

**TOWN OF TAZEWELL, VIRGINIA**  
**FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2016**



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## INTRODUCTORY SECTION

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**TOWN OF TAZEWELL, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2016**

**TOWN COUNCIL**

A. Donald Buchanan, Jr., Mayor  
Terry W. Mullins, Vice Mayor  
Glenn L. Catron  
David H. Fox  
Jack T. Murray, Sr.  
Chris R. Brown  
Jerry McReynolds

**APPOINTED OFFICIALS**

Todd Day ..... Town Manager  
Leeanne Billings..... Treasurer

**INDEPENDENT AUDITORS**

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

**ATTORNEYS**

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

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## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council  
Town of Tazewell, Virginia

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, (the "Town") as of and for the year ended June 30, 2016, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

## *Opinions*

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of June 30, 2016, 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 required supplementary information 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.

### *Report on Summarized Comparative Information*

We have previously audited the Town's 2015 financial statements, on which, in our report dated November 30, 2015, we expressed an unmodified opinion. The 2015 financial information is provided for comparative purposes only.

## *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic 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 schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

***Other Matters (Continued)***

***Other Information (Continued)***

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 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's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 30, 2016

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# FINANCIAL STATEMENTS

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## TOWN OF TAZEWEEL, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2016

			Totals	
	Governmental Activities	Business-Type Activities	2016	(For Comparative Purposes Only) 2015
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 18,308	\$ 246,338	\$ 264,646	\$ 321,905
Investments (Note 2)	146,832	-	146,832	83,000
Investments, restricted (Note 2)	402,503	-	402,503	900,157
Receivables, net (Note 3)	452,413	510,076	962,489	696,213
Due from other governmental units (Note 4)	920,546	44,730	965,276	127,739
Internal balances (Note 5)	(206,164)	206,164	-	-
Capital assets: (Note 6)				
Not depreciated	4,217,056	809,245	5,026,301	6,550,941
Depreciated, net	2,040,912	8,558,915	10,599,827	6,700,152
Note Receivable (Note 14)	-	681,964	681,964	698,460
Net pension asset (Note 8)	87,426	11,223	98,649	109,321
Total assets	8,079,832	11,068,655	19,148,487	16,187,888
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow related to pensions (Note 8)	89,718	11,517	101,235	95,984
<b>LIABILITIES</b>				
Accounts payable	471,495	131,665	603,160	192,691
Accrued payroll and related liabilities	102,287	19,084	121,371	60,365
Accrued interest payable	14,665	15,661	30,326	29,555
Customer deposits	-	110,154	110,154	100,185
Noncurrent liabilities:				
Unearned revenue (Note 14)	-	1,213,858	1,213,858	1,250,365
Due within one year (Note 7)	111,654	192,484	304,138	279,012
Due in more than one year (Note 7)	1,082,065	4,312,057	5,394,122	4,800,932
Total liabilities	1,782,166	5,994,963	7,777,129	6,713,105
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Net difference between projected and actual investment earnings (Note 8)	136,261	17,498	153,759	353,958
Net difference between expected and actual experience (Note 8)	65,724	8,431	74,155	-
Total deferred inflows of resources	201,985	25,929	227,914	353,958
<b>NET POSITION</b>				
Net investment in capital assets	5,360,528	4,982,862	10,343,390	9,312,293
Unrestricted	824,871	76,418	901,289	(95,484)
Total net position	\$ 6,185,399	\$ 5,059,280	\$ 11,244,679	\$ 9,216,809

## TOWN OF TAZEWELL, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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	2016	(For Comparative Purposes Only) 2015
Governmental activities:								
General government administration	\$ 910,840	\$ -	\$ -	\$ -	\$ (910,840)	\$ -	\$ (910,840)	\$ (794,847)
Public safety	1,837,357	379,686	274,415	-	(1,183,256)	-	(1,183,256)	(1,372,845)
Public works	2,228,403	389,133	2,866,594	-	1,027,324	-	1,027,324	(285,401)
Parks, recreation, and cultural	481,100	62,814	-	-	(418,286)	-	(418,286)	(328,113)
Interest on long-term debt	19,028	-	-	-	(19,028)	-	(19,028)	(24,312)
Total governmental activities	5,476,728	831,633	3,141,009	-	(1,504,086)	-	(1,504,086)	(2,805,518)
Business-type activities:								
Water and sewer	2,348,366	2,393,660	447,478	-	-	492,772	492,772	346,611
Total business-type activities	2,348,366	2,393,660	447,478	-	-	492,772	492,772	346,611
Total primary government	\$ 7,825,094	\$ 3,225,293	\$ 3,588,487	\$ -	\$ (1,504,086)	492,772	(1,011,314)	(2,458,907)
General revenues:								
Property taxes					849,219	-	849,219	848,704
Sales taxes					299,561	-	299,561	304,204
Meals taxes					703,880	-	703,880	647,973
Utilities taxes					33,586	-	33,586	28,279
Business license taxes					157,872	-	157,872	193,100
Bank franchise taxes					202,734	-	202,734	222,291
Other local taxes and charges					243,013	-	243,013	222,881
Intergovernmental revenue, unrestricted					251,374	-	251,374	111,028
Investment income					2,463	23,239	25,702	29,289
Other					164,436	3,213	167,649	223,761
Total general revenues					2,908,138	26,452	2,934,590	2,831,510
Change in net position					1,404,052	519,224	1,923,276	372,603
NET POSITION AT JULY 1, AS RESTATED (Note 16)					4,781,347	4,540,056	9,321,403	8,844,206
NET POSITION AT JUNE 30					\$ 6,185,399	\$ 5,059,280	\$ 11,244,679	\$ 9,216,809

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

## TOWN OF TAZEWELL, VIRGINIA

**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
**June 30, 2016**

	<b>General Fund</b>	
		<b>(For Comparative Purposes Only)</b>
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 18,308	\$ 30,373
Investments	146,832	83,000
Investments, restricted	402,503	900,157
Receivables, net	452,413	234,319
Due from other governmental units	920,546	106,906
Due from other fund	-	53,944
Total assets	<u>\$ 1,940,602</u>	<u>\$ 1,408,699</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 471,495	\$ 107,625
Accrued payroll and related liabilities	102,287	49,166
Due to other fund	206,164	-
Total liabilities	<u>779,946</u>	<u>156,791</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue	<u>98,472</u>	<u>76,581</u>
<b>FUND BALANCES</b>		
Restricted		
Public works	402,503	900,157
Committed		
Public works	1,284,372	1,719,007
Unassigned	(624,691)	(1,443,837)
Total fund balances	<u>1,062,184</u>	<u>1,175,327</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,940,602</u>	<u>\$ 1,408,699</u>
<b>RECONCILIATION TO THE STATEMENT OF NET POSITION</b>		
Total fund balance	\$ 1,062,184	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	6,257,968	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	98,472	
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows or resources for 2016 employer contributions	89,718	
Deferred inflows of resources related to pensions	(201,985)	
Net pension asset	87,426	
Long-term liabilities, including notes payable, accrued interest, net OPEB obligation, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund	(1,208,384)	
Net position of governmental activities	<u>\$ 6,185,399</u>	

