

TOWN OF TAZEWELL, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION

TOWN OF TAZEWELL, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2014

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

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2014, 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 2013 financial statements, and our report dated November 13, 2013, 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, 2013, 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 24, 2014 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 24, 2014

FINANCIAL STATEMENTS

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-Type Activities	Totals	
			2014	(For Comparative Purposes Only) 2013
ASSETS				
Cash and cash equivalents (Note 2)	\$ 124,050	\$ 119,587	\$ 243,637	\$ 160,280
Receivables, net (Note 3)	247,076	408,306	655,382	645,327
Due from other governmental units (Note 4)	163,085	171,768	334,853	115,573
Internal balances (Note 5)	32,000	(32,000)	-	-
Capital assets: (Note 6)				
Not depreciated	2,750,833	2,865,008	5,615,841	3,047,100
Depreciated, net	2,021,705	5,036,810	7,058,515	7,299,932
Note Receivable (Note 14)	-	713,055	713,055	727,070
Total assets	<u>5,338,749</u>	<u>9,282,534</u>	<u>14,621,283</u>	<u>11,995,282</u>
LIABILITIES				
Accounts payable	99,418	519,429	618,847	382,529
Accrued payroll and related liabilities	47,968	8,959	56,927	32,398
Accrued interest payable	344	10,604	10,948	4,466
Customer deposits	-	98,427	98,427	87,091
Noncurrent liabilities:				
Unearned revenue (Note 14)	-	1,286,872	1,286,872	1,323,379
Due within one year (Note 7)	48,913	33,358	82,271	115,254
Due in more than one year (Note 7)	184,380	3,203,439	3,387,819	1,710,202
Total liabilities	<u>381,023</u>	<u>5,161,088</u>	<u>5,542,111</u>	<u>3,655,319</u>
NET POSITION				
Net investment in capital assets	4,621,191	4,706,214	9,327,405	8,663,815
Unrestricted	336,535	(584,768)	(248,233)	(323,852)
Total net position	<u>\$ 4,957,726</u>	<u>\$ 4,121,446</u>	<u>\$ 9,079,172</u>	<u>\$ 8,339,963</u>

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

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	2014	(For Comparative Purposes Only) 2013
Governmental activities:								
General government administration	\$ 763,000	\$ -	\$ -	\$ -	\$ (763,000)		\$ (763,000)	\$ (754,504)
Public safety	1,568,832	249,957	101,866	-	(1,217,009)		(1,217,009)	(1,237,081)
Public works	1,324,933	393,884	1,156,241	-	225,192		225,192	168,292
Parks, recreation, and cultural	361,956	64,485	-	-	(297,471)		(297,471)	(274,407)
Interest on long-term debt	6,289	-	-	-	(6,289)		(6,289)	(16,464)
Total governmental activities	4,025,010	708,326	1,258,107	-	(2,058,577)		(2,058,577)	(2,114,164)
Business-type activities:								
Water and sewer	2,254,629	2,171,163	372,105	-		288,639	288,639	119,523
Total business-type activities	2,254,629	2,171,163	372,105	-		288,639	288,639	119,523
Total primary government	\$ 6,279,639	\$ 2,879,489	\$ 1,630,212	\$ -	(2,058,577)	288,639	(1,769,938)	(1,994,641)
General revenues:								
Property taxes					816,191	-	816,191	823,479
Sales taxes					292,869	-	292,869	307,375
Meals taxes					559,769	-	559,769	533,873
Utilities taxes					32,936	-	32,936	26,114
Business license taxes					244,768	-	244,768	230,253
Bank franchise taxes					170,392	-	170,392	171,060
Other local taxes and charges					162,580	-	162,580	163,752
Intergovernmental revenue, unrestricted					120,809	-	120,809	104,761
Investment income					632	29,391	30,023	34,925
Other					75,949	2,861	78,810	40,676
Total general revenues					2,476,895	32,252	2,509,147	2,436,268
Change in net position					418,318	320,891	739,209	441,627
NET POSITION AT JULY 1					4,539,408	3,800,555	8,339,963	7,898,336
NET POSITION AT JUNE 30					\$ 4,957,726	\$ 4,121,446	\$ 9,079,172	\$ 8,339,963

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

TOWN OF TAZEWELL, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2014

	General Fund	
	2014	(For Comparative Purposes Only) 2013
ASSETS		
Cash and cash equivalents	\$ 124,050	\$ 115,443
Receivables, net	247,076	245,800
Due from other governmental units	163,085	115,573
Due from other fund	32,000	-
Total assets	<u>\$ 566,211</u>	<u>\$ 476,816</u>
LIABILITIES		
Accounts payable	\$ 99,418	\$ 232,870
Accrued payroll and related liabilities	47,968	24,510
Due to other fund	-	1,530
Total liabilities	<u>147,386</u>	<u>258,910</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	<u>105,791</u>	<u>119,688</u>
FUND BALANCES		
Committed		
Public works	2,797,552	2,951,790
Unassigned	<u>(2,484,518)</u>	<u>(2,853,572)</u>
Total fund balances	<u>313,034</u>	<u>98,218</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 566,211</u>	<u>\$ 476,816</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION		
Total fund balance	\$ 313,034	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	4,772,538	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	105,791	
Long-term liabilities, including notes payable, accrued interest, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund.	<u>(233,637)</u>	
Net position of governmental activities	<u>\$ 4,957,726</u>	

