

TOWN OF TAZEWELL, VIRGINIA

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

TOWN OF TAZEWELL, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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TOWN OF TAZEWELL, VIRGINIA

TOWN COUNCIL

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

TOWN INDUSTRIAL DEVELOPMENT AUTHORITY BOARD

Joe Beasley
Nancy Brooks
Shirley Forrester
Shawn McReynolds
Mary Peery
Doug Sheets
Kim Sontolla

OTHER OFFICIALS

Todd Day..... Town Manager
Leeanne Billings Treasurer
Gillespie, Hart, Altizer & Whitesell, PC Town Attorney

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
the 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, the discretely presented component unit, and each major fund of the Town of Tazewell, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Tazewell, Virginia, as of June 30, 2018, 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.

Change in Accounting Principle

As described in Note 20 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 85 *Omnibus 2017*, and 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 21 to the financial statements, in 2018, the Town restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Emphasis of other Matters

The prior financial statements required restatement as described in Note 21 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding on pages 71 and 72-79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Supplementary and Other Information

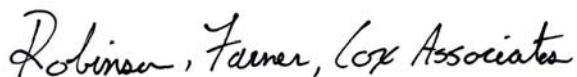
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Tazewell, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical 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 2, 2018, on our consideration of the Town of Tazewell, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Town of Tazewell, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Tazewell, Virginia's internal control over financial reporting and compliance.



Blacksburg, Virginia
November 2, 2018

Town of Tazewell, Virginia
Statement of Net Position
At June 30, 2018

| | Primary Government | | | Component |
|---|--------------------|---------------|---------------|------------|
| | Governmental | Business-type | | Unit |
| | Activities | Activities | Total | IDA |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 185,131 | \$ 424,491 | \$ 609,622 | \$ 59 |
| Investments | 4,357 | - | 4,357 | - |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes receivable | 133,284 | - | 133,284 | - |
| Accounts receivable | 184,753 | 324,136 | 508,889 | - |
| Notes receivable | - | 650,940 | 650,940 | - |
| EMS and fire receivable | 62,259 | - | 62,259 | - |
| Due from other governmental units | 85,410 | - | 85,410 | - |
| Prepaid items | 35,086 | - | 35,086 | - |
| Net pension asset | 239,878 | 87,777 | 327,655 | - |
| Capital assets (net of accumulated depreciation): | | | | |
| Land | 1,983,576 | 21,581 | 2,005,157 | 62,430 |
| Buildings and improvements | 1,071,227 | - | 1,071,227 | - |
| Vehicles | 689,774 | - | 689,774 | - |
| Equipment, furniture, and fixtures | 109,077 | 168,922 | 277,999 | - |
| Infrastructure/utility plant and buildings in service | 4,242,327 | 8,596,214 | 12,838,541 | - |
| Construction in progress | 558,327 | - | 558,327 | 82,790 |
| Total assets | \$ 9,584,466 | \$ 10,274,061 | \$ 19,858,527 | \$ 145,279 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension related items | \$ 157,136 | \$ 68,075 | \$ 225,211 | \$ - |
| OPEB related items | 330,149 | - | 330,149 | - |
| Total deferred outflows of resources | \$ 487,285 | \$ 68,075 | \$ 555,360 | \$ - |
| LIABILITIES | | | | |
| Accounts payable | \$ 221,420 | \$ 179,572 | \$ 400,992 | \$ - |
| Accrued liabilities | 98,673 | 34,662 | 133,335 | - |
| Customers' deposits | - | 138,468 | 138,468 | - |
| Accrued interest payable | - | 12,380 | 12,380 | - |
| Unearned revenue | - | 1,140,844 | 1,140,844 | - |
| Line of credit | - | 209,840 | 209,840 | - |
| Long-term liabilities: | | | | |
| Due within one year | 134,529 | 238,630 | 373,159 | - |
| Due in more than one year | 1,989,877 | 4,332,204 | 6,322,081 | - |
| Total liabilities | \$ 2,444,499 | \$ 6,286,600 | \$ 8,731,099 | \$ - |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred revenue - prepaid taxes | \$ 21,912 | \$ - | \$ 21,912 | \$ - |
| Pension related items | 289,913 | 111,127 | 401,040 | - |
| OPEB related items | 84,577 | 11,186 | 95,763 | - |
| Total deferred inflows of resources | \$ 396,402 | \$ 122,313 | \$ 518,715 | \$ - |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 8,500,114 | \$ 4,758,477 | \$ 13,258,591 | \$ 145,220 |
| Restricted | 181,098 | - | 181,098 | - |
| Unrestricted | (1,450,362) | (825,254) | (2,275,616) | 59 |
| Total net position | \$ 7,230,850 | \$ 3,933,223 | \$ 11,164,073 | \$ 145,279 |

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

Town of Tazewell, Virginia
Statement of Activities
For the Year Ended June 30, 2018

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|--------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Component Unit | |
| | | | | | Governmental Activities | Business-type Activities | Total | IDA |
| PRIMARY GOVERNMENT: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government administration | \$ 796,929 | \$ - | \$ - | \$ - | \$ (796,929) | \$ - | \$ (796,929) | \$ - |
| Public safety | 2,004,584 | 450,565 | 299,815 | - | (1,254,204) | - | (1,254,204) | - |
| Public works | 1,583,575 | 378,536 | 1,069,833 | 257,577 | 122,371 | - | 122,371 | - |
| Parks, recreation, and cultural | 337,753 | 52,765 | - | - | (284,988) | - | (284,988) | - |
| Community development | 1,262,759 | - | 680,000 | 277,845 | (304,914) | - | (304,914) | - |
| Interest on long-term debt | 15,137 | - | - | - | (15,137) | - | (15,137) | - |
| Total governmental activities | \$ 6,000,737 | \$ 881,866 | \$ 2,049,648 | \$ 535,422 | \$ (2,533,801) | \$ - | \$ (2,533,801) | \$ - |
| Business-type activities: | | | | | | | | |
| Enterprise fund | \$ 2,670,384 | \$ 2,537,519 | \$ - | \$ - | \$ - | \$ (132,865) | \$ (132,865) | \$ - |
| Total primary government | \$ 8,671,121 | \$ 3,419,385 | \$ 2,049,648 | \$ 535,422 | \$ (2,533,801) | \$ (132,865) | \$ (2,666,666) | \$ - |
| COMPONENT UNIT: | | | | | | | | |
| IDA | \$ 393,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (393,000) |
| Total component unit | \$ 393,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (393,000) |
| General revenues: | | | | | | | | |
| General property taxes | | | | | \$ 908,241 | \$ - | \$ 908,241 | \$ - |
| Other local taxes: | | | | | | | | |
| Local sales and use taxes | | | | | 303,188 | - | 303,188 | - |
| Consumers' utility taxes | | | | | 33,596 | - | 33,596 | - |
| Business license taxes | | | | | 253,145 | - | 253,145 | - |
| Motor vehicle licenses | | | | | 34,919 | - | 34,919 | - |
| Bank stock tax | | | | | 199,597 | - | 199,597 | - |
| Meals taxes | | | | | 794,260 | - | 794,260 | - |
| Other local taxes | | | | | 146,423 | - | 146,423 | - |
| Unrestricted revenues from use of money and property | | | | | 13,685 | 28,154 | 41,839 | - |
| Miscellaneous | | | | | 183,716 | 9,301 | 193,017 | - |
| Contributions from the Town of Tazewell | | | | | - | - | - | 538,220 |
| Grants and contributions not restricted to specific programs | | | | | 432,048 | - | 432,048 | - |
| Transfers | | | | | 315,428 | (315,428) | - | - |
| Total general revenues and transfers | | | | | \$ 3,618,246 | \$ (277,973) | \$ 3,340,273 | \$ 538,220 |
| Change in net position | | | | | \$ 1,084,445 | \$ (410,838) | \$ 673,607 | \$ 145,220 |
| Net position - beginning, as restated | | | | | 6,146,405 | 4,344,061 | 10,490,466 | 59 |
| Net position - ending | | | | | \$ 7,230,850 | \$ 3,933,223 | \$ 11,164,073 | \$ 145,279 |