## TOWN OF TAZEWELL, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
**Year Ended June 30, 2016**

	<b>General Fund</b>	
		<b>(For Comparative Purposes Only)</b>
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
General property taxes	\$ 827,328	\$ 855,569
Other local taxes	1,329,286	1,274,358
Permits, privilege fees, and regulatory licenses	256,332	270,571
Fines and forfeitures	55,028	46,172
Revenue from use of money and property	2,463	308
Charges for services	442,500	344,169
Refuse charges	389,133	398,036
Intergovernmental	3,392,383	1,529,203
Other	102,006	100,637
Total revenues	<u>6,796,459</u>	<u>4,819,023</u>
<b>EXPENDITURES</b>		
Current:		
General government administration	846,402	749,359
Public safety	1,961,563	1,596,981
Public works	2,379,047	1,764,012
Parks, recreation, and cultural	469,937	379,408
Capital outlay	1,112,846	305,786
Debt service:		
Principal retirement	117,418	54,556
Interest and fiscal charges	22,389	6,628
Total expenditures	<u>6,909,602</u>	<u>4,856,730</u>
Excess (deficiency) of revenue over expenditures	<u>(113,143)</u>	<u>(37,707)</u>
<b>OTHER FINANCING SOURCES</b>		
Debt proceeds	-	900,000
Total other financing sources	<u>-</u>	<u>900,000</u>
Net change in fund balance	<u>(113,143)</u>	<u>862,293</u>
<b>FUND BALANCE AT JULY 1</b>	<u>1,175,327</u>	<u>313,034</u>
<b>FUND BALANCE AT JUNE 30</b>	<u>\$ 1,062,184</u>	<u>\$ 1,175,327</u>

**Net change in fund balance** \$ (113,143)

**Adjustments for the Statement of Activities:**

Governmental funds report capital outlays (\$1,650,691) as expenditures while governmental activities report depreciation expense (\$237,395) to allocate those expenditures over the life of the assets. Governmental activities report asset contributions in the amount of \$62,430 and a loss on disposal of an asset in the amount of (\$61,318). This is the amount by which new capital assets exceeded depreciation in the current period.

1,414,408

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.

21,892

Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. This is the amount by which employer pension contributions exceed pension expense in the current period.

83,393

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.

117,418

Some expenses reported in the statement of activities, such as compensated absences, net OPEB obligation, and accrued interest, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(119,916)**Change in net position of governmental activities**\$ 1,404,052

**TOWN OF TAZEWELL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**June 30, 2016**

	<b>Enterprise Fund</b>	
	<b>Water and Sewer</b>	
	<b>(For Comparative Purposes Only)</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 246,338	\$ 291,532
Receivables, net	510,076	461,894
Due from other governments	44,730	20,833
Due from other fund	206,164	-
Total current assets	1,007,308	774,259
Noncurrent assets:		
Note receivable	681,964	698,460
Net pension asset	11,223	29,517
Capital assets:		
Not depreciated	809,245	3,702,247
Depreciated, net	8,558,915	4,809,881
Total noncurrent assets	10,061,347	9,240,105
Total assets	11,068,655	10,014,364
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension contributions subsequent to measurement date	11,517	25,633
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	131,665	85,066
Accrued payroll and related liabilities	19,084	11,199
Accrued interest payable	15,661	11,527
Due to other fund	-	53,944
Customer deposits	110,154	100,185
Current portion of noncurrent liabilities	192,484	166,827
Total current liabilities	469,048	428,748
Noncurrent liabilities:		
Unearned revenue	1,213,858	1,250,365
Due in more than one year	4,312,057	3,725,259
Total noncurrent liabilities	5,525,915	4,975,624
Total liabilities	5,994,963	5,404,372
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Net difference between projected and actual investment earnings on pension plan investments	17,498	95,569
Net difference between expected and actual experience	8,431	-
Total deferred inflows of resources	25,929	95,569
<b>NET POSITION</b>		
Net investment in capital assets	4,982,862	4,701,870
Unrestricted	76,418	(161,814)
Total net position	\$ 5,059,280	\$ 4,540,056

## TOWN OF TAZEWELL, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**Year Ended June 30, 2016**

	Enterprise Fund	
	Water and Sewer	
		(For Comparative Purposes Only)
	2016	2015
<b>OPERATING REVENUES</b>		
Water service charges and fees	\$ 1,233,634	\$ 1,236,892
Sewer service charges and fees	1,151,858	1,010,085
Water/sewer penalties	8,168	7,511
Other revenue	3,213	1,865
Total operating revenues	2,396,873	2,256,353
<b>OPERATING EXPENSES</b>		
Salaries	624,537	562,752
Fringe benefits	190,191	174,153
Maintenance	219,038	18,094
Utilities	191,796	207,316
Materials and supplies	160,317	203,444
Purchased water	521,882	584,684
Administrative	54,571	68,789
Miscellaneous	5,865	9,832
Depreciation	344,500	282,682
Total operating expenses	2,312,697	2,111,746
Operating income	84,176	144,607
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	23,239	28,981
Intergovernmental revenue	447,478	270,838
Interest expense	(35,669)	(4,527)
Net nonoperating income (expenses)	435,048	295,292
Change in net position	519,224	439,899
<b>NET POSITION AT JULY 1, AS RESTATED (Note 16)</b>	4,540,056	4,100,157
<b>NET POSITION AT JUNE 30</b>	\$ 5,059,280	\$ 4,540,056