TOWN OF TAZEWELL, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2014

	General Fund	
	2014	(For Comparative Purposes Only) 2013
REVENUES		
General property taxes	\$ 797,897	\$ 854,002
Other local taxes	1,107,274	1,069,875
Permits, privilege fees, and regulatory licenses	252,986	263,122
Fines and forfeitures	65,190	73,316
Revenue from use of money and property	632	2,504
Charges for services	357,001	321,025
Refuse charges	393,884	395,795
Intergovernmental	1,406,412	1,350,960
Other	75,949	38,552
Total revenues	<u>4,457,225</u>	<u>4,369,151</u>
EXPENDITURES		
Current:		
General government administration	735,709	708,674
Public safety	1,445,140	1,402,518
Public works	1,289,641	1,309,806
Parks, recreation, and cultural	342,256	268,627
Capital outlay	479,339	228,610
Debt service:		
Principal retirement	92,281	440,504
Interest and fiscal charges	6,168	17,898
Total expenditures	<u>4,390,534</u>	<u>4,376,637</u>
Excess (deficiency) of revenue over expenditures	<u>66,691</u>	<u>(7,486)</u>
OTHER FINANCING SOURCES (USES)		
Debt proceeds	148,125	25,150
Transfer out	-	(120,602)
Total other financing services (uses)	<u>148,125</u>	<u>(95,452)</u>
Net change in fund balance	<u>214,816</u>	<u>(102,938)</u>
FUND BALANCE AT JULY 1	<u>98,218</u>	<u>201,156</u>
FUND BALANCE AT JUNE 30	<u>\$ 313,034</u>	<u>\$ 98,218</u>

Net change in fund balance \$ 214,816

Adjustments for the Statement of Activities:

Governmental funds report capital outlays (\$479,339) as expenditures while governmental activities report depreciation expense (\$228,546) to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded depreciation in the current period. 250,793

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. (13,897)

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 position. This amount is the net effect of the difference in the treatment of long-term debt and related items. (55,844)

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. 22,450

Change in net position of governmental activities \$ 418,318

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2014

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
	(For Comparative Purposes Only)	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 119,587	\$ 44,837
Receivables, net	408,306	399,527
Due from other governments	171,768	-
Due from other fund	-	1,530
Total current assets	<u>699,661</u>	<u>445,894</u>
Noncurrent assets:		
Note receivable	713,055	727,070
Capital assets:		
Not depreciated	2,865,008	514,334
Depreciated, net	<u>5,036,810</u>	<u>5,310,953</u>
Total noncurrent assets	<u>8,614,873</u>	<u>6,552,357</u>
Total assets	<u>9,314,534</u>	<u>6,998,251</u>
LIABILITIES		
Current liabilities:		
Accounts payable	519,429	149,659
Accrued payroll and related liabilities	8,959	7,888
Accrued interest payable	10,604	4,243
Due to other fund	32,000	-
Customer deposits	98,427	87,091
Current portion of noncurrent liabilities	<u>33,358</u>	<u>32,293</u>
Total current liabilities	<u>702,777</u>	<u>281,174</u>
Noncurrent liabilities:		
Unearned revenue	1,286,872	1,323,379
Due in more than one year	<u>3,203,439</u>	<u>1,593,143</u>
Total noncurrent liabilities	<u>4,490,311</u>	<u>2,916,522</u>
Total liabilities	<u>5,193,088</u>	<u>3,197,696</u>
NET POSITION		
Net investment in capital assets	4,706,214	4,223,168
Unrestricted	<u>(584,768)</u>	<u>(422,613)</u>
Total net position	<u>\$ 4,121,446</u>	<u>\$ 3,800,555</u>

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2014

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
	(For Comparative Purposes Only)	
	2014	2013
OPERATING REVENUES		
Water service charges and fees	\$ 1,164,272	\$ 1,051,762
Sewer service charges and fees	998,472	952,423
Water/sewer penalties	8,419	10,859
Other revenue	2,861	2,124
Total operating revenues	<u>2,174,024</u>	<u>2,017,168</u>
OPERATING EXPENSES		
Salaries	607,282	389,177
Fringe benefits	157,796	108,042
Maintenance	141,234	72,924
Utilities	196,252	216,263
Materials and supplies	169,765	154,957
Purchased water	592,287	511,877
Administrative	57,480	83,106
Miscellaneous	1,962	14,647
Depreciation	295,891	291,394
Total operating expenses	<u>2,219,949</u>	<u>1,842,387</u>
Operating income (loss)	<u>(45,925)</u>	<u>174,781</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	29,391	32,421
Intergovernmental revenue	372,105	-
Interest expense	(34,680)	(53,134)
Net nonoperating income (expenses)	<u>366,816</u>	<u>(20,713)</u>
Transfer in	-	120,602
Change in net position	<u>320,891</u>	<u>274,670</u>
NET POSITION AT JULY 1	<u>3,800,555</u>	<u>3,525,885</u>
NET POSITION AT JUNE 30	<u>\$ 4,121,446</u>	<u>\$ 3,800,555</u>