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

Town of Tazewell, Virginia
Balance Sheet
Governmental Fund
At June 30, 2018

General

ASSETS

| | |
|--|-------------------|
| Cash and cash equivalents | \$ 185,131 |
| Investments | 4,357 |
| Receivables (net of allowance for uncollectibles): | |
| Taxes receivable | 133,284 |
| Accounts receivable | 184,753 |
| EMS and fire receivable | 62,259 |
| Due from other governmental units | 85,410 |
| Prepaid items | 35,086 |
| Total assets | <u>\$ 690,280</u> |

LIABILITIES

| | |
|---|-------------------|
| Accounts payable | \$ 221,420 |
| Accrued payroll and related liabilities | 98,673 |
| Total liabilities | <u>\$ 320,093</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|--------------------------------------|-------------------|
| Unavailable revenue - property taxes | \$ 146,475 |
| Total deferred inflows of resources | <u>\$ 146,475</u> |

FUND BALANCE

| | |
|--|-------------------|
| Nonspendable | \$ 35,086 |
| Restricted | 181,098 |
| Unassigned | 7,528 |
| Total fund balance | <u>\$ 223,712</u> |
| Total liabilities, deferred inflows of resources, and fund balance | <u>\$ 690,280</u> |

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

Town of Tazewell, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
At June 30, 2018

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|--|----|---------|
| Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds | \$ | 223,712 |
|--|----|---------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | | |
|---|----------------|-----------|
| Land | \$ 1,983,576 | |
| Buildings and improvements | 1,071,227 | |
| Vehicles | 689,774 | |
| Equipment, furniture, and fixtures | 109,077 | |
| Infrastructure/utility plant and buildings in service | 4,242,327 | |
| Construction in progress | <u>558,327</u> | 8,654,308 |

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

| | | |
|--------------------------------------|----------------|---------|
| Unavailable revenue - property taxes | \$ 124,563 | |
| Net pension asset | <u>239,878</u> | 364,441 |

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

| | | |
|-----------------------|----------------|---------|
| Pension related items | \$ 157,136 | |
| OPEB related items | <u>330,149</u> | 487,285 |

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

| | | |
|----------------------|--------------------|-------------|
| Note payable | \$ (18,435) | |
| Capital lease | (135,759) | |
| Compensated absences | (116,516) | |
| Net OPEB liabilities | <u>(1,853,696)</u> | (2,124,406) |

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

| | | |
|-----------------------|-----------------|-----------|
| Pension related items | \$ (289,913) | |
| OPEB related items | <u>(84,577)</u> | (374,490) |

| | | |
|---|----|-------------------------|
| Net position of governmental activities | \$ | <u><u>7,230,850</u></u> |
|---|----|-------------------------|

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

Town of Tazewell, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2018

| | <u>General</u> |
|---|--------------------------|
| REVENUES | |
| General property taxes | \$ 861,739 |
| Other local taxes | 1,765,128 |
| Permits, privilege fees, and regulatory licenses | 1,495 |
| Fines and forfeitures | 50,620 |
| Revenue from the use of money and property | 13,685 |
| Charges for services | 829,751 |
| Miscellaneous | 183,716 |
| Intergovernmental | 3,017,118 |
| Total revenues | <u>\$ 6,723,252</u> |
| EXPENDITURES | |
| Current: | |
| General government administration | \$ 734,404 |
| Public safety | 1,979,222 |
| Public works | 1,668,430 |
| Parks, recreation, and cultural | 424,632 |
| Community development | 728,597 |
| Capital projects | 1,294,386 |
| Debt service: | |
| Principal retirement | 813,068 |
| Interest and other fiscal charges | 29,777 |
| Total expenditures | <u>\$ 7,672,516</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (949,264)</u> |
| OTHER FINANCING SOURCES (USES) | |
| Transfers in | \$ 315,428 |
| Issuance of note payable and capital lease | 179,000 |
| Total other financing sources (uses) | <u>\$ 494,428</u> |
| Net change in fund balances | \$ (454,836) |
| Fund balance - beginning, as restated | 678,548 |
| Fund balance - ending | <u><u>\$ 223,712</u></u> |

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

Town of Tazewell, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2018

Amounts reported for governmental activities in the Statement of Activities are different because:

| | | |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (454,836) |
|--|----|-----------|

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation expense in the current period.

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 1,787,669 | |
| Depreciation expense | <u>(317,051)</u> | 1,470,618 |

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.

| | | |
|---------------------------|--|-----------|
| Transfer of assets to IDA | | (538,220) |
|---------------------------|--|-----------|

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|----------------|--|--------|
| Property taxes | | 46,502 |
|----------------|--|--------|

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued or incurred:

| | | |
|---------------------------|-------------|--|
| Issuance of note payable | \$ (29,000) | |
| Issuance of capital lease | (150,000) | |

Principal repayments:

| | | |
|-------------------------|---------------|---------|
| General obligation bond | 738,853 | |
| Note payable | 59,974 | |
| Capital lease | <u>14,241</u> | 634,068 |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

| | | |
|------------------------------------|------------------|----------|
| Change in compensated absences | \$ (29,536) | |
| Change in accrued interest payable | 14,640 | |
| Pension expense | 101,627 | |
| OPEB expense | <u>(160,418)</u> | (73,687) |

| | | |
|---|-----------|------------------|
| Change in net position of governmental activities | <u>\$</u> | <u>1,084,445</u> |
|---|-----------|------------------|

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

Town of Tazewell, Virginia
Statement of Net Position
Proprietary Fund
At June 30, 2018

| | <u>Enterprise Fund</u> |
|---|------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 424,491 |
| Accounts receivable, net of allowances for uncollectibles | 324,136 |
| Note receivable, current portion | 17,171 |
| Total current assets | <u>\$ 765,798</u> |
| Noncurrent assets: | |
| Note receivable, net of current portion | \$ 633,769 |
| Net pension asset | 87,777 |
| Capital assets: | |
| Land | 21,581 |
| Utility plant and buildings in service | 16,800,055 |
| Machinery and equipment | 725,211 |
| Accumulated depreciation | (8,760,130) |
| Total net capital assets | <u>\$ 8,786,717</u> |
| Total noncurrent assets | <u>\$ 9,508,263</u> |
| Total assets | <u>\$ 10,274,061</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension related items | \$ 68,075 |
| Total deferred outflows of resources | <u>\$ 68,075</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 179,572 |
| Accrued payroll and related liabilities | 34,662 |
| Customers' deposits | 138,468 |
| Accrued interest payable | 12,380 |
| Unearned revenue | 1,140,844 |
| Line of credit | 209,840 |
| Revenue bonds payable - current portion | 162,617 |
| General obligation bonds - current portion | 37,473 |
| Compensated absences - current portion | 38,540 |
| Total current liabilities | <u>\$ 1,954,396</u> |
| Noncurrent liabilities: | |
| Revenue bonds payable - net of current portion | \$ 2,473,153 |
| General obligation bond - net of current portion | 1,354,997 |
| Compensated absences - net of current portion | 12,847 |
| Net OPEB liability | 491,207 |
| Total noncurrent liabilities | <u>\$ 4,332,204</u> |
| Total liabilities | <u>\$ 6,286,600</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension related items | \$ 111,127 |
| OPEB related items | 11,186 |
| Total deferred inflows of resources | <u>\$ 122,313</u> |
| NET POSITION | |
| Net investment in capital assets | \$ 4,758,477 |
| Unrestricted | (825,254) |
| Total net position | <u>\$ 3,933,223</u> |