## TOWN OF TAZEVELL, VIRGINIA

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
Year Ended June 30, 2016

	Enterprise Fund	
	Water and Sewer	
		(For Comparative Purposes Only)
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,322,153	\$ 2,168,016
Payments to suppliers	(1,557,169)	(1,179,176)
Payments to employees	(616,467)	(582,103)
Net cash provided by operating activities	148,517	406,737
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(1,152,525)	(1,235,761)
Principal paid on debt	(175,500)	(33,404)
Debt proceeds	750,540	648,058
Capital grant received	423,581	421,773
Payments on note receivable received	16,496	14,595
Interest paid on capital debt	(79,542)	(79,034)
Net cash used in capital and related financing activities	(216,950)	(263,773)
<b>INVESTING ACTIVITIES</b>		
Interest received	23,239	28,981
Net increase (decrease) in cash and cash equivalents	(45,194)	171,945
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning at July 1	291,532	119,587
Ending at June 30	\$ 246,338	\$ 291,532
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 84,176	\$ 144,607
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	344,500	282,682
Pension expense net of employer contributions	(37,230)	(23,022)
Change in assets and liabilities:		
Decrease (increase) in:		
Receivables, net	(48,182)	(53,588)
Increase (decrease) in:		
Accounts payable	46,599	25,988
Due from other funds	(206,164)	
Due to other funds	(53,944)	21,944
Accrued payroll and related liabilities	6,443	3,671
Net OPEB obligation	38,857	39,204
Customer deposits	9,969	1,758
Unearned revenue	(36,507)	(36,507)
Net cash provided by operating activities	\$ 148,517	\$ 406,737
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capitalized interest	\$ 48,007	\$ 75,429

**TOWN OF TAZEVELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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, 2016**

**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, 2016**

**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, 2016, 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, 2016**

**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:

	<u><b>General Fund</b></u>
Net change in fund balance (non-GAAP budgetary basis)	\$ (705,995)
Modified accrual basis adjustments	<u>592,852</u>
Net change in fund balance (GAAP basis)	<u><u>\$ (113,143)</u></u>

**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, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. 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.

**J. 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 \$48,007.

**K. 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, 2016, \$36,507 of revenue was recognized under this agreement.

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

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**L. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three types of these items. One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other 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. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third consists of differences between expected and actual experience for economic or demographic factors in the total pension liability measurement.

**M. 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.

**N. 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.

**O. Pensions**

For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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.

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).

**Q. 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.

**R. 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.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**S. 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.

**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.

At June 30, all of the Town's investments were in LGIP. \$402,503 of these investments represent unspent debt proceeds restricted for specific capital projects.

**Note 3. Receivables**

Receivables for individual major funds are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables			
Taxes	\$ 374,417	\$ -	\$ 374,417
Accounts	157,069	643,503	800,572
Ambulance services	512,400	-	512,400
Decals	26,330	-	26,330
	<hr/>	<hr/>	<hr/>
Gross receivables	1,070,216	643,503	1,713,719
Less: allowance for uncollectibles	(617,803)	(133,427)	(751,230)
	<hr/>	<hr/>	<hr/>
	\$ 452,413	\$ 510,076	\$ 962,489
	<hr/>	<hr/>	<hr/>

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

A summary of funds due from other governmental units follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Due from other governments			
Tazewell County			
sales tax	\$ 48,941	\$ -	\$ 48,941
Commonwealth of Virginia			
personal property tax relief	54,820	-	54,820
Grants	<u>816,785</u>	<u>44,730</u>	<u>861,515</u>
	<u>\$ 920,546</u>	<u>\$ 44,730</u>	<u>\$ 965,276</u>

**Note 5. Interfund Receivables and Payables**

\$206,164 was due to the water and sewer fund from the general fund for general expenses paid out of Water and Sewer Fund cash.



**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 6. Capital Assets**

Capital asset activity was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 1,983,576	\$ 62,430	\$ -	\$ 2,046,006
Construction in progress	969,712	1,262,656	(61,318)	2,171,050
	<u>2,953,288</u>	<u>1,325,086</u>	<u>(61,318)</u>	<u>4,217,056</u>
Capital assets, depreciated:				
Vehicles	1,921,819	296,137	(51,624)	2,166,332
Buildings and improvements	2,795,821	9,264	-	2,805,085
Equipment, furniture, and fixtures	1,000,591	96,717	-	1,097,308
	<u>5,718,231</u>	<u>402,118</u>	<u>(51,624)</u>	<u>6,068,725</u>
Less accumulated depreciation for:				
Vehicles	1,514,358	149,459	(51,624)	1,612,193
Buildings and improvements	1,374,039	77,322	-	1,451,361
Equipment, furniture, and fixtures	939,563	24,696	-	964,259
	<u>3,827,960</u>	<u>251,477</u>	<u>51,624</u>	<u>4,027,813</u>
Capital assets, depreciated, net	<u>1,890,271</u>	<u>150,641</u>	<u>-</u>	<u>2,040,912</u>
Governmental activities capital assets, net	<u>\$ 4,843,559</u>	<u>\$ 1,475,727</u>	<u>\$ (61,318)</u>	<u>\$ 6,257,968</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 21,581	\$ -	\$ -	\$ 21,581
Construction in progress	3,680,666	948,621	(3,841,623)	787,664
	<u>3,702,247</u>	<u>948,621</u>	<u>(3,841,623)</u>	<u>809,245</u>
Capital assets, depreciated:				
Distribution/transmission systems	5,688,622	4,069,380	-	9,758,002
Water and wastewater plants	6,194,257	-	-	6,194,257
Machinery and equipment	734,621	24,154	-	758,775
	<u>12,617,500</u>	<u>4,093,534</u>	<u>-</u>	<u>16,711,034</u>
Less accumulated depreciation	<u>7,807,619</u>	<u>344,500</u>	<u>-</u>	<u>8,152,119</u>
Capital assets, depreciated, net	<u>4,809,881</u>	<u>3,749,034</u>	<u>-</u>	<u>8,558,915</u>
Business-type activities capital assets, net	<u>\$ 8,512,128</u>	<u>\$ 4,697,655</u>	<u>\$ (3,841,623)</u>	<u>\$ 9,368,160</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 25,968
Public safety	139,070
Public works	76,926
Parks, recreation, and cultural	9,513
	<u>\$ 251,477</u>
Business-type activities:	
Water and sewer	<u>\$ 344,500</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Long-Term Liabilities**

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

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Notes payable	\$ 111,207	\$ -	\$ (34,278)	\$ 76,929	\$ 29,995
General obligation bonds	900,000	-	(79,489)	820,511	81,659
Due to County	3,650	-	(3,650)	-	-
Net OPEB obligation	105,996	105,056	-	211,052	-
Compensated absences	67,005	18,222	-	85,227	-
	<u>\$ 1,187,858</u>	<u>\$ 123,278</u>	<u>\$ (117,417)</u>	<u>\$ 1,193,719</u>	<u>\$ 111,654</u>
<b><u>Business-Type Activities</u></b>					
General obligation bonds	\$ 1,499,437	\$ -	\$ (33,951)	\$ 1,465,486	\$ 35,595
Revenue bonds	2,310,821	196,995	(141,549)	2,366,267	142,054
Net OPEB obligation	39,204	38,857	-	78,061	-
Revenue Loans	-	553,545	-	553,545	14,835
Compensated absences	42,624	-	(1,442)	41,182	-
	<u>\$ 3,892,086</u>	<u>\$ 789,397</u>	<u>\$ (176,942)</u>	<u>\$ 4,504,541</u>	<u>\$ 192,484</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.