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2014

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
	(For Comparative Purposes Only)	
	2014	2013
OPERATING ACTIVITIES		
Receipts from customers	\$ 2,140,074	\$ 1,929,971
Payments to suppliers	(1,319,596)	(1,175,529)
Payments to employees	(588,335)	(382,469)
Net cash provided by operating activities	<u>232,143</u>	<u>371,973</u>
NONCAPITAL FINANCIAL ACTIVITIES		
Transfer in	-	120,602
Net cash provided by noncapital financing activities	<u>-</u>	<u>120,602</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,944,626)	(328,609)
Principal paid on debt	(32,733)	(169,336)
Debt proceeds	1,626,218	36,545
Capital grant received	200,337	-
Payments on note receivable received	14,015	14,553
Interest paid on capital debt	(49,995)	(54,588)
Net cash used in capital and related financing activities	<u>(186,784)</u>	<u>(501,435)</u>
INVESTING ACTIVITIES		
Interest received	29,391	32,421
Net increase in cash and cash equivalents	<u>74,750</u>	<u>23,561</u>
CASH AND CASH EQUIVALENTS		
Beginning at July 1	44,837	21,276
Ending at June 30	<u>\$ 119,587</u>	<u>\$ 44,837</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (45,925)	\$ 174,781
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	295,891	291,394
Change in assets and liabilities:		
Decrease (increase) in:		
Receivables, net	(8,779)	(50,348)
Due from other fund	1,530	(1,530)
Increase (decrease) in:		
Accounts payable	(36,350)	(12,183)
Due to other funds	32,000	
Accrued payroll and related liabilities	18,947	6,708
Customer deposits	11,336	(342)
Unearned revenue	(36,507)	(36,507)
Net cash provided by operating activities	<u>\$ 232,143</u>	<u>\$ 371,973</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capitalized interest	<u>\$ 21,676</u>	<u>\$ -</u>
Capital asset purchases financed by accounts payable	<u>\$ 460,351</u>	<u>\$ 54,231</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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, 2014

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. Reclassifications

Certain amounts in the prior year comparative data have been reclassified to conform to the current year's presentation.

E. 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, 2014, the general government administration, public works, parks and recreation and capital improvements categories overspent their budgets.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

E. 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)	\$ (42,137)
Modified accrual basis adjustments	(172,679)
Net change in fund balance (GAAP basis)	\$ (214,816)

F. 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. There were no outstanding encumbrances at year end.

G. 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.

H. 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.

I. 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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

J. 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.

K. Capitalization of interest

The Town capitalizes interest costs on funds borrowed to finance the construction of capital assets in the Water and Sewer Fund. For the current year, interest capitalized totaled \$21,676.

L. Unearned Revenue

The water and sewer fund reports unearned revenue in connection with receipt of capital assets 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, 2014, \$36,507 of revenue was recognized under this agreement.

M. Deferred Inflows of Resources

In addition to liabilities, the Governmental Fund Balance Sheet also reports a separate section for deferred inflows of resources. *Deferred inflows of resources* represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has one item that qualifies for reporting in this category which occurs only under the modified accrual basis of accounting. This item, *unavailable revenue*, is reported only in the governmental funds balance sheet for taxes receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

N. 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.

O. 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 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

P. 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, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

P. Fund Equity (Continued)

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).

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.

Q. 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.

R. Comparative data

Comparative total data for the prior year 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.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

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.

Note 3. Receivables

Receivables for individual major funds are as follows:

	General	Water and Sewer	Total
Receivables			
Taxes	\$ 365,888	\$ -	\$ 365,888
Accounts	151,230	526,071	677,301
Ambulance services	55,707	-	55,707
Decals	10,368	-	10,368
	583,193	526,071	1,109,264
Less: allowance for uncollectibles	(336,117)	(117,765)	(453,882)
	\$ 247,076	\$ 408,306	\$ 655,382

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Due from Other Governmental Units

A summary of funds due from other governmental units follows:

	General	Water and Sewer	Total
Due from other governments			
Tazewell County			
Sales Tax	\$ 70,283	\$ -	\$ 70,283
Commonwealth of Virginia			
Personal property tax relief	54,820	-	54,820
Community Development			
Block Grant	-	171,768	171,768
Virginia Department of Transit			
Grant	35,785	-	35,785
Other grants	2,197	-	2,197
	\$ 163,085	\$ 171,768	\$ 334,853