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

Town of Tazewell, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

| | <u>Enterprise Fund</u> |
|---|----------------------------|
| OPERATING REVENUES | |
| Charges for services: | |
| Charges for services | \$ 2,529,231 |
| Penalties and service charges | 8,288 |
| Miscellaneous | 9,301 |
| Total operating revenues | <u>\$ 2,546,820</u> |
| OPERATING EXPENSES | |
| Salaries, wages and fringes | \$ 672,181 |
| Fringe benefits | 249,185 |
| Insurance | 12,248 |
| Professional services | 2,000 |
| Office supplies | 5,432 |
| Postage | 13,452 |
| Telecommunications | 16,563 |
| Uniforms | 3,321 |
| Training | 3,897 |
| Maintenance | 180,194 |
| Equipment | 11,109 |
| Motor fuel and oil | 7,442 |
| Water works fees | 5,803 |
| Wastewater fees | 8,892 |
| Supplies | 43,808 |
| Purchased water | 613,900 |
| Utilities | 179,677 |
| Chemicals | 111,126 |
| Miscellaneous | 7,437 |
| Depreciation | 428,322 |
| Total operating expenses | <u>\$ 2,575,989</u> |
| Operating income (loss) | <u>\$ (29,169)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest income | \$ 28,154 |
| Interest expense | (94,395) |
| Total nonoperating revenues (expenses) | <u>\$ (66,241)</u> |
| Income before transfers | \$ (95,410) |
| Transfers in | 3,217 |
| Transfers out | <u>(318,645)</u> |
| Change in net position | \$ (410,838) |
| Total net position - beginning, as restated | 4,344,061 |
| Total net position - ending | <u><u>\$ 3,933,223</u></u> |

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

Town of Tazewell, Virginia
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

| | <u>Enterprise Fund</u> |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers and users | \$ 2,575,699 |
| Payments to suppliers | (1,181,417) |
| Payments to and for employees | (905,590) |
| Net cash provided by (used for) operating activities | <u>\$ 488,692</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers from (to) other funds | \$ (315,428) |
| Net cash provided by (used for) noncapital financing activities | <u>\$ (315,428)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Additions to utility plant | \$ (119,430) |
| Principal payments on revenue bonds | (162,042) |
| Principal payments on general obligation bond | (37,373) |
| Principal payments on line of credit | (144,000) |
| Payments received on note receivable | 15,193 |
| Interest paid on note receivable | 28,154 |
| Proceeds from line of credit | 353,840 |
| Interest expense | (96,280) |
| Net cash provided by (used for) capital and related financing activities | <u>\$ (161,938)</u> |
| Net increase (decrease) in cash and cash equivalents | \$ 11,326 |
| Cash and cash equivalents - beginning | 413,165 |
| Cash and cash equivalents - ending | <u><u>\$ 424,491</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ (29,169) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | \$ 428,322 |
| Change in accounts receivable | 53,507 |
| Change in deferred outflows of resources | 25,108 |
| Change in customer deposits | 11,879 |
| Change in accounts payable | 44,884 |
| Change in accrued payroll and related liabilities | 17,175 |
| Change in unearned revenue | (36,507) |
| Change in compensated absences | 6,569 |
| Change in net pension liability/asset | (170,657) |
| Change in net OPEB liability | 24,143 |
| Change in deferred inflows of resources | 113,438 |
| Total adjustments | <u>\$ 517,861</u> |
| Net cash provided by (used for) operating activities | <u><u>\$ 488,692</u></u> |

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

TOWN OF TAZEWELL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Town of Tazewell, Virginia (the "Town") conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant accounting policies established in GAAP and used by the Town are discussed below.

A. Financial reporting entity:

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 consists of a mayor and six other council members. The Town is part of Tazewell County, Virginia 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. The financial statements present the Town as the primary government. A component unit is an entity for which the Town is considered to be financially accountable. The Town has no related or jointly governed organization.

Discretely Presented Component Unit - The component unit column in the financial statements include the financial data of the Town's discretely presented component unit.

The Town of Tazewell Industrial Development Authority ("IDA") encourages and provides financing for industrial development in the Town. The IDA board members are appointed by the Town Council. The IDA is fiscally dependent upon the Town because the Town provides significant funding. In addition, the IDA does not have separate taxing powers. The IDA is presented as an enterprise fund type. The IDA does not issue separate financial statements.

For financial reporting purposes, in conformance with GASB Statement 14, Defining the Governmental Reporting Entity, the Town includes all funds, account groups, agencies, boards, commissions, and authorities that are controlled by or dependent upon the Town Council. Control by, or dependence upon, the Town Council was determined on the basis of the following:

1. The Town's ability to designate the management or significantly control the operations of the entity.
2. The Town's responsibility for the fiscal matters of the entity, including the authorization of budgetary appropriations, funding of operating deficiencies, control or use of surplus funds, responsibility for debts, and control over the collections and disbursement of funds.
3. The scope of public services rendered by and the geographic location of the entity.

Based on the foregoing criteria, the financial activities of no other organizations are included in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

B. Government-wide financial statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. 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.

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

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

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*.

C. Budgetary basis of accounting

The following procedures are used by the Town 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Budgetary basis of accounting (Continued)

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 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 modified accrual of accounting.
7. Appropriations lapse on June 30 for all Town units.
8. All budget data presented is the final revised budget.

For the year ended June 30, 2018, the expenditures for several departments in the Town exceeded their respective appropriations.

At year end, no funds had deficit fund equity; however, unrestricted net position was negative for the general and water/sewer funds.

D. 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 and fiduciary fund financial statements, as applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

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

The Town reports the following major governmental fund:

The *general fund* is the primary operating fund of the Town. The fund is used to account for and report for all financial resources except those required to be accounted for and reported in another fund.

The Town reports the following major proprietary fund:

The *enterprise fund* accounts for financing and 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 related to water and sewer 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 other charges between the Town's proprietary fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

E. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:

1. Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost in accordance with GASB 79. All other investments for the government, as well as for its component units, are reported at fair value.

3. Property Taxes

Property is assessed at 100% of its fair market value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on December 5th. Personal property taxes are due and collectible annually on December 5th. Personal property taxes do not create a lien on property. The County of Tazewell, Virginia is responsible for the assessments, while the Town bills and collects its own property taxes.

4. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$565,550 for the General Fund and \$187,019 for the Enterprise Fund at June 30, 2018. The allowance consists of unpaid taxes in the amount of \$181,855, unpaid garbage bills of \$31,387, ambulance services of \$352,308, and unpaid water/sewer bills of \$187,019.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Prepaid items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

E. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

7. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| <u>Assets</u> | <u>Years</u> |
|---|--------------|
| Buildings and improvements | 25-40 |
| Utility plants and buildings in service | 25-40 |
| Infrastructure | 25 |
| Machinery and equipment | 5-10 |
| Equipment, furniture, and fixtures | 5-10 |

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.

8. Compensated Absences

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

E. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

9. Pensions

For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town'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.