**Short-term borrowing:**

The Town has a line of credit with an interest rate of 4.25% to cover cash shortfalls during the year, depositing proceeds in the general fund. No draws were made on the line during the year.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Long-Term Liabilities (Continued)**

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

Fiscal Year	Governmental Activities							
	General Obligation Bonds		Notes Payable		Totals			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 81,659	\$ 22,400	\$ 29,995	\$ 2,103	\$ 111,654	\$ 24,503		
2018	83,888	20,171	30,967	1,131	114,855	21,302		
2019	86,178	17,881	15,967	199	102,145	18,080		
2020	88,531	15,528	-	-	88,531	15,528		
2021	90,948	-	-	-	90,948	-		
2022-2026	389,307	40,038	-	-	389,307	40,038		
	<u>\$ 820,511</u>	<u>\$ 116,018</u>	<u>\$ 76,929</u>	<u>\$ 3,433</u>	<u>\$ 897,440</u>	<u>\$ 119,451</u>		

  

Fiscal Year	Business-Type Activities							
	Revenue Bonds		General Obligation Bonds		Loans		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 142,054	\$ 36,129	\$ 35,595	\$ 47,133	\$ 14,835	\$ 13,130	\$ 192,484	\$ 96,392
2018	144,264	33,918	36,769	45,959	15,560	13,620	196,593	93,497
2019	146,509	31,674	37,982	44,746	15,854	13,326	200,345	89,746
2020	148,789	29,394	39,235	43,493	16,212	12,968	204,236	85,855
2021	151,104	27,079	40,529	42,199	16,579	59,167	208,212	128,445
2022-2026	791,527	99,386	223,604	190,035	73,336	48,900	1,088,467	338,321
2027-2031	842,020	35,859	263,001	150,639	99,194	37,419	1,204,215	223,917
2032-2036	-	-	309,340	104,300	110,936	24,578	420,276	128,878
2037-2041	-	-	363,842	49,798	124,068	10,217	487,910	60,015
2042-2046	-	-	115,589	2,918	66,971	194	182,560	3,112
	<u>\$ 2,366,267</u>	<u>\$ 293,439</u>	<u>\$ 1,465,486</u>	<u>\$ 721,220</u>	<u>\$ 553,545</u>	<u>\$ 233,519</u>	<u>\$ 4,385,298</u>	<u>\$ 1,248,178</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 7. Long-Term Liabilities (Continued)**

Details of long-term indebtedness are as follows:

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Final Maturity</b>	<b>Original Amount</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>
<b>Bonds and Notes Payable</b>						
General Obligation Bond	2.73%	10-14	10-24	\$ 900,000	\$ 820,511	\$ -
Garbage Truck	3.15%	01-14	01-19	\$ 148,155	76,929	-
					<u>\$ 897,440</u>	<u>\$ -</u>
<b>Bonds</b>						
Rural Development, General Obligation Virginia Resources Authority,	3.25%	2003	2043	\$ 1,800,000	\$ -	\$ 1,465,486
Revenue Loans	2.25%	2015	2045	\$ 553,545	-	553,545
Revenue Loan	1.55%	06-13	10-34	\$ 2,988,696	-	2,366,267
					<u>\$ -</u>	<u>\$ 4,385,298</u>

**Note 8. Defined Benefit Pension Plan**

**Plan Description**

All full-time, salaried permanent employees of the Town of Tazewell, Virginia, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan is as follows:

- Plan 1** – 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 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 1 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 Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
  - **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but 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.
  - **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.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Plan 1 (Continued)**

- **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 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **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%.
- **Disability Coverage** for 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.

**Plan 2** – Plan 2 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 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.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Plan 2 (Continued)**

- **Hybrid Opt-In Election** – Eligible Plan 2 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 2 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 have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **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** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **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** – Same as Plan 1 except that the retirement multiplier is 1.65%.



**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**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 Plan 1 and 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 political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through 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 political subdivision employees who are covered by enhanced benefits for hazardous duty employees and 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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or 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 and is generally subject to the same terms as in Plans 1 and 2.
  - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **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 (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
  - **Defined Contributions 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 Benefit Component:** See definition under Plan 1.
  - **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 Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **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, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **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 Plan 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

**Employees Covered by Benefit Terms**

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b><u>Number</u></b>
Inactive members or their beneficiaries currently receiving benefits	<u>31</u>
Inactive members:	
Vested inactive members	4
Non-vested inactive members	24
Inactive members active elsewhere in VRS	<u>27</u>
Total inactive members	55
Active members	<u>52</u>
Total covered employees	<u><u>138</u></u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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.

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 9.47% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$101,235 and \$95,984 for the years ended June 30, 2016 and June 30, 2015, respectively.

**Net Pension Liability**

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

**Actuarial Assumptions**

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees - Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Actuarial Assumptions (Continued)**

Mortality rates: General employees - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees - Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Long-Term Expected Rate of Return (Continued)**

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50	6.28 %	1.04
Emerging Market Equity	6.00	10.00 %	0.60
Fixed Income	15.00	0.09 %	0.01
Emerging Debt	3.00	3.51 %	0.11
Rate Sensitive Credit	4.50	3.51 %	0.16
Non Rate Sensitive Credit	4.50	5.00 %	0.23
Convertibles	3.00	4.81 %	0.14
Public Real Estate	2.25	6.12 %	0.14
Private Real Estate	12.75	7.10 %	0.91
Private Equity	12.00	10.41 %	1.25
Cash	1.00	(1.50)%	(0.02)
Total	100.00 %		5.83 %
	Inflation		2.50 %
	Expected arithmetic nominal return		8.33 %

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Changes in Net Pension Liability (Assets)**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
Balances at June 30, 2014	\$ 5,706,192	\$ 5,815,513	\$ (109,321)
Changes for the year:			
Service cost	159,244	-	159,244
Interest	387,474	-	387,474
Differences between expected and actual experience	(105,444)	-	(105,444)
Contributions – employer	-	93,319	(93,319)
Contributions – employee	-	79,627	(79,627)
Net investment income	-	261,411	(261,411)
Benefit payments, including refunds of employee contributions	(341,689)	(341,689)	-
Administrative expenses	-	(3,700)	3,700
Other changes	-	(55)	55
Net changes	99,585	88,913	10,672
Balances at June 30, 2015	\$ 5,805,777	\$ 5,904,426	\$ (98,649)