Note 5. Interfund Receivables, Payables, and Transfers

An amount of \$32,000 was due to the General Fund from the Water and Sewer Fund for water and sewer expenditures paid out of the General Fund.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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	549,190	218,067	-	767,257
	<u>2,532,766</u>	<u>218,067</u>	<u>-</u>	<u>2,750,833</u>
Capital assets, depreciated:				
Vehicles	1,776,785	251,757	51,138	1,977,404
Buildings and improvements	2,795,821	-	-	2,795,821
Equipment, furniture, and fixtures	1,022,305	9,515	-	1,031,820
	<u>5,594,911</u>	<u>261,272</u>	<u>51,138</u>	<u>5,805,045</u>
Less accumulated depreciation for:				
Vehicles	1,459,443	111,208	51,138	1,519,513
Buildings and improvements	1,219,216	77,406	-	1,296,622
Equipment, furniture, and fixtures	927,273	39,932	-	967,205
	<u>3,605,932</u>	<u>228,546</u>	<u>51,138</u>	<u>3,783,340</u>
Capital assets, depreciated, net	<u>1,988,979</u>	<u>32,726</u>	<u>-</u>	<u>2,021,705</u>
Governmental activities capital assets, net	<u>\$ 4,521,745</u>	<u>\$ 250,793</u>	<u>\$ -</u>	<u>\$ 4,772,538</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 21,581	\$ -	\$ -	\$ 21,581
Construction in progress	492,753	2,350,674	-	2,843,427
	<u>514,334</u>	<u>2,350,674</u>	<u>-</u>	<u>2,865,008</u>
Capital assets, depreciated:				
Distribution/transmission systems	5,666,152	17,270	-	5,683,422
Water and wastewater plants	6,194,257	-	-	6,194,257
Machinery and equipment	723,076	4,478	-	727,554
	<u>12,583,485</u>	<u>21,748</u>	<u>-</u>	<u>12,605,233</u>
Less accumulated depreciation	<u>7,272,532</u>	<u>295,891</u>	<u>-</u>	<u>7,568,423</u>
Capital assets, depreciated, net	<u>5,310,953</u>	<u>(274,143)</u>	<u>-</u>	<u>5,036,810</u>
Business-type activities capital assets, net	<u>\$ 5,825,287</u>	<u>\$ 2,076,531</u>	<u>\$ -</u>	<u>\$ 7,901,818</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 32,645
Public safety	130,077
Public works	44,732
Parks, recreation, and cultural	21,092
	<u>\$ 228,546</u>
Business-type activities:	
Water and sewer	<u>\$ 295,891</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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	\$ 81,098	\$ 148,125	\$ 77,876	\$ 151,347	\$ 34,501
Due to County	32,471	-	14,405	18,066	14,412
Compensated absences	86,451	-	22,571	63,880	-
	<u>\$ 200,020</u>	<u>\$ 148,125</u>	<u>\$ 114,852</u>	<u>\$ 233,293</u>	<u>\$ 48,913</u>
 <u>Business-Type Activities</u>					
General obligation bonds	\$ 1,565,574	\$ -	\$ 32,733	\$ 1,532,841	\$ 33,358
Revenue bonds	36,545	1,626,218	-	1,662,763	-
Compensated absences	23,317	17,876	-	41,193	-
	<u>\$ 1,625,436</u>	<u>\$ 1,644,094</u>	<u>\$ 32,733</u>	<u>\$ 3,236,797</u>	<u>\$ 33,358</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 line of credit with an interest rate of 4.25% to cover cash shortfalls during the year, depositing proceeds in the general fund. Draws of \$498,000 were made and repaid on the line during the year.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Long-Term Liabilities (Continued)

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

Fiscal Year	Governmental Activities					
	Notes Payable		Due to County		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 34,501	\$ 4,361	\$ 14,412	\$ -	\$ 48,913	\$ 4,361
2016	35,639	3,223	3,654	-	39,293	3,223
2017	31,713	2,108	-	-	31,713	2,108
2018	30,967	1,131	-	-	30,967	1,131
2019	18,527	199	-	-	18,527	199
	<u>\$ 151,347</u>	<u>\$ 11,022</u>	<u>\$ 18,066</u>	<u>\$ -</u>	<u>\$ 169,413</u>	<u>\$ 11,022</u>

Fiscal Year	Business-Type Activities					
	Revenue Bonds		General Obligation Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ -	\$ -	\$ 33,358	\$ 49,370	\$ 33,358	\$ 49,370
2016	132,369	45,814	34,458	48,270	166,827	94,084
2017	134,429	43,754	35,595	47,133	170,024	90,887
2018	136,520	41,662	36,769	45,959	173,289	87,621
2019	138,644	39,538	37,982	44,746	176,626	84,284
2020-2024	726,261	164,652	209,551	204,089	935,812	368,741
2025-2029	394,540	60,448	246,472	167,168	641,012	227,616
2030-2034	-	-	289,898	123,743	289,898	123,743
2035-2039	-	-	340,974	72,667	340,974	72,667
2040-2044	-	-	267,784	15,716	267,784	15,716
	<u>\$ 1,662,763</u>	<u>\$ 395,868</u>	<u>\$ 1,532,841</u>	<u>\$ 818,861</u>	<u>\$ 3,195,604</u>	<u>\$ 1,214,729</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity	Original Amount	Governmental Activities	Business-Type Activities
Notes Payable						
Police Cruiser	3.625%	08-12	08-16	\$ 25,150	\$ 14,670	\$ -
Garbage Truck	3.15%	01-14	01-19	\$ 148,155	136,677	-
					<u>\$ 151,347</u>	<u>\$ -</u>
Bonds						
Rural Development, General Obligation Virginia Resources Authority,	3.25%	2003	2043	\$ 1,800,000	\$ -	\$ 1,532,841
Revenue Loan	1.55%	06-13	10-34	\$ 2,988,696	-	1,662,763
					<u>\$ -</u>	<u>\$ 3,195,604</u>

Virginia Resources Authority – Revenue Loan

During 2013, the Town received financing from the Virginia Resources Authority totaling \$2,988,696. Through June 30, 2014, \$1,662,763 has been drawn and used for water and sewer capital projects. The remaining undrawn amount of \$1,325,933 is anticipated to be used during 2014 for eligible projects.

