	24,398	5,602
Miscellaneous	500	500	494	6
Supplies	100	100	250	(150)
Vehicle maintenance	20,000	20,000	13,651	6,349
Total sanitation	221,468	221,468	211,647	9,821
Administration:				
Wages	449,750	449,750	496,223	(46,473)
Fringes/benefits	204,155	204,155	211,940	(7,785)
Signage	5,000	5,000	4,485	515
Fuel	46,000	46,000	61,759	(15,759)
Utilities	26,000	26,000	30,763	(4,763)
Vehicle maintenance	35,000	35,000	23,789	11,211
Building maintenance	5,000	5,000	828	4,172
Miscellaneous	-	-	49,196	(49,196)
Supplies	15,000	15,000	11,304	3,696
Uniforms	15,000	15,000	11,339	3,661
Travel, training, and education	5,000	5,000	931	4,069
General liability insurance	10,000	10,000	10,235	(235)
Internet fees	12,000	12,000	11,271	729
Equipment	20,000	20,000	3,246	16,754
Equipment maintenance	10,000	10,000	8,530	1,470
Engineering	-	-	62,364	(62,364)
Snow removal	30,000	30,000	23,495	6,505
Total public works administration	887,905	887,905	1,021,698	(133,793)
Paving	250,000	250,000	-	250,000
Street lights	58,000	58,000	61,412	(3,412)
Street, bridge, sidewalk maintenance	70,000	70,000	58,468	11,532
Total public works	1,487,373	1,487,373	1,353,225	134,148

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS  
GENERAL FUND  
June 30, 2013**

<b>Expenditures (Continued)</b>	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
Parks, recreation, and cultural:				
Wages	\$ 100,700	\$ 100,700	\$ 59,398	\$ 41,302
Fringes/benefits	44,795	44,795	23,394	21,401
Advertising	300	300	-	300
Utilities	9,500	9,500	12,857	(3,357)
Uniforms	2,000	2,000	1,981	19
Travel, training, and education	1,000	1,000	173	827
Dues and professional memberships	100	100	40	60
Motor fuel expense	2,500	2,500	6,658	(4,158)
Adult activities	2,500	2,500	6,248	(3,748)
Building maintenance	20,000	20,000	4,002	15,998
Miscellaneous	1,000	1,000	40,690	(39,690)
Supplies	10,000	10,000	7,240	2,760
Youth activities	-	-	8,326	(8,326)
Equipment maintenance	3,000	3,000	3,291	(291)
Internet fees	9,000	9,000	9,722	(722)
General liability insurance	10,000	10,000	10,235	(235)
Equipment	3,000	3,000	360	2,640
Vehicle maintenance	1,500	1,500	784	716
Other recreation	3,000	3,000	711	2,289
Pool operation	25,000	25,000	30,535	(5,535)
Parks and playground	3,000	3,000	2,177	823
Groundskeeping	6,000	6,000	2,131	3,869
Total parks, recreation, and cultural	257,895	257,895	230,953	26,942
Non-departmental:				
Capital improvements	40,000	40,000	228,610	(188,610)
Contingency	100,754	100,754	-	100,754
Total non-departmental	140,754	140,754	228,610	(87,856)
Debt service:				
Principal retirement	61,289	61,289	440,505	(379,216)
Interest and other fiscal charges	3,529	3,529	17,898	(14,369)
Total debt service	64,818	64,818	458,403	(393,585)
Total general fund expenditures	\$ 4,059,630	\$ 4,059,630	\$ 4,520,202	\$ (460,572)

**TOWN OF TAZEWELL, VIRGINIA**

**REQUIRED SUPPLEMENTARY INFORMATION  
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN  
June 30, 2013**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Annual Covered Payroll</b>	<b>((b-a)/c) UAAL as of Percentage of Covered Payroll</b>
June 30, 2010	\$ 4,380,727	\$ 4,468,036	\$ 87,309	98.05%	\$ 1,455,179	6.00%
June 30, 2011	\$ 4,477,082	\$ 4,721,219	\$ 244,137	94.83%	\$ 1,418,882	17.21%
June 30, 2012	\$ 4,516,210	\$ 5,084,173	\$ 567,963	88.83%	\$ 1,544,808	36.77%