**Sensitivity of the Net Pension Liability (Assets) to Changes in the Discount Rate**

The following presents the net pension liability (assets) of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability (assets) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's net pension liability (assets)	\$ 703,540	\$ (98,649)	\$ (764,007)

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 8. Defined Benefit Pension Plan (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the political subdivision recognized pension expense (income) of \$(22,053). At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ 74,155
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	153,759
Employer contributions subsequent to the measurement date	<u>101,235</u>	<u>-</u>
Total	<u><u>\$ 101,235</u></u>	<u><u>\$ 227,914</u></u>

The \$0 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Reduction to Pension Expense</u></b>
2017	\$ (91,850)
2018	(91,850)
2019	(72,140)
2020	27,926
2021	-
Thereafter	-



**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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	\$	0.60
Machinery and tools	\$	0.60

**Note 10. Risk Management**

The Risk Management Programs are as follows:

**Workers' Compensation Insurance** is provided through the Virginia Municipal League. During 2015-2016, total premiums paid were approximately \$64,000. 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 \$47,000.

**Healthcare coverage** is provided for employees through a policy with Anthem Blue Cross-Blue Shield. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for the year ended June 30 were approximately \$560,000.

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 general fund had a deficit unassigned fund balance of \$(467,505). This deficit is anticipated to be recovered through future revenues.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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 2015, the Town expended and capitalized approximately \$136,000 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.

**Construction Commitments**

In 2012, Council approved the commencement of the Route 61 project. To date, \$2.1 million 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, 2016, \$1,284,372 of fund balance was committed for the remaining costs of this project. The Town completed the Drytown sewer project in 2016 which cost \$3.8 million. The Town started a renovation of a train station this year and has incurred \$4,275 in costs to date. This year, the Town started a water meter replacement project which is expected to cost \$621,791.

**Grant Programs**

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, related to such audits would not be material to the financial position of the Town at June 30, 2016.

**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 2016, the Town paid approximately \$566,000 to the PSA for water.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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, 2016, the PSA has paid \$68,302 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.

**Note 15. Other Post-Employment Benefits**

The cost of other post-employment healthcare benefits (OPEB) is associated with the periods in which employees provide services, rather than in the future years when the costs will be paid.

**Plan Description**

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of Town Council, which may also amend the plan as deemed appropriate. Participants must meet eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Only participants who retire directly from active service are eligible for the OPEB.

- Employees retiring who meet the eligibility requirements retiring after 50 years of age and 10 years of service.
- Employees retiring who meet the eligibility requirements retiring after 55 years of age and 5 years of service.

Benefits include medical, dental, and vision insurance. The Town contributes 80% of the premium for the lifetime of the retiree regardless of the tier coverage. The Town makes no contributions to retirees for post-65 coverage as Medicare eligible retirees pay 100% of the Medicare supplement premium cost.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 15. Other Post-Employment Benefits (Continued)**

**Plan Description (Continued)**

The number of participants at June 30, 2015 was as follows:

Retirees currently receiving benefits	6
Retirees' spouses currently receiving benefits	4
Active employees	53
Total	63

**Funding Policy**

The Town currently funds post-employment health care benefits on a pay-as-you-go basis.

**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation**

For 2016, the Town's OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	\$ 249,900
Interest on net OPEB obligation	5,082
Adjustment to annual required contribution	(5,369)
Annual OPEB cost	249,613
Contributions made	(105,700)
Change in net OPEB obligation	143,913
Net OPEB obligation – beginning of year	145,200
Net OPEB obligation – end of year	\$ 289,113

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows.

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2016	\$ 249,613	42.35%	\$ 289,113
June 30, 2015	239,200	39.30%	145,200

**Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2015 was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,690,600
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,690,600
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.00%
Covered Payroll (Active Plan Members)	\$ 1,620,000
UAAL as a Percentage of Covered Payroll	104.36%

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 15. Other Post-Employment Benefits (Continued)**

**Funded Status and Funding Progress (Continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2015 actuarial valuation, the alternative measurement method, as described in Governmental Accounting Standard No. 45, was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 3.50% discount rate, and an initial annual healthcare cost trend of 6.30% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.50%. A general inflation rate of 2.50% was used. The unfunded accrued liability is being amortized as a level percent of payroll. The open amortization period for 2016 was 30 years.

**Note 16. Prior Period Restatement**

The following is a summary of the restatement to net position, resulting from unrecorded capitalized interest:

	<b><u>Water and Sewer Fund</u></b>
Net position, June 30, 2015, as previously stated	\$ 4,435,462
Unrecorded capitalized interest	<u>104,594</u>
Net position, June 30, 2015, as restated	<u>\$ 4,540,056</u>

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 17. New Accounting Standards**

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

**TOWN OF TAZEWELL, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Note 17. New Accounting Standards (Continued)**

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

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

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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## TOWN OF TAZEWELL, VIRGINIA

## EXHIBIT 8

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
General property taxes:				
Real property taxes	\$ 665,000	\$ 665,000	\$ 645,648	\$ (19,352)
Personal property taxes	141,000	141,000	136,419	(4,581)
Penalties and interest on delinquent taxes	26,000	26,000	45,261	19,261
Total general property taxes	832,000	832,000	827,328	(4,672)
Other local taxes:				
Public service corporation taxes	30,000	30,000	33,586	3,586
Meals taxes	630,000	630,000	698,318	68,318
Cigarette taxes	75,000	75,000	81,000	6,000
Transient occupancy	8,000	8,000	8,525	525
Local sales and use taxes	320,000	320,000	302,706	(17,294)
Bank stock tax	170,000	170,000	202,734	32,734
Total other local taxes	1,233,000	1,233,000	1,326,869	93,869
Permits, privilege fees, and regulatory licenses:				
Planning and zoning	2,000	2,000	1,140	(860)
Retail sales	141,120	141,120	157,872	16,752
Real estate and professional	32,109	32,109	46,416	14,307
Personal business service	35,239	35,239	8,058	(27,181)
Decal fees	41,000	41,000	35,626	(5,374)
Total permits and privilege fees	251,468	251,468	249,112	(2,356)
Fines and forfeitures:				
Court fines	50,000	50,000	49,961	(39)
Parking fines	1,000	1,000	95	(905)
Total fines and forfeitures	51,000	51,000	50,056	(944)
Revenue from use of money and property:				
Interest earned	500	500	2,463	1,963
Total revenue from use of money and property	500	500	2,463	1,963