Due 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, 2014, the remaining balance was \$18,066.

Subsequent Financing

Subsequent to year end, the Town was approved for a loan from the Virginia Department of Health in the amount of \$800,000 at a rate of 2.25%. This loan also has an agreement that the Virginia Department of Health will forgive \$176,000 of the principal balance. They also approved the issuance of \$900,000 in general obligation bonds to help support the local matching portion of the Route 61 improvement project. The bonds will carry an interest rate of 2.73%.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension 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 public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

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

VRS PLAN 1

About VRS Plan 1 – VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Cost-of-Living Adjustment (COLA) in Retirement – (Continued)

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Average Final Compensation – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees.*
- School division employees.
- Political subdivision employees.*
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

***Non-Eligible Members**

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Eligible Members – (Continued)

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions – A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Creditable Service (Continued)

Defined Contribution Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 10.95% of the annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the Town's annual pension cost of \$98,427 for VRS was equal to the required and actual contributions.

Three-Year Trend Information
Town

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 98,427	100%	\$ -
June 30, 2013	107,457	100%	-
June 30, 2012	127,457	100%	-

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Town 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. Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

For the Town employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 89.14% funded. The actuarial accrued liability for benefits was \$5,343,936 and the actuarial value of assets was \$4,763,822, resulting in an unfunded actuarial liability (UAAL) of \$580,114. The covered payroll (annual payroll of active employees covered by the plan) was \$1,632,409 and the ratio of the UAAL to the covered payroll was 35.54%.

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

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 not 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 0.83% 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 2013-2014, total premiums paid were approximately \$110,000. 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 \$53,000.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Risk Management (Continued)

The Risk Management Programs are as follows: (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 \$451,000.

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 and Fund Balance

At June 30, the Water and Sewer fund and General fund had deficits in unrestricted net position and unassigned fund balance totaling \$584,768 and \$2,484,518, respectively. These deficits are anticipated to be recovered through future revenues.

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 2014, the Town expended and capitalized approximately \$118,151 for renovations. These assets are being depreciated over 25 years and are included in the governmental activities, buildings and improvements line in Note 6.

Litigation

The Town is subject to occasional litigation in the normal course of business. At this time the Town is unable to estimate the amount of loss, but estimates any material losses will be covered by insurance.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Commitments and Contingencies (Continued)

Construction Commitments

In 2012, Council approved the commencement of the Route 61 project. To date, \$712,000 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 Transportation. The Town was awarded \$2.1 million of state and federal funding for this project. At June 30, 2014, \$2,797,552 of fund balance was committed for the remaining costs of this project. The Town also started the Drytown sewer project in 2013 and has incurred \$2,843,000 in 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.

Other Post-Employment Benefits

As of July 1, 2014 the Town began offering retirees the ability to purchase health care insurance from the time they retiree until they are eligible for Medicare. During fiscal year 2015, the Town will engage an actuary to estimate the amount of this benefit for the Town.

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 2014, the Town paid approximately \$592,000 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 allocated 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 which began 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 respective capacities in the facility. Both parties will each contribute \$500, \$1,000 in total, per month to a capital reserve fund not to exceed \$50,000 to assist with unexpected capital expenditures. Through June 30, 2014, the PSA has paid \$37,211 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 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, 2014

Note 15. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* 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.

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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

Management has not fully evaluated the effect of adopting these statements, but the adoption of GASB Statement No. 68 will result in substantial pension liabilities being recorded on the Statement of Net Position.



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**REQUIRED SUPPLEMENTARY
INFORMATION**

TOWN OF TAZEWELL, VIRGINIA

EXHIBIT 8

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES – BUDGET AND ACTUAL – CASH BASIS
 GENERAL FUND
 June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
General property taxes:				
Real property taxes	\$ 605,000	\$ 605,000	\$ 637,508	\$ 32,508
Public service corporation taxes	30,000	30,000	32,936	2,936
Personal property taxes	91,000	91,000	106,816	15,816
Penalties and interest on delinquent taxes	16,000	16,000	53,573	37,573
Total general property taxes	742,000	742,000	830,833	88,833
Other local taxes:				
Meals taxes	530,000	530,000	556,069	26,069
Cigarette taxes	60,000	60,000	51,308	(8,692)
Franchise license tax	29,000	29,000	27,496	(1,504)
Bank stock tax	170,000	170,000	170,392	392
Total other local taxes	789,000	789,000	805,265	16,265
Permits, privilege fees, and regulatory licenses:				
Planning and zoning	1,000	1,000	1,105	105
Retail Sales	141,120	141,120	132,611	(8,509)
Real estate and professional	32,109	32,109	48,562	16,453
Personal business service	35,238	35,238	12,789	(22,449)
Decal fees	28,000	28,000	34,609	6,609
Business license taxes	-	-	24,659	24,659
Total permits and privilege fees	237,467	237,467	254,335	16,868
Fines and forfeitures:				
Court fines	50,000	50,000	60,462	10,462
Parking fines	1,000	1,000	205	(795)
Total fines and forfeitures	51,000	51,000	60,667	9,667
Revenue from use of money and property:				
Interest earned	500	500	632	132
Total revenue from use of money and property	500	500	632	132