10. Other Postemployment Benefits (OPEB) - Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) was established pursuant to §9.1-400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and related LODA OPEB expense, information about the fiduciary net position of the VRS LODA Program OPEB Plan and the additions to/deductions from the VRS LODA Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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 premiums or discounts.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

E. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

12. Fund Equity

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

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance / resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies: (Continued)

E. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension asset and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liabilities measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected taxes due prior to June 30, amounts due subsequent to June 30, and amounts prepaid and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts prepaid are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension asset and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

14. Net Position

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

15. Net Position Flow Assumption

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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 amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments: Statutes authorize local governments and other public bodies 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).

Interest Rate Risk: The Town has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

Investment Maturities (in years)

| Investment Type | Fair Value | 1 Year | 1-5 Years |
|-----------------|------------|----------|-----------|
| LGIP | \$ 4,357 | \$ 4,357 | \$ - |

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investments at June 30, 2018 were held in the Town's name by the Town's custodial bank.

Credit Risk of Debt Securities: The Town's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Town's Rated Debt Investments' Values

| Rated Debt Investments | Fair Quality Ratings |
|------------------------|----------------------|
| | AAAm |
| LGIP | \$ 4,357 |

External Investment Pools: The value of the positions in the external investment pools (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>Commonwealth of Virginia:</u> | |
| Noncategorical aid | \$ 4,054 |
| <u>Federal Government:</u> | |
| Categorical aid | 81,356 |
| Total | <u>\$ 85,410</u> |

Note 4-Interfund/Component Unit Activity:

Interfund transfers for the year ended June 30, 2018, consisted of the following:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------|---------------------|----------------------|
| General Fund | \$ 315,428 | \$ - |
| Water and Sewer Fund | - | 315,428 |
| Total | <u>\$ 315,428</u> | <u>\$ 315,428</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the one fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

There were no interfund obligations at June 30, 2018.

Primary government contributions to the component unit for the year ended June 30, 2018, consisted of transfer of real property:

| | |
|------------------------|-------------------|
| Component Unit: | |
| IDA | \$ 538,220 |
| Total | <u>\$ 538,220</u> |

There were no component unit obligations at June 30, 2018.

TOWN OF TAZEWELL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 5-Long-term Obligations:

Governmental Activity Obligations:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2018:

| | Balance July 1, 2017, as restated | Increases/ Issuances | Decreases/ Retirements | Balance June 30, 2018 |
|-------------------------|---|-------------------------|---------------------------|--------------------------|
| General obligation bond | \$ 738,853 | \$ - | \$ (738,853) | \$ - |
| Note payable | 49,409 | 29,000 | (59,974) | 18,435 |
| Capital lease | - | 150,000 | (14,241) | 135,759 |
| Net OPEB liabilities | 1,468,699 | 585,126 | (200,129) | 1,853,696 |
| Compensated absences | 86,980 | 94,771 | (65,235) | 116,516 |
| Total | <u>\$ 2,343,941</u> | <u>\$ 858,897</u> | <u>\$ (1,078,432)</u> | <u>\$ 2,124,406</u> |

For governmental activities, the above long-term obligations are generally liquidated in the General Fund.

Annual requirements to amortize long-term obligations and related interest are as follows:

Details of long-term obligations:

| | Interest Rates | Issue Date | Final Maturity Date | Amount of Original Issue | Balance Governmental Activities | Amount Due Within One Year |
|-----------------------------|-------------------|---------------|---------------------------|--------------------------------|---------------------------------------|----------------------------------|
| Note Payable | 3.15% | 2014 | 2019 | \$ 148,155 | \$ 18,435 | \$ 18,435 |
| Other Obligations: | | | | | | |
| Capital Lease | 2.75% | 2018 | 2023 | \$ 150,000 | \$ 135,759 | \$ 28,707 |
| Net OPEB Liabilities | n/a | n/a | n/a | n/a | 1,853,696 | - |
| Compensated Absences | n/a | n/a | n/a | n/a | 116,516 | 87,387 |
| Total other obligations | | | | | <u>\$ 2,105,971</u> | <u>\$ 116,094</u> |
| Total long-term obligations | | | | | <u>\$ 2,124,406</u> | <u>\$ 134,529</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 5-Long-term Obligations: (Continued)Business-type Activity Obligations:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2018:

| | Balance July 1, 2017, as restated | Increases/ Issuances | Decreases/ Retirements | Balance June 30, 2018 |
|-------------------------|---|-------------------------|---------------------------|--------------------------|
| General obligation bond | \$ 1,429,843 | \$ - | \$ (37,373) | \$ 1,392,470 |
| Revenue bonds | 2,797,812 | - | (162,042) | 2,635,770 |
| Net OPEB liability | 467,064 | 69,920 | (45,777) | 491,207 |
| Compensated absences | 44,818 | 40,183 | (33,614) | 51,387 |
| Total | <u>\$ 4,739,537</u> | <u>\$ 110,103</u> | <u>\$ (278,806)</u> | <u>\$ 4,570,834</u> |

For the Enterprise Fund, the above long-term obligations are generally liquidated from the Water and Sewer Fund.

Annual requirements to amortize long-term obligations and the related interest are as follows:

| Year Ending June 30, | General Obligation Bonds | | Revenue Bonds | |
|-------------------------|--------------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2019 | \$ 37,473 | \$ 45,255 | \$ 162,617 | \$ 44,745 |
| 2020 | 38,691 | 44,037 | 165,254 | 42,108 |
| 2021 | 39,948 | 42,780 | 167,936 | 39,427 |
| 2022 | 41,246 | 41,482 | 170,660 | 36,702 |
| 2023 | 42,587 | 40,141 | 173,430 | 33,932 |
| 2024-2028 | 234,617 | 179,023 | 910,331 | 126,482 |
| 2029-2033 | 275,302 | 138,338 | 623,336 | 52,925 |
| 2034-2038 | 323,043 | 90,597 | 121,759 | 24,141 |
| 2039-2043 | 359,563 | 34,579 | 136,088 | 9,812 |
| 2044 | - | - | 4,359 | 98 |
| Totals | <u>\$ 1,392,470</u> | <u>\$ 656,232</u> | <u>\$ 2,635,770</u> | <u>\$ 410,372</u> |

TOWN OF TAZEWELL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 5-Long-term Obligations: (Continued)

Business-type Activity Obligations: (Continued)

Details of long-term obligations:

| | Interest Rates | Issue Date | Final Maturity Date | Amount of Original Issue | Balance Business-type Activities | Amount Due Within One Year |
|---|-------------------|---------------|---------------------------|--------------------------------|--|----------------------------------|
| General Obligation Bond- Rural Development | 3.25% | 2003 | 2043 | \$ 1,800,000 | \$ 1,392,470 | \$ 37,473 |
| Revenue Bonds: | | | | | | |
| Virginia Resources Authority | 2.25% | 2015 | 2046 | 518,022 | 457,937 | 13,819 |
| Virginia Resources Authority | 2.25% | 2015 | 2046 | 108,598 | 97,884 | 2,855 |
| Virginia Resources Authority | 1.55% | 2013 | 2034 | 2,988,696 | 2,079,949 | 145,943 |
| Total bonds | | | | | \$ 4,028,240 | \$ 200,090 |
| Other Obligations: | | | | | | |
| Net OPEB Liability | n/a | n/a | n/a | n/a | \$ 491,207 | \$ - |
| Compensated Absences | n/a | n/a | n/a | n/a | 51,387 | 38,540 |
| Total other obligations | | | | | \$ 542,594 | \$ 38,540 |
| Total long-term obligations | | | | | \$ 4,570,834 | \$ 238,630 |

Revenue bonds are secured by revenue of the water/sewer fund.