(Continued)

## TOWN OF TAZEWELL, VIRGINIA

## EXHIBIT 8

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues (Continued)</b>				
Charges for services:				
Waste collection charges	\$ 401,000	\$ 401,000	\$ 388,850	\$ (12,150)
Recreation	43,400	43,400	54,768	11,368
Fire	400	400	366	(34)
Rescue	520,000	520,000	200,346	(319,654)
Miscellaneous charges	6,000	6,000	8,854	2,854
Total charges for services	970,800	970,800	653,184	(317,616)
Other revenues:				
Miscellaneous	88,488	88,488	102,006	13,518
Total other revenues	88,488	88,488	102,006	13,518
Total revenue from local sources	3,427,256	3,427,256	3,211,018	(216,238)
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Personal property tax reimbursement	54,500	54,500	54,820	320
Rolling stock	5,500	5,500	6,624	1,124
Fire programs	16,901	16,901	15,364	(1,537)
Litter control grant	2,500	2,500	2,568	68
Franchise license tax	25,000	25,000	26,808	1,808
Other	40,000	40,000	158,000	118,000
Total non-categorical aid	144,401	144,401	264,184	119,783
Categorical aid:				
Highway and street maintenance grant	1,250,000	1,250,000	2,047,242	797,242
Law enforcement aid	215,387	215,387	259,052	43,665
Other	-	-	5,120	5,120
Total categorical aid	1,465,387	1,465,387	2,311,414	846,027
Total intergovernmental revenues	1,609,788	1,609,788	2,575,598	965,810
Total general fund revenues	\$ 5,037,044	\$ 5,037,044	\$ 5,786,616	\$ 749,572

**TOWN OF TAZEWELL, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures				
General government administration:				
Mayor and Town Council:				
Wages - elected officials	\$ 27,600	\$ 27,600	\$ 27,600	\$ -
Travel, training, and education	8,500	8,500	-	8,500
Dues and professional memberships	1,000	1,000	-	1,000
Council donations	30,000	30,000	97,046	(67,046)
Total Mayor and Town Council	67,100	67,100	124,646	(57,546)
Town Attorney/legal services:				
Wages	600	600	600	-
Health insurance	6,200	6,200	7,080	(880)
Legal services	40,000	40,000	50,192	(10,192)
Total Town Attorney/legal services	46,800	46,800	57,872	(11,072)
Treasurer:				
Wages	53,848	53,848	56,953	(3,105)
Fringes/benefits	18,178	18,178	16,787	1,391
Travel, training, and education	2,000	2,000	2,699	(699)
Dues and professional memberships	500	500	175	325
Office supplies	2,000	2,000	495	1,505
Equipment	500	500	-	500
Miscellaneous	500	500	1,351	(851)
	77,526	77,526	78,460	(934)
Bookkeeping:				
Wages	11,016	11,016	11,529	(513)
Fringes/benefits	7,417	7,417	5,874	1,543
Travel, training, and education	500	500	-	500
Dues and professional memberships	500	500	-	500
Office supplies	1,000	1,000	724	276
Postage and delivery services	5,000	5,000	2,039	2,961
Equipment	500	500	-	500
Miscellaneous	500	500	15	485
	26,433	26,433	20,181	6,252

(Continued)

**TOWN OF TAZEWELL, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures (Continued)				
General government administration (Continued):				
Administration:				
Wages	\$ 165,824	\$ 165,824	\$ 136,908	\$ 28,916
Fringes/benefits	53,474	53,474	39,802	13,672
Professional services	34,000	34,000	53,059	(19,059)
Advertising	6,000	6,000	7,301	(1,301)
Building maintenance	7,500	7,500	8,490	(990)
Postage and delivery services	6,000	6,000	8,699	(2,699)
Motor fuel expense	2,000	2,000	696	1,304
Vehicle maintenance	300	300	318	(18)
Utilities	17,000	17,000	17,395	(395)
Internet fees	42,766	42,766	33,540	9,226
Travel, training, and education	4,000	4,000	3,152	848
Dues and professional memberships	6,000	6,000	4,939	1,061
General liability insurance	45,000	45,000	36,586	8,414
Office supplies	20,000	20,000	19,617	383
Equipment	3,000	3,000	979	2,021
Equipment maintenance	20,000	20,000	50,469	(30,469)
Bank service charge	500	500	3,292	(2,792)
Maintenance	87,908	87,908	96,439	(8,531)
Miscellaneous	10,000	10,000	30,984	(20,984)
Total administration	531,272	531,272	552,665	(21,393)
Total general government administration	749,131	749,131	833,824	(84,693)
(Continued)				

## TOWN OF TAZEWELL, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures (Continued)</b>				
Public Safety:				
Police department:				
Wages	\$ 582,680	\$ 582,680	\$ 636,456	\$ (53,776)
Fringes/benefits	291,911	291,911	238,556	53,355
Professional services	19,000	19,000	17,607	1,393
Advertising	2,000	2,000	-	2,000
Building maintenance	1,000	1,000	1,738	(738)
Postage and delivery services	1,000	1,000	308	692
Motor fuel expense	50,000	50,000	31,726	18,274
Vehicle maintenance	20,000	20,000	38,540	(18,540)
Utilities	21,000	21,000	25,166	(4,166)
Uniforms	10,000	10,000	30,426	(20,426)
Travel, training, and education	17,000	17,000	21,263	(4,263)
Dues and professional memberships	1,000	1,000	4,389	(3,389)
Office supplies	15,000	15,000	12,907	2,093
Equipment	72,000	72,000	2,520	69,480
Equipment maintenance	10,000	10,000	6,636	3,364
Internet fees	10,000	10,000	5,491	4,509
Public safety	28,514	28,514	64,688	(36,174)
Narcotics task force	7,000	7,000	7,000	-
Southwest Regional Jail	6,000	6,000	4,106	1,894
Miscellaneous	12,000	12,000	11,904	96
Total police department	1,177,105	1,177,105	1,161,427	15,678
Volunteer fire department:				
Personnel cost	32,000	32,000	34,815	(2,815)
Building maintenance	3,000	3,000	6,741	(3,741)
Motor fuel expense	5,000	5,000	2,685	2,315
Utilities	5,700	5,700	6,366	(666)
Miscellaneous	-	-	4,107	(4,107)
Supplies	10,000	10,000	499	9,501
Equipment	11,000	11,000	774	10,226
Equipment maintenance	2,500	2,500	3,351	(851)
Internet fees	5,650	5,650	4,663	987
Vehicle maintenance	5,000	5,000	7,610	(2,610)
Fire fund transfer	13,896	13,896	15,501	(1,605)
Total volunteer fire department	93,746	93,746	87,112	6,634
Volunteer rescue squad:				
Rescue squad expense	469,796	469,796	667,780	(197,984)
Total volunteer rescue squad	469,796	469,796	667,780	(197,984)
Total public safety	1,740,647	1,740,647	1,916,319	(175,672)
(Continued)				