(Continued)

TOWN OF TAZEWELL, VIRGINIA

EXHIBIT 8

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES – BUDGET AND ACTUAL – CASH BASIS
 GENERAL FUND
 June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (Continued)				
Charges for services:				
Waste collection charges	\$ 389,000	\$ 389,000	\$ 393,385	\$ 4,385
Recreation	47,000	47,000	60,135	13,135
Fire	1,000	1,000	336	(664)
Rescue	250,000	250,000	292,180	42,180
Miscellaneous charges	5,000	5,000	4,350	(650)
Total charges for services	692,000	692,000	750,386	58,386
Other revenues:				
Debt proceeds	-	-	148,125	148,125
Miscellaneous	103,658	103,658	75,949	(27,709)
Total other revenues	103,658	103,658	224,074	120,416
Total revenue from local sources	2,615,625	2,615,625	2,926,192	310,567
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Local sales and use taxes	260,000	260,000	274,012	14,012
Personal property tax reimbursement	55,000	55,000	54,820	(180)
Rolling stock	5,500	5,500	6,774	1,274
Fire programs	9,500	9,500	24,896	15,396
Litter control grant	2,500	2,500	2,544	44
Other	75,000	75,000	36,487	(38,513)
Total non-categorical aid	407,500	407,500	399,533	(7,967)
Categorical aid:				
Highway and street maintenance grant	1,089,937	1,089,937	1,117,912	27,975
Law enforcement aid	99,029	99,029	99,028	(1)
Total categorical aid	1,188,966	1,188,966	1,216,940	27,974
Total intergovernmental revenues	1,596,466	1,596,466	1,616,473	20,007
Total general fund revenues	\$ 4,212,091	\$ 4,212,091	\$ 4,542,665	\$ 330,574

TOWN OF TAZEWELL, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Expenditures				<u>(Negative)</u>
General government administration:				
Mayor and Town Council:				
Wages - elected officials	\$ 27,600	\$ 27,600	\$ 27,600	\$ -
Travel, training, and education	3,000	3,000	5,228	(2,228)
Dues and professional memberships	750	750	1,000	(250)
Total Mayor and Town Council	<u>31,350</u>	<u>31,350</u>	<u>33,828</u>	<u>(2,478)</u>
Town Attorney/legal services:				
Wages	600	600	600	-
Health insurance	6,200	6,200	5,385	815
Legal services	15,000	15,000	48,807	(33,807)
Total Town Attorney/legal services	<u>21,800</u>	<u>21,800</u>	<u>54,792</u>	<u>(32,992)</u>
Treasurer:				
Wages	51,034	51,034	53,475	(2,441)
Fringes/benefits	19,712	19,712	16,083	3,629
Travel, training, and education	1,000	1,000	-	1,000
Dues and professional memberships	500	500	-	500
Office supplies	1,000	1,000	2,738	(1,738)
Equipment	1,000	1,000	1,282	(282)
Miscellaneous	1,000	1,000	2,143	(1,143)
	<u>75,246</u>	<u>75,246</u>	<u>75,721</u>	<u>(475)</u>
Bookkeeping:				
Wages	10,181	10,181	10,543	(362)
Fringes/benefits	5,791	5,791	4,805	986
Travel, training, and education	1,000	1,000	-	1,000
Dues and professional memberships	500	500	-	500
Office supplies	500	500	1,537	(1,037)
Postage and delivery services	5,000	5,000	3,472	1,528
Equipment	500	500	350	150
Miscellaneous	500	500	103	397
	<u>23,972</u>	<u>23,972</u>	<u>20,810</u>	<u>3,162</u>

(Continued)

TOWN OF TAZEWELL, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2014

	<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 (Continued)				
General government administration (Continued):				
Administration:				
Wages	\$ 121,721	\$ 121,721	\$ 136,755	\$ (15,034)
Fringes/benefits	45,429	45,429	38,290	7,139
Professional services	17,000	17,000	31,350	(14,350)
Advertising	5,000	5,000	11,374	(6,374)
Building maintenance	17,000	17,000	7,176	9,824
Postage and delivery services	8,000	8,000	8,347	(347)
Motor fuel expense	2,000	2,000	1,138	862
Vehicle maintenance	300	300	410	(110)
Utilities	27,000	27,000	18,967	8,033
Internet fees	26,294	26,294	43,553	(17,259)
Travel, training, and education	15,000	15,000	4,299	10,701
Dues and professional memberships	5,000	5,000	5,633	(633)
General liability insurance	32,846	32,846	39,269	(6,423)
Office supplies	30,000	30,000	25,634	4,366
Equipment	10,000	10,000	3,779	6,221
Equipment maintenance	35,000	35,000	44,525	(9,525)
Bank service charge	500	500	456	44
Maintenance	97,868	97,868	102,748	(4,880)
Miscellaneous	23,000	23,000	26,855	(3,855)
Total administration	<u>518,958</u>	<u>518,958</u>	<u>550,558</u>	<u>(31,600)</u>
Total general government administration	<u>671,326</u>	<u>671,326</u>	<u>735,709</u>	<u>(64,383)</u>
(Continued)				