Arbitrage Rebate Compliance:

As of June 30, 2018 and for the year then ended, the Town was not liable for any amounts due under current rules governing arbitrage earnings.

Debt Purpose:

All of the bonds issued in either the governmental activities or business-type activities as listed above were issued for capital projects, land purchases, or refunding bonds previously issued for capital projects.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6-Line of Credit:

On March 22, 2018, the Town entered into a \$400,000 line of credit with First Community Bank with an interest rate of 4.75% to cover cash shortfalls during the year. During the year, the Town drew down and repaid the line of credit as detailed below:

| | Balance July 1, 2017 | Issuances | Retirements | Balance June 30, 2018 |
|--------------------------|-------------------------|------------|--------------|--------------------------|
| Governmental activities | \$ - | \$ 44,000 | \$ (44,000) | \$ - |
| Business-type activities | - | 309,840 | (100,000) | 209,840 |
| Total | \$ - | \$ 353,840 | \$ (144,000) | \$ 209,840 |

Note 7-Capital Lease:

The Town has entered into a capital lease to purchase a garbage truck. These lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the inception date.

Total capital asset acquired through the capital lease is as follows:

| | |
|---------------------------------|------------|
| Garbage truck | \$ 141,414 |
| Total capital asset | \$ 141,414 |
| Accumulated Depreciation | (8,249) |
| Net Book Value of Capital Asset | \$ 133,165 |

Present value of future minimum lease payments:

| Year Ending June 30, | Capital Leases |
|--|-------------------|
| 2019 | \$ 32,144 |
| 2020 | 32,144 |
| 2021 | 32,144 |
| 2022 | 32,144 |
| 2023 | 15,849 |
| Total minimum lease payments | \$ 144,425 |
| Less: amount representing interest | (8,666) |
| Present value of future minimum lease payments | \$ 135,759 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan:*Plan Description*

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple employer plan administered by a 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. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

| RETIREMENT PLAN PROVISIONS | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About 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.</p> | <p>About 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.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • 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. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| About Plan 1 (Cont.) | About Plan 2 (Cont.) | About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none"> • 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. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in 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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Hybrid Opt-In Election (Cont.) 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. | Hybrid Opt-In Election (Cont.) 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. | *Non-Eligible Members (Cont.) 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 Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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. | Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. | 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. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>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.</p> | <p>Creditable Service Same as Plan 1.</p> | <p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> 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.</p> <p><u>Defined Contribution Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Vesting (Cont.) | Vesting (Cont.) | <p>Vesting (Cont.) <u>Defined Contribution Component:</u> (Cont.) 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.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p> |
| <p>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.</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Calculating the Benefit (Cont.) 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. | Calculating the Benefit (Cont.) | Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> 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 A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. | Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. | Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan. |
| Service Retirement Multiplier VRS: 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%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: 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. | Service Retirement Multiplier VRS: 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 and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1. | Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: 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. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p> | <p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. | Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. | Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an 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 Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay. | Purchase of Prior Service Same as Plan 1. | Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|-------------------|
| Inactive members or their beneficiaries currently receiving benefits | 36 |
| Inactive members: | |
| Vested inactive members | 3 |
| Non-vested inactive members | 27 |
| Inactive members active elsewhere in VRS | <u>27</u> |
| Total inactive members | 57 |
| Active members | <u>60</u> |
| Total covered employees | <u><u>153</u></u> |

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% 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 Town's contractually required employer contribution rate for the year ended June 30, 2018 was 5.86% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Contributions (Continued)

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 Town were \$114,385 and \$117,604 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

| | |
|---------------------------------------|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expenses, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 20% |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)***Actuarial Assumptions - General Employees (Continued)***

All Others (Non 10 Largest) - Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

| | |
|---------------------------------------|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 4.75% |
| Investment rate of return | 7.0%, net of pension plan investment expenses, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

Mortality rates:

Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Increased rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 70% |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)**

All Others (Non 10 Largest) - Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Increased age 50 rates, and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better fit experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 60% to 45% |

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:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return |
|------------------------|-------------------|--|--|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 0.10% |
| Credit Strategies | 15.00% | 3.96% | 0.59% |
| Real Assets | 15.00% | 5.76% | 0.86% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| Total | 100.00% | | 4.80% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal return | 7.30% |

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*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, 2019, the rate contributed by the employer for the Town 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, 2019 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.

Changes in Net Pension Liability/(Asset)

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) - (b) |
| Balances at June 30, 2016 | \$ 6,281,971 | \$ 5,881,651 | \$ 400,320 |
| Changes for the year: | | | |
| Service cost | \$ 182,645 | \$ - | \$ 182,645 |
| Interest | 428,414 | - | 428,414 |
| Changes of assumptions | (110,726) | - | (110,726) |
| Differences between expected and actual experience | (297,667) | - | (297,667) |
| Contributions - employer | - | 117,604 | (117,604) |
| Contributions - employee | - | 102,534 | (102,534) |
| Net investment income | - | 715,290 | (715,290) |
| Benefit payments, including refunds of employee contributions | (323,549) | (323,549) | - |
| Administrative expenses | - | (4,153) | 4,153 |
| Other changes | - | (634) | 634 |
| Net changes | \$ (120,883) | \$ 607,092 | \$ (727,975) |
| Balances at June 30, 2017 | \$ 6,161,088 | \$ 6,488,743 | \$ (327,655) |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate*

The following presents the net pension liability (asset) of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability (asset) 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:

| | Rate | | |
|-------------------------------|------------------------|---------------------|------------------------|
| | 1% Decrease (6.00%) | Discount (7.00%) | 1% Increase (8.00%) |
| Town's | | | |
| Net Pension Liability (Asset) | \$ 467,528 | \$ (327,655) | \$ (987,123) |

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

For the year ended June 30, 2018, the Town recognized pension expense of \$(31,757). At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 92,549 | \$ 214,142 |
| Change in assumptions | - | 75,350 |
| Change in proportionate shares | 18,277 | 18,277 |
| Net difference between projected and actual earnings on pension plan investments | - | 93,271 |
| Employer contributions subsequent to the measurement date | 114,385 | - |
| Total | \$ 225,211 | \$ 401,040 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

\$114,385 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30</u> | | |
|---------------------------|----|-----------|
| 2019 | \$ | (117,430) |
| 2020 | | (94,631) |
| 2021 | | (16,684) |
| 2022 | | (61,469) |
| Thereafter | | - |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9-Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|-----------------------|---------------------|-----------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,439,006 | \$ - | \$ (455,430) | \$ 1,983,576 |
| Construction in progress | 3,329,900 | 1,418,160 | (4,189,733) | 558,327 |
| Total capital assets not being depreciated | <u>\$ 5,768,906</u> | <u>\$ 1,418,160</u> | <u>\$ (4,645,163)</u> | <u>\$ 2,541,903</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 2,207,298 | \$ - | \$ (12,223) | \$ 2,195,075 |
| Infrastructure | 623,094 | 4,096,205 | - | 4,719,299 |
| Vehicles | 2,300,629 | 369,510 | (85,372) | 2,584,767 |
| Equipment, furniture, and fixtures | 1,131,831 | 10,737 | (242,844) | 899,724 |
| Total capital assets being depreciated | <u>\$ 6,262,852</u> | <u>\$ 4,476,452</u> | <u>\$ (340,439)</u> | <u>\$ 10,398,865</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ (1,076,974) | \$ (59,097) | \$ 12,223 | \$ (1,123,848) |
| Infrastructure | (452,048) | (24,924) | - | (476,972) |
| Vehicles | (1,782,581) | (197,784) | 85,372 | (1,894,993) |
| Equipment, furniture, and fixtures | (998,245) | (35,246) | 242,844 | (790,647) |
| Total accumulated depreciation | <u>\$ (4,309,848)</u> | <u>\$ (317,051)</u> | <u>\$ 340,439</u> | <u>\$ (4,286,460)</u> |
| Total capital assets being depreciated, net | <u>\$ 1,953,004</u> | <u>\$ 4,159,401</u> | <u>\$ -</u> | <u>\$ 6,112,405</u> |
| Governmental activities capital assets, net | <u>\$ 7,721,910</u> | <u>\$ 5,577,561</u> | <u>\$ (4,645,163)</u> | <u>\$ 8,654,308</u> |

Asset deletions include land (theatre and bowling alley) and construction in progress (Cox property) to the IDA at net book value of \$538,220.