**TOWN OF TAZEWell, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures (Continued)</b>				
Public works:				
Sanitation:				
Wages	\$ 114,193	\$ 114,193	\$ 102,922	\$ 11,271
Fringes/benefits	81,691	81,691	62,036	19,655
Uniforms	3,000	3,000	2,145	855
Fuel	25,000	25,000	10,639	14,361
Miscellaneous	4,399	4,399	3,849	550
Supplies	500	500	1,119	(619)
Vehicle maintenance	6,000	6,000	10,749	(4,749)
Total sanitation	234,783	234,783	193,459	41,324
Administration:				
Wages	478,094	478,094	510,066	(31,972)
Fringes/benefits	282,779	282,779	233,330	49,449
Signage	-	-	7,359	(7,359)
Fuel	43,000	43,000	31,276	11,724
Utilities	12,800	12,800	13,784	(984)
Vehicle maintenance	15,000	15,000	51,657	(36,657)
Building maintenance	4,000	4,000	590	3,410
Miscellaneous	-	-	5,725	(5,725)
Supplies	5,000	5,000	16,085	(11,085)
Uniforms	10,000	10,000	12,182	(2,182)
Travel, training, and education	500	500	3,126	(2,626)
Internet fees	3,040	3,040	2,489	551
Equipment	5,000	5,000	13,350	(8,350)
Equipment maintenance	25,000	25,000	43,483	(18,483)
Snow removal	35,000	35,000	57,967	(22,967)
Mowing	165,000	165,000	184,800	(19,800)
Total public works administration	1,084,213	1,084,213	1,187,269	(103,056)
Paving	500,000	500,000	790,923	(290,923)
Street lights	50,000	50,000	64,526	(14,526)
Street, bridge, sidewalk maintenance	108,000	108,000	110,393	(2,393)
Total public works	1,976,996	1,976,996	2,346,570	(369,574)
(Continued)				



## TOWN OF TAZEWell, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS**  
**GENERAL FUND**  
**June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures (Continued)</b>				
Parks, recreation, and cultural:				
Wages	\$ 94,578	\$ 94,578	\$ 128,051	\$ (33,474)
Fringes/benefits	45,852	45,852	38,659	7,193
Advertising	300	300	310	(10)
Utilities	11,500	11,500	24,402	(12,902)
Uniforms	8,900	8,900	1,890	7,010
Travel, training, and education	100	100	1,565	(1,465)
Dues and professional memberships	100	100	40	60
Planning commission	8,400	8,400	7,944	456
Community development	103,201	103,201	85,834	17,367
American Legion building	14,500	14,500	10,953	3,547
Motor fuel expense	2,500	2,500	1,290	1,210
Adult activities	1,000	1,000	738	262
Building maintenance	7,000	7,000	18,594	(11,594)
Miscellaneous	20,751	20,751	66,289	(45,538)
Supplies	8,000	8,000	7,218	782
Youth activities	5,000	5,000	14,252	(9,252)
Equipment maintenance	1,500	1,500	890	610
Internet fees	5,650	5,650	4,260	1,390
Equipment	1,500	1,500	1,568	(68)
Vehicle maintenance	1,500	1,500	-	1,500
Other recreation	1,500	1,500	1,180	320
Pool operation	15,000	15,000	22,895	(7,895)
Parks and playground	1,000	1,000	670	330
Groundskeeping	2,000	2,000	18,457	(16,457)
Total parks, recreation, and cultural	361,332	361,332	457,949	(96,618)
Non-departmental:				
Capital improvements	70,282	70,282	798,142	(727,860)
Total non-departmental	70,282	70,282	798,142	(727,860)
Debt service:				
Principal retirement	138,656	138,656	139,807	(1,151)
Total debt service	138,656	138,656	139,807	(1,151)
Total general fund expenditures	\$ 5,037,044	\$ 5,037,044	\$ 6,492,611	\$ (1,455,568)

## TOWN OF TAZEWELL, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**June 30, 2016**

	<b>Plan Year</b>	
	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>		
Service cost	\$ 159,244	\$ 159,643
Interest on total pension liability	387,474	368,277
Difference between expected and actual experience	(105,444)	-
Net investment income	(315,859)	-
Benefit payments, including refunds of employee contributions	(25,830)	(165,664)
Net change in total pension liability	99,585	362,256
<b>Total pension liability - beginning</b>	<b>5,706,192</b>	<b>5,343,936</b>
<b>Total pension liability - ending</b>	<b>5,805,777</b>	<b>5,706,192</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	93,319	98,541
Contributions - employee	79,627	82,807
Net investment income	261,411	793,580
Benefit payments, including refunds of employee contributions	(341,689)	(165,664)
Administrative expenses	(3,700)	(4,222)
Other	(55)	42
Net change in plan fiduciary net position	88,913	805,084
<b>Plan fiduciary net position - beginning</b>	<b>5,815,513</b>	<b>5,010,429</b>
<b>Plan fiduciary net position - ending</b>	<b>5,904,426</b>	<b>5,815,513</b>
<b>Net pension liability (asset) - ending</b>	<b>\$ (98,649)</b>	<b>\$ (109,321)</b>
Plan fiduciary net position as a percentage of total pension liability	102%	102%
Covered employee payroll	\$ 1,631,896	\$ 1,631,896
Net pension liability (asset) as a percentage of covered employee payroll	-6%	-7%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

Schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

## TOWN OF TAZEWELL, VIRGINIA

**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**June 30, 2015**

<b>Year Ended June 30</b>	<b>Actuarially Determined Contribution (1)</b>	<b>Contributions in Relation to Actuarially Determined Contribution (2)</b>	<b>Contribution Deficiency (Excess) (3)</b>	<b>Covered Employee Payroll (4)</b>	<b>Contributions as a percentage of Covered Payroll (5)</b>
2015	\$ 95,984	\$ 95,984	\$ -	\$ 1,631,896	5.88%
2016	101,235	101,235	-	1,813,465	5.58%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

## TOWN OF TAZEWELL, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS – OPEB**  
**June 30, 2016**

	(a)	(b)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b)	(c)	((b-a)/c)
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>		<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as of Percentage of Covered Payroll</b>
June 30, 2015	\$ -	\$ 1,690,600	\$ 1,690,600	0.00%	\$ 1,620,000	104.36%