TOWN OF TAZEWELL, VIRGINIA

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

June 30, 2014

Expenditures (Continued)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Safety:				
Police department:				
Wages	\$ 604,865	\$ 604,865	\$ 608,483	\$ (3,618)
Fringes/benefits	234,091	234,091	195,429	38,662
Professional services	10,000	10,000	18,696	(8,696)
Advertising	2,000	2,000	1,680	320
Building maintenance	2,500	2,500	2,530	(30)
Postage and delivery services	1,000	1,000	485	515
Motor fuel expense	45,000	45,000	46,829	(1,829)
Vehicle maintenance	25,000	25,000	23,727	1,273
Utilities	23,000	23,000	20,843	2,157
Uniforms	10,000	10,000	13,896	(3,896)
Travel, training, and education	15,000	15,000	15,575	(575)
Dues and professional memberships	1,000	1,000	1,130	(130)
Office supplies	15,000	15,000	10,596	4,404
Equipment	5,000	5,000	7,436	(2,436)
Equipment maintenance	8,000	8,000	9,672	(1,672)
Internet fees	10,000	10,000	8,907	1,093
Public safety	15,000	15,000	15,229	(229)
Narcotics task force	7,000	7,000	7,000	-
Southwest Regional Jail	6,000	6,000	3,104	2,896
Miscellaneous	3,000	3,000	3,120	(120)
Total police department	1,042,456	1,042,456	1,014,367	28,089
Volunteer fire department:				
Personnel cost	23,400	23,400	21,705	1,695
Building maintenance	3,000	3,000	5,356	(2,356)
Motor fuel expense	5,000	5,000	3,200	1,800
Utilities	5,700	5,700	5,663	37
General liability insurance	-	-	2,992	(2,992)
Miscellaneous	-	-	3,915	(3,915)
Supplies	10,000	10,000	2,870	7,130
Equipment	5,000	5,000	1,112	3,888
Equipment maintenance	2,500	2,500	4,781	(2,281)
Internet fees	5,650	5,650	5,645	5
Vehicle maintenance	5,000	5,000	2,453	2,547
Fire fund transfer	9,500	9,500	22,947	(13,447)
Total volunteer fire department	74,750	74,750	82,639	(7,889)
Volunteer rescue squad:				
Rescue squad expense	320,244	320,244	324,676	(4,432)
Total volunteer rescue squad	320,244	320,244	324,676	(4,432)
Total public safety	1,437,450	1,437,450	1,421,682	15,768

(Continued)

TOWN OF TAZEWELL, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Expenditures (Continued)				Positive
				(Negative)
Public works:				
Sanitation:				
Wages	\$ 116,255	\$ 116,255	\$ 104,784	\$ 11,471
Fringes/benefits	78,969	78,969	59,228	19,741
Uniforms	3,000	3,000	3,109	(109)
Fuel	25,000	25,000	21,172	3,828
Miscellaneous	1,200	1,200	2,699	(1,499)
Supplies	-	-	830	(830)
Vehicle maintenance	10,000	10,000	27,343	(17,343)
Total sanitation	<u>234,424</u>	<u>234,424</u>	<u>219,165</u>	<u>15,259</u>
Administration:				
Wages	338,489	338,489	324,949	13,540
Fringes/benefits	133,711	133,711	107,836	25,875
Signage	6,000	6,000	6,955	(955)
Fuel	43,000	43,000	50,051	(7,051)
Utilities	15,000	15,000	15,053	(53)
Vehicle maintenance	35,000	35,000	12,411	22,589
Building maintenance	3,000	3,000	18,693	(15,693)
Miscellaneous	-	-	69,456	(69,456)
Supplies	5,000	5,000	10,027	(5,027)
Uniforms	12,000	12,000	6,498	5,502
Travel, training, and education	1,000	1,000	1,404	(404)
Internet fees	3,040	3,040	3,681	(641)
Equipment	10,000	10,000	6,734	3,266
Equipment maintenance	8,000	8,000	17,101	(9,101)
Snow removal	30,000	30,000	25,153	4,847
Total public works administration	<u>643,240</u>	<u>643,240</u>	<u>676,002</u>	<u>(32,762)</u>
Paving	235,000	235,000	252,394	(17,394)
Street lights	53,000	53,000	59,216	(6,216)
Street, bridge, sidewalk maintenance	65,000	65,000	82,864	(17,864)
Total public works	<u>1,230,664</u>	<u>1,230,664</u>	<u>1,289,641</u>	<u>(58,977)</u>

(Continued)