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TOWN OF TAZEVELL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9-Capital Assets: (Continued)

Primary Government: (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------------|----------------------------|---------------------------|----------------------------|
| Business-type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 21,581 | \$ - | \$ - | \$ 21,581 |
| Construction in progress | 16,082 | - | (16,082) | - |
| Total capital assets not being depreciated | <u>\$ 37,663</u> | <u>\$ -</u> | <u>\$ (16,082)</u> | <u>\$ 21,581</u> |
| Capital assets, being depreciated: | | | | |
| Machinery and equipment | \$ 704,583 | \$ 64,080 | \$ (43,452) | \$ 725,211 |
| Utility plant and buildings in service | 16,759,375 | 71,432 | (30,752) | 16,800,055 |
| Total capital assets being depreciated | <u>\$ 17,463,958</u> | <u>\$ 135,512</u> | <u>\$ (74,204)</u> | <u>\$ 17,525,266</u> |
| Accumulated depreciation: | | | | |
| Machinery and equipment | \$ (548,612) | \$ (51,129) | \$ 43,452 | \$ (556,289) |
| Utility plant and buildings in service | (7,857,400) | (377,193) | 30,752 | (8,203,841) |
| Total accumulated depreciation | <u>\$ (8,406,012)</u> | <u>\$ (428,322)</u> | <u>\$ 74,204</u> | <u>\$ (8,760,130)</u> |
| Total capital assets being depreciated, net | <u>\$ 9,057,946</u> | <u>\$ (292,810)</u> | <u>\$ -</u> | <u>\$ 8,765,136</u> |
| Business-type activities capital assets, net | <u><u>\$ 9,095,609</u></u> | <u><u>\$ (292,810)</u></u> | <u><u>\$ (16,082)</u></u> | <u><u>\$ 8,786,717</u></u> |

Depreciation expense was charged to functions/programs of the Town as follows:

| | |
|--|--------------------------|
| Governmental activities: | |
| General government administration | \$ 23,915 |
| Public safety | 175,712 |
| Public works | 104,379 |
| Parks, recreation, and cultural | <u>13,045</u> |
| Total depreciation expense - governmental activities | <u><u>\$ 317,051</u></u> |
| Business type activities: | |
| Water and sewer | <u><u>\$ 428,322</u></u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9-Capital Assets: (Continued)

Capital asset activity for the IDA for the year ended June 30, 2018 was as follows:

Discretely Presented Component Unit - IDA:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|---------------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ - | \$ 455,430 | \$ (393,000) | \$ 62,430 |
| Construction in progress | - | 82,790 | - | 82,790 |
| Total capital assets not being depreciated | <u>\$ -</u> | <u>\$ 538,220</u> | <u>\$ (393,000)</u> | <u>\$ 145,220</u> |
| IDA capital assets, net | <u>\$ -</u> | <u>\$ 538,220</u> | <u>\$ (393,000)</u> | <u>\$ 145,220</u> |

The Town transferred land (theatre and bowling alley) and construction in progress (Cox property) to the IDA during fiscal year 2018. The IDA donated the theatre on December 21, 2017 to private sector. After year end, July 12, 2018, the IDA donated the bowling alley to private sector.

Note 10-Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town participates with other localities in a public entity risk pool for their coverage of general liability and workers compensation with the Virginia Municipal League. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Town pays the Virginia Municipal League contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available funds and/or excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims have not exceeded pool coverage in any of the past three fiscal years. The Town carried commercial insurance, as necessary, for other risks of loss.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11- Other Postemployment Benefits - Health Insurance:

Plan Description

In addition to the pension benefits described in Note 8, the Town administers a single-employer defined benefit healthcare plan, The Town of Tazewell OPEB Plan. 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 as follows:

- Employees retiring after 50 years of age and 10 year of service.
- Employees retiring after 55 years of age and 5 years of service.

The plan does not issue a publicly available financial report.

Benefits Provided

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

Plan Membership

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Total active employees with coverage | 63 |
| Total retirees and spouses with coverage | <u>11</u> |
| Total | <u>74</u> |

Contributions

The Town does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Town. The amount paid by the Town for OPEB as the benefits came due during the year ended June 30, 2018 was \$123,001.

Total OPEB Liability

The Town's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of that date.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11- Other Postemployment Benefits - Health Insurance: (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate - A 3.50% discount rate for measuring the plan's June 30, 2017 Total OPEB Liability. This assumption is similar to yields implied by theoretical 20-year general obligation bond indices as of June 30, 2017. A 3.87% discount rate for measuring the plan's June 30, 2018 Total OPEB Liability. This assumption is similar to yields implied by theoretical 20-year general obligation bond indices as of June 30, 2018.

Inflation Rate - 2.50% annual rate of inflation.

Coverage Elections - The Town assumes 90% of future retirees will elect medical coverage upon retirement. The Town assumes 90% of future retirees electing medical coverage will also elect to cover their spouse.

Option Elections - The proportion of members in each option will remain constant.

Marital Status - 100% of active members are married at retirement with husbands three years older than their wives.

The retirement, withdrawal, mortality, and disability assumptions used in the valuation are consistent with those used in the June 30, 2017 valuation of the Virginia Retirement System as presented in the pension note disclosures.

Age-Related Claims Cost Assumption - A blended premium rate for active employees and retirees under age 65 is a common practice. Medical costs generally increase with age, so the result is the blended premium rate is higher than the true underlying cost for actives and the blended premium rate is lower than the true underlying cost for retirees. GASB addresses this practice by requiring the plan sponsor to determine the liabilities and costs for retiree benefits after removing the effect of any implicit rate subsidies. The net cost of the plan is equal to the true underlying cost minus the portion of the cost paid by the retiree.

Milliman's *Health Cost Guidelines* (Guidelines) was used to estimate the true underlying cost of each medical option, and used these estimated costs to calculate the GASB liabilities and costs.

Healthcare Trend Assumption - The pre-Medicare healthcare trend assumption was changed from 6.30% for fiscal 2016, 5.90% for fiscal 2017, 5.40% for fiscal 2018, then grading to an ultimate rate of 4.50% for fiscal 2083 to 5.60% for fiscal 2019, 6.30% for fiscal 2020, 4.90% for fiscal 2021, then grading to an ultimate rate of 4.20% for fiscal 2086.