## **TOWN OF TAXEWELL, VIRGINIA**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2016**

#### **Note 1. Changes of Benefit Terms**

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

#### **Note 2. Changes of Assumptions**

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

##### **Largest 10 – Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

##### **Largest 10 – LEOS:**

- Update mortality table
- Decrease in male rates of disability

##### **All Others (Non 10 Largest) – Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

##### **All Others (Non 10 Largest) – LEOS:**

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

##### **Teacher cost-sharing pool**

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

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## **OTHER INFORMATION SECTION**

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TABLE 1

## TOWN OF TAZEWELL, VIRGINIA

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

<b>Fiscal Years Ended June 30,</b>	<b>General Property Taxes</b>	<b>Other Local Taxes (3)</b>	<b>Permits, Privilege Fees, and Regulatory Licenses</b>	<b>Fines and Forfeitures</b>	<b>Investment Earnings</b>	<b>Charges for Services (2)</b>	<b>Refuse Charges</b>	<b>Inter- governmental (3)</b>	<b>Other</b>	<b>Totals</b>
2016	\$ 827,328	\$ 1,329,286	\$ 256,332	\$ 55,028	\$ 2,463	\$ 442,500	\$ 389,133	\$ 3,392,383	\$ 102,006	\$ 6,796,459
2015	855,569	1,274,358	270,571	46,172	308	344,169	398,036	1,529,203	100,637	4,819,023
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

(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)**

<b>Fiscal Years Ended June 30,</b>	<b>General Government Administration</b>	<b>Public Safety</b>	<b>Public Works</b>	<b>Parks, Recreation, and Cultural</b>	<b>Capital Outlay</b>	<b>Debt Service</b>	<b>Totals</b>
2016	\$ 846,402	\$ 1,961,563	\$ 2,379,047	\$ 469,937	\$ 1,112,846	\$ 139,807	\$ 6,909,602
2015	749,359	1,596,981	1,764,012	379,408	305,786	61,184	4,856,730
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

(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

	2016	2015	2014	2013	2012
Debt limit	\$ 27,671,610	\$ 27,633,030	\$ 27,654,930	\$ 27,615,780	\$ 25,176,660
Total net debt applicable to limit	5,282,738	4,825,115	3,365,017	1,715,688	2,216,959
Legal debt margin	<u>\$ 22,388,872</u>	<u>\$ 22,807,915</u>	<u>\$ 24,289,913</u>	<u>\$ 25,900,092</u>	<u>\$ 22,959,701</u>
Total net debt applicable to the limit as a percentage of debt limit	19%	17%	12%	6%	9%

## Legal Debt Margin Calculation for Fiscal Years 2016, 2015, 2014, 2013, and 2012

	2016	2015	2014	2013	2012
Assessed value	<u>\$ 276,716,100</u>	<u>\$ 276,330,300</u>	<u>\$ 276,549,300</u>	<u>\$ 276,157,800</u>	<u>\$ 251,766,600</u>
Debt limit (10% of assessed value)	\$ 27,671,610	\$ 27,633,030	\$ 27,654,930	\$ 27,615,780	\$ 25,176,660
Less debt applicable to limit:					
Revenue bonds and loans	2,919,812	2,310,821	1,662,763	36,545	138,428
General obligation bonds	2,285,997	2,399,437	1,532,841	1,565,574	1,596,482
Notes payable	76,929	111,207	151,347	81,098	350,000
Other long-term obligations	-	3,650	18,066	32,471	132,049
Legal debt margin	<u>\$ 22,388,872</u>	<u>\$ 22,807,915</u>	<u>\$ 24,289,913</u>	<u>\$ 25,900,092</u>	<u>\$ 22,959,701</u>

Source: Financial report for respective year.

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## **COMPLIANCE SECTION**

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**TOWN OF TAZEWell, VIRGINIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass – Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
Department of Housing and Urban Development: Pass Through Payments: Community Development Block Grant	14.218	N/A	\$ 5,120
Department of Transportation: Pass Through Payments: Highway planning and construction	20.205	N/A	616,187
Department of Motor Vehicles: State and community highway safety program	20.600	SC-2009-59262-SC-2010-50282	153,915
Total Department of Transportation			770,102
Environmental Protection Agency Pass Through Payments: Capitalization Grants for Clean Drinking Water State Revolving Funds	66.458	N/A	686,698
Total Expenditures of Federal Awards			\$ 1,461,920

**NOTE 1 – BASIS OF PRESENTATION:**

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of the Town of Tazewell, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the Town's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

**NOTE 2 – DE MINIMUS INDIRECT COST RATE**

The Town did not elect to use the 10% de minimus indirect cost rate.

**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 the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *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, 2016, 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 30, 2016.

**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 the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

*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 important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2008-001 and 2008-002, that we consider 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 three material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, and 2016-003.**

## 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, S.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 30, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

To the Honorable Members of Town Council  
Town of Tazewell, Virginia

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Tazewell, Virginia's (the "Town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2016. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 30, 2016

**TOWN OF TAZEWELL, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2016**

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

**FEDERAL COMPLIANCE MATTERS**

*Compliance Supplement for Single Audits of State and Local Governments*

Provisions and conditions of agreements related to federal programs selected for testing.

**TOWN OF TAZEWELL, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2016**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Two material weaknesses** relating to the audit of the financial statements were reported 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required By the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major program of the Town is:

Name of Program	CFDA #
Highway Planning and Construction	20.205

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Town of Tazewell **was** determined to not be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2008-001: 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.*

**TOWN OF TAZEWELL, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**2008-002: 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.

**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.*

**C. FINDINGS – COMMONWEALTH OF VIRGINIA**

**2016-001: 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.*

**TOWN OF TAZEWELL, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016**

**C. FINDINGS – COMMONWEALTH OF VIRGINIA (Continued)**

**2016-002: Highway Maintenance Program**

**Condition:**

During our review of the Highway Maintenance Program, we noted reimbursements for work performed on roads that were not included in the Department of Transportation's annual listing of eligible streets.

**Recommendation:**

Steps should be taken to ensure proper reporting of eligible expenditures.

**Management's Response:**

*Management will monitor the approved listing of eligible streets.*

**2016-003: Virginia Retirement System Payments**

**Condition:**

At times there were differences between salaries reported to Virginia Retirement System and amount paid.

**Recommendation:**

Steps should be taken to ensure proper reporting.

**Management's Response:**

*Management will monitor adjust the amounts reported as necessary.*

**D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

*None.*