TOWN OF TAZEWELL, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2014

	<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 (Continued)				
Parks, recreation, and cultural:				
Wages	\$ 98,485	\$ 98,485	\$ 87,885	\$ 10,600
Fringes/benefits	26,893	26,893	23,793	3,100
Advertising	300	300	-	300
Utilities	12,000	12,000	14,998	(2,998)
Uniforms	2,000	2,000	1,690	310
Travel, training, and education	1,000	1,000	32	968
Dues and professional memberships	100	100	80	20
Planning commission	4,300	4,300	1,998	2,302
Community development	71,201	71,201	109,899	(38,698)
American Legion building	12,000	12,000	9,691	2,309
Motor fuel expense	2,500	2,500	2,497	3
Adult activities	5,000	5,000	-	5,000
Building maintenance	10,000	10,000	12,376	(2,376)
Miscellaneous	1,000	1,000	8,198	(7,198)
Supplies	8,000	8,000	12,275	(4,275)
Youth activities	5,000	5,000	8,553	(3,553)
Equipment maintenance	3,000	3,000	5,018	(2,018)
Internet fees	5,650	5,650	6,251	(601)
Equipment	3,000	3,000	3,984	(984)
Vehicle maintenance	1,500	1,500	74	1,426
Other recreation	3,000	3,000	2,356	644
Pool operation	35,000	35,000	13,633	21,367
Parks and playground	3,000	3,000	51	2,949
Groundskeeping	4,000	4,000	16,924	(12,924)
Total parks, recreation, and cultural	<u>317,929</u>	<u>317,929</u>	<u>342,256</u>	<u>(24,327)</u>
Non-departmental:				
Capital improvements	221,763	221,763	612,791	(391,028)
Contingency	33,959	33,959	-	33,959
Total non-departmental	<u>255,722</u>	<u>255,722</u>	<u>612,791</u>	<u>(357,069)</u>
Debt service:				
Principal retirement	97,557	97,557	92,281	5,276
Interest and other fiscal charges	1,443	1,443	6,168	(4,725)
Total debt service	<u>99,000</u>	<u>99,000</u>	<u>98,449</u>	<u>551</u>
Transfers out	200,000	200,000	-	200,000
Total general fund expenditures	<u>\$ 4,212,091</u>	<u>\$ 4,212,091</u>	<u>\$ 4,500,528</u>	<u>\$ (288,437)</u>

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2014

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, 2013	\$ 4,763,822	\$ 5,343,936	\$ 580,114	89.14%	\$ 1,632,409	35.54%
June 30, 2012	\$ 4,516,210	\$ 5,084,173	\$ 567,963	88.83%	\$ 1,544,808	36.77%
June 30, 2011	\$ 4,477,082	\$ 4,721,219	\$ 244,137	94.83%	\$ 1,418,882	17.21%

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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 (3)	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services (2)	Refuse Charges	Inter-governmental (3)	Other	Totals
2014	\$ 797,897	\$ 1,107,274	\$ 252,986	\$ 65,190	\$ 632	\$ 357,001	\$ 393,884	\$ 1,406,412	\$ 75,949	\$ 4,457,225
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

(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.

Source: Financial report for respective year.

TOWN OF TAZEWELL, VIRGINIA

TABLE 2

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

Fiscal Years Ended June 30,	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Capital Outlay	Debt Service	Totals
2014	\$ 735,709	\$ 1,445,140	\$ 1,289,641	\$ 342,256	\$ 479,339	\$ 98,449	\$ 4,390,534
2013	708,674	1,402,518	1,354,398	224,035	228,610	458,402	4,376,637
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

(1) Consists solely of general fund expenditures.

Source: Financial report for respective year.

TOWN OF TAZEWELL, VIRGINIA

TABLE 3

LEGAL DEBT MARGIN INFORMATION
Last Five Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Debt limit	\$ 27,654,930	\$ 27,615,780	\$ 25,176,660	\$ 25,071,740	\$ 21,830,100
Total net debt applicable to limit	<u>3,365,017</u>	<u>1,715,688</u>	<u>2,216,959</u>	<u>2,247,234</u>	<u>2,561,956</u>
Legal debt margin	<u>\$ 24,289,913</u>	<u>\$ 25,900,092</u>	<u>\$ 22,959,701</u>	<u>\$ 22,824,506</u>	<u>\$ 19,268,144</u>
Total net debt applicable to the limit as a percentage of debt limit	12%	6%	9%	9%	12%

Legal Debt Margin Calculation for Fiscal Years 2014, 2013, and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assessed value	<u>\$ 276,549,300</u>	<u>\$ 276,157,800</u>	<u>\$ 251,766,600</u>
Debt limit (10% of assessed value)	\$ 27,654,930	\$ 27,615,780	\$ 25,176,660
Less debt applicable to limit:			
Revenue bonds	1,662,763	36,545	138,428
General obligation bonds	1,532,841	1,565,574	1,596,482
Notes payable	151,347	81,098	350,000
Other long-term obligations	<u>18,066</u>	<u>32,471</u>	<u>132,049</u>
Legal debt margin	<u>\$ 24,289,913</u>	<u>\$ 25,900,092</u>	<u>\$ 22,959,701</u>

Source: Financial report for respective year.

COMPLIANCE SECTION

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 (the “Town”), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 24, 2014.

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 entity’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 import 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 14-1.**

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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 24, 2014

TOWN OF TAZEWELL, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

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, 2014

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.
- Improper accounting of debt related items.
- 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, 2014

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

14-1: General Fund Budget Appropriations

Condition:

As noted in the Schedule of Expenditures – Budget and Actual – Cash Basis, 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.