The date of the most recent actuarial experience study for which significant assumptions were based on actual VRS experience over the four-year period ending June 30, 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11- Other Postemployment Benefits - Health Insurance: (Continued)*Changes in Total OPEB Liability*

| | | Primary Government Total OPEB Liability |
|---------------------------|----|--|
| Balances at June 30, 2017 | \$ | 1,743,763 |
| Changes for the year: | | |
| Service cost | | 195,313 |
| Interest | | 65,733 |
| Changes in assumptions | | (47,905) |
| Benefit payments | | (123,001) |
| Net changes | | 90,140 |
| Balances at June 30, 2018 | \$ | 1,833,903 |

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

| Rate | | |
|------------------------|----------------------------------|------------------------|
| 1% Decrease (2.87%) | Current Discount Rate (3.87%) | 1% Increase (4.87%) |
| \$ 1,966,925 | \$ 1,833,903 | \$ 1,712,104 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.60% decreasing ultimate rate of 3.20%) or one percentage point higher (6.60% decreasing ultimate rate of 5.20%) than the current healthcare cost trend rates:

| Rates | | |
|---|--|---|
| 1% Decrease (4.60% decreasing to 3.20%) | Healthcare Cost Trend (5.60% decreasing to 4.20%) | 1% Increase (6.60% decreasing to 5.20%) |
| \$ 1,654,477 | \$ 1,833,903 | \$ 2,047,114 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11- Other Postemployment Benefits - Health Insurance: (Continued)*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources*

For the year ended June 30, 2018, the Town recognized OPEB expense in the amount of \$254,904. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------|-----------------------------------|----------------------------------|
| | <u> </u> | <u> </u> |
| Changes in assumptions | \$ - | \$ 41,763 |
| Total | \$ - | \$ 41,763 |
| | <u> </u> | <u> </u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|------------|
| 2019 | \$ (6,142) |
| 2020 | (6,142) |
| 2021 | (6,142) |
| 2022 | (6,142) |
| 2023 | (6,142) |
| Thereafter | (11,053) |

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program:*Plan Description*

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for the LODA Program OPEB, including eligibility, coverage and benefits is set out in the table below:

| LINE OF DUTY ACT PROGRAM PLAN PROVISIONS |
|---|
| <p>Eligible Employees</p> <p>The eligible employees of the Line of Duty Act Program are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS).</p> |
| <p>Benefit Amounts</p> <p>The Line of Duty Act Program provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • <u>Death</u> - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <ul style="list-style-type: none"> ○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. ○ \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. ○ An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • <u>Health Insurance</u> - The Line of Duty Act program provides health insurance benefits. <ul style="list-style-type: none"> ○ Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. ○ Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors, and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act. |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)

Contributions

The contribution requirements for the Line of Duty Act Program are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program from the entity were \$19,149 and \$20,993 for the years ended June 30, 2018 and June 30, 2017, respectively.

LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2018, the entity reported a liability of \$511,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was 0.19464% as compared to 0.06913% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$83,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)***LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB: (Continued)***

At June 30, 2018, the entity reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on LODA OPEB plan investments | \$ - | \$ 1,000 |
| Change in assumptions | - | 53,000 |
| Change in proportion | 311,000 | - |
| Employer contributions subsequent to the measurement date | <u>19,149</u> | <u>-</u> |
| Total | <u>\$ 330,149</u> | <u>\$ 54,000</u> |

\$19,149 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|-----------|
| 2019 | \$ 31,000 |
| 2020 | 31,000 |
| 2021 | 31,000 |
| 2022 | 31,000 |
| 2023 | 31,000 |
| Thereafter | 102,000 |

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)***Actuarial Assumptions (Continued)***

| | |
|--|---|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| General state employees | 3.50%-5.35% |
| SPORS employees | 3.50%-4.75% |
| VaLORS employees | 3.50%-4.75% |
| Locality employees | 3.50%-4.75% |
| Medical cost trend rates assumption: | |
| Under age 65 | 7.75%-5.00% |
| Ages 65 and older | 5.75%-5.00% |
| Investment rate of return | 3.56%, net of OPEB plan investment expenses, including inflation* |

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

Mortality rates - General State Employees**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)*Actuarial Assumptions (Continued)***Mortality rates - General State Employees (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |

Mortality rates - SPORS Employees**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)***Actuarial Assumptions (Continued)*****Mortality rates - SPORS Employees (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 85% |

Mortality rates - VaLORS Employees**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 50% to 35% |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Increased disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 70% |

Mortality Rates - Non-Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)***Actuarial Assumptions (Continued)*****Mortality Rates - Non-Largest Ten Locality Employers with Public Safety Employees (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 60% to 45% |

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)***Net LODA OPEB Liability***

The net OPEB liability (NOL) for the Line of Duty Act Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Line of Duty Act Program is as follows (amounts expressed in thousands):

| | <u>LODA Program</u> |
|---|--------------------------|
| Total LODA OPEB Liability | \$ 266,252 |
| Plan Fiduciary Net Position | <u>3,461</u> |
| Employers' Net OPEB Liability (Asset) | <u><u>\$ 262,791</u></u> |
| Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability | 1.30% |

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Line of Duty Act (LODA) Program: (Continued)***Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate***

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

| | Discount Rate | | |
|---|------------------------|--------------------|------------------------|
| | 1% Decrease (2.56%) | Current (3.56%) | 1% Increase (4.56%) |
| Town's proportionate share of the total LODA Net OPEB Liability | \$ 580,000 | \$ 511,000 | \$ 454,000 |

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program contains a provision for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using the health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

| | Health Care Trend Rates | | |
|---|---|---|---|
| | 1% Decrease (6.75% decreasing to 4.00%) | Current (7.75% decreasing to 5.00%) | 1% Increase (8.75% decreasing to 6.00%) |
| Town's proportionate share of the total LODA Net OPEB Liability | \$ 434,000 | \$ 511,000 | \$ 607,000 |

LODA OPEB Fiduciary Net Position

Detailed information about the Line of Duty Act Program Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Deferred/ Unavailable Revenue:

Deferred and unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred.

| | Government-wide Statements | Balance Sheet |
|--|-------------------------------|-----------------------|
| | Governmental Activities | Governmental Funds |
| Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures | \$ - | \$ 124,563 |
| Prepaid property taxes due after June 30 but paid in advance by taxpayers | 21,912 | 21,912 |
| | \$ 21,912 | \$ 146,475 |

Note 14-Unearned Revenue:

The enterprise 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, 2018, \$36,507 of revenue was recognized under this agreement. At June 30, 2018, the Town had \$1,140,844 in unearned revenue under this agreement.

Note 15-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, repairs, 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, repairs, maintenance, or renovation costs, all taxes associated with the building, and hazard insurance premiums on the property.

These assets are being depreciated over 25 years and are included in the governmental activities, buildings and improvements line.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 15-Contingencies: (Continued)**Grants**

Federal programs in which the Town participates were audited in accordance with the provisions of Uniform Guidance. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 16-Commitments:

At June 30, 2018, the Town had the following outstanding construction commitments:

| <u>Project</u> | <u>Amount of Contract</u> | <u>Amount Outstanding</u> | <u>Accounts Payable</u> | <u>Retainage Payable</u> |
|---------------------------|-------------------------------|-------------------------------|-------------------------|------------------------------|
| N. Tazewell Train Station | \$ 431,078 | \$ 147,946 | \$ 64,450 | \$ 18,294 |

Note 17-Litigation:

As of June 30, 2018, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable.

Note 18-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 2018, the Town paid approximately \$614,000 to the PSA for water.

Note 19-Sewer Treatment 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, 2018, the PSA has paid \$99,326 to the Town against the note receivable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Sewer Treatment Capacity: (Continued)

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 20-Adoption of Accounting Principles:

The Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Town implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the restatement of net position as presented in note 21.