## **OTHER INFORMATION SECTION**

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**TABLE 1**

**TOWN OF TAZEWELL, VIRGINIA**  
**GENERAL GOVERNMENT REVENUES BY SOURCE**  
**Last Five Fiscal Years (1)**

<b>Fiscal Years Ended June 30,</b>	<b>General Property Taxes</b>	<b>Other Local Taxes (3)</b>	<b>Permits, Privilege Fees, and Regulatory Licenses</b>	<b>Fines and Forfeitures</b>	<b>Investment Earnings</b>	<b>Charges for Services (2)</b>	<b>Refuse Charges</b>	<b>Inter- governmental (3)</b>	<b>Other</b>	<b>Totals</b>
2013	\$ 854,002	\$ 1,069,875	\$ 263,122	\$ 73,316	\$ 2,504	\$ 321,025	\$ 395,795	\$ 1,350,960	\$ 38,552	\$ 4,369,151
2012	687,229	1,054,672	270,842	39,955	555	292,073	356,750	1,647,913	25,270	4,375,259
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

(1) Consists solely of general fund revenues.

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

(3) Beginning in 2012, sales tax revenue was reclassified from intergovernmental to other local taxes.

**TOWN OF TAZEWELL, VIRGINIA**

**TABLE 2**

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

<b>Fiscal Years Ended June 30,</b>	<b>General Government Administration</b>	<b>Public Safety</b>	<b>Public Works</b>	<b>Parks, Recreation, and Cultural</b>	<b>Capital Outlay</b>	<b>Debt Service</b>	<b>Totals</b>
2013	\$ 776,822	\$ 1,449,227	\$ 1,353,225	\$ 230,953	\$ 228,610	\$ 458,402	\$ 4,497,239
2012	758,981	1,371,358	1,557,247	262,698	417,481	92,245	4,460,010
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

(1) Consists solely of general fund expenditures.

**TOWN OF TAZEWELL, VIRGINIA**

**TABLE 3**

**LEGAL DEBT MARGIN INFORMATION  
Last Five Fiscal Years**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Debt limit	\$ 27,615,780	\$ 25,176,660	\$ 25,071,740	\$ 21,830,100	\$ 21,798,160
Total net debt applicable to limit	<u>1,715,688</u>	<u>2,216,959</u>	<u>2,247,234</u>	<u>2,561,956</u>	<u>2,939,976</u>
Legal debt margin	<u>\$ 25,900,092</u>	<u>\$ 22,959,701</u>	<u>\$ 22,824,506</u>	<u>\$ 19,268,144</u>	<u>\$ 18,858,184</u>
Total net debt applicable to the limit as a percentage of debt limit	6%	9%	9%	12%	13%

**Legal Debt Margin Calculation for Fiscal Years 2013, 2012, and 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assessed value	<u>\$ 276,157,800</u>	<u>\$ 251,766,600</u>	<u>\$ 250,717,400</u>
Debt limit (10% of assessed value)	\$ 27,615,780	\$ 25,176,660	\$ 25,071,740
Less debt applicable to limit:			
Revenue bonds	36,545	138,428	407,192
General obligation bonds	1,565,574	1,596,482	1,626,785
Notes payable	81,098	350,000	-
Other long-term obligations	<u>32,471</u>	<u>132,049</u>	<u>213,257</u>
Legal debt margin	<u>\$ 25,900,092</u>	<u>\$ 22,959,701</u>	<u>\$ 22,824,506</u>

# **COMPLIANCE SECTION**

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**INDEPENDENT AUDITOR’S 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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November \_\_, 2013.

**Internal Control over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 08-1 and 08-2 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 13-1.**

### **Town of Tazewell’s Response to Findings**

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

### **Purpose of this Report**

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November \_\_, 2013

**TOWN OF TAZEWELL, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2013**

As more fully described in the Independent Auditor’s 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, 2013**

**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.
- Certain accounts are not reconciled to subsidiary ledgers.
- We detected unrecorded balances related to allowance for doubtful accounts, unbilled receivable accruals, 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.

**TOWN OF TAZEWELL, VIRGINIA**

**SCHEDULE OF FINDINGS AND RESPONSES**

**June 30, 2013**

**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**

**13-1: General Fund Budget Appropriations**

**Condition:**

As noted in the budget and actual schedule, Exhibit 9, 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.*