In addition, the Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. The implementation of this Statement had no impact on beginning net position.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 21-Restatement of Fund Balance/Net Position:

| | General Fund | Water Component | Sewer Component | Total Water and Sewer Fund |
|--|--------------|--------------------|--------------------|-------------------------------|
| Fund Balance, as previously reported | \$ 745,761 | \$ 4,889,739 | \$ - | \$ 4,889,739 |
| To correct overstated LGIP account balance in prior year | (7,512) | - | - | - |
| To correct receivable balances | 70,306 | (10,614) | (20,161) | (30,775) |
| To record additional prior year payable | (236,375) | - | - | - |
| To remove loan from receivable balance in prior year | (29,000) | - | - | - |
| To remove prior year interfund balances | 135,427 | 941,852 | (1,077,279) | (135,427) |
| Transfer sewer balances | - | (4,595,056) | 4,595,056 | - |
| To remove prior year OPEB liability - health insurance | - | 29,780 | 57,808 | 87,588 |
| GASB 75 implementation - health insurance | - | (161,422) | (305,642) | (467,064) |
| Transfer cash to IDA | (59) | - | - | - |
| Fund Balance, as restated | \$ 678,548 | \$ 1,094,279 | \$ 3,249,782 | \$ 4,344,061 |

| | Governmental Activities | Business-Type Activities | Component Unit - IDA |
|--|----------------------------|-----------------------------|-------------------------|
| Net Position, as previously reported | \$ 7,281,971 | \$ 4,889,739 | \$ - |
| Entries noted above | (67,213) | (545,678) | - |
| To transfer cash from General Fund | - | - | 59 |
| To remove loan balance in prior year | 29,000 | - | - |
| GASB 75 implementation - LODA | (171,007) | - | - |
| To remove prior year OPEB liability - health insurance | 350,353 | - | - |
| GASB 75 implementation - health insurance | (1,276,699) | - | - |
| Net Position, as restated | \$ 6,146,405 | \$ 4,344,061 | \$ 59 |

Note 22-Restricted Net Position/Fund Balance:

At year end the following amounts were restricted as to use:

| Purpose | Amount |
|------------------------------|------------|
| North Tazewell Train Station | \$ 159,282 |
| Sesquicentennial Celebration | 616 |
| Police Department Endowment | 1,622 |
| Back of the Dragon Funding | 10,236 |
| Scholarship Fund | 9,342 |
| Total | \$ 181,098 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 23-Upcoming Pronouncements:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Town of Tazewell, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u> |
| REVENUES | | | | |
| General property taxes | \$ 793,400 | \$ 793,400 | \$ 861,739 | \$ 68,339 |
| Other local taxes | 1,583,000 | 1,583,000 | 1,765,128 | 182,128 |
| Permits, privilege fees, and regulatory licenses | 1,200 | 1,200 | 1,495 | 295 |
| Fines and forfeitures | 45,200 | 45,200 | 50,620 | 5,420 |
| Revenue from the use of money and property | 6,250 | 6,250 | 13,685 | 7,435 |
| Charges for services | 837,100 | 837,100 | 829,751 | (7,349) |
| Miscellaneous | 156,564 | 156,564 | 183,716 | 27,152 |
| Intergovernmental | 2,721,178 | 2,721,178 | 3,017,118 | 295,940 |
| Total revenues | <u>\$ 6,143,892</u> | <u>\$ 6,143,892</u> | <u>\$ 6,723,252</u> | <u>\$ 579,360</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | \$ 749,038 | \$ 749,038 | \$ 734,404 | \$ 14,634 |
| Public safety | 1,937,800 | 1,937,800 | 1,979,222 | (41,422) |
| Public works | 1,468,792 | 1,468,792 | 1,668,430 | (199,638) |
| Parks, recreation, and cultural | 278,242 | 278,242 | 424,632 | (146,390) |
| Community development | 59,601 | 59,601 | 728,597 | (668,996) |
| Capital projects | 1,507,959 | 1,507,959 | 1,294,386 | 213,573 |
| Debt service: | | | | |
| Principal retirement ¹ | 110,280 | 110,280 | 813,068 | (702,788) |
| Interest and other fiscal charges | 32,180 | 32,180 | 29,777 | 2,403 |
| Total expenditures | <u>\$ 6,143,892</u> | <u>\$ 6,143,892</u> | <u>\$ 7,672,516</u> | <u>\$ (1,528,624)</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (949,264)</u> | <u>\$ (949,264)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ - | \$ - | \$ 315,428 | \$ 315,428 |
| Issuance of note payable and capital lease | - | - | 179,000 | 179,000 |
| Total other financing sources (uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 494,428</u> | <u>\$ 494,428</u> |
| Net change in fund balances | \$ - | \$ - | \$ (454,836) | \$ (454,836) |
| Fund balances - beginning, as restated | - | - | 678,548 | 678,548 |
| Fund balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 223,712</u> | <u>\$ 223,712</u> |

1. Includes early payoff of \$654,964 related to the Town's 2014 series bond.

Town of Tazewell, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2018

| | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|---------------------|
| Total pension liability | | | | |
| Service cost | \$ 182,645 | \$ 162,448 | \$ 159,244 | \$ 159,643 |
| Interest | 428,414 | 395,660 | 387,474 | 368,277 |
| Changes of benefit terms | - | (37,298) | - | - |
| Changes in assumptions | (110,726) | - | - | - |
| Differences between expected and actual experience | (297,667) | 262,365 | (105,444) | - |
| Net investment income | - | (279,932) | (315,859) | - |
| Benefit payments, including refunds of employee contributions | (323,549) | (27,049) | (25,830) | (165,664) |
| Net change in total pension liability | \$ (120,883) | \$ 476,194 | \$ 99,585 | \$ 362,256 |
| Total pension liability - beginning | 6,281,971 | 5,805,777 | 5,706,192 | 5,343,936 |
| Total pension liability - ending (a) | \$ 6,161,088 | \$ 6,281,971 | \$ 5,805,777 | \$ 5,706,192 |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 117,604 | \$ 101,017 | \$ 93,319 | \$ 98,541 |
| Contributions - employee | 102,534 | 86,660 | 79,627 | 82,807 |
| Net investment income | 715,290 | 100,250 | 261,411 | 793,580 |
| Benefit payments, including refunds of employee contributions | (323,549) | (306,981) | (341,689) | (165,664) |
| Administrative expense | (4,153) | (3,678) | (3,700) | (4,222) |
| Other | (634) | (43) | (55) | 42 |
| Net change in plan fiduciary net position | \$ 607,092 | \$ (22,775) | \$ 88,913 | \$ 805,084 |
| Plan fiduciary net position - beginning | 5,881,651 | 5,904,426 | 5,815,513 | 5,010,429 |
| Plan fiduciary net position - ending (b) | \$ 6,488,743 | \$ 5,881,651 | \$ 5,904,426 | \$ 5,815,513 |
| Town's net pension liability - ending (a) - (b) | \$ (327,655) | \$ 400,320 | \$ (98,649) | \$ (109,321) |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 105.32% | 93.63% | 101.70% | 101.92% |
| Covered payroll | \$ 2,165,434 | \$ 1,813,465 | \$ 1,631,896 | \$ 1,631,896 |
| Town's net pension liability as a percentage of covered payroll | -15.13% | 22.07% | -6.05% | -6.70% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Town of Tazewell, Virginia
Schedule of Employer Contributions - Pension Plan
For the Years Ended June 30, 2015 through June 30, 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Employee Payroll (4) | Contributions as a % of Covered Employee Payroll (5) |
|------|--|---|---|---|---|
| 2018 | \$ 114,385 | \$ 114,385 | \$ - | \$ 2,128,304 | 5.37% |
| 2017 | 117,604 | 117,604 | - | 2,165,434 | 5.43% |
| 2016 | 101,017 | 101,017 | - | 1,813,465 | 5.57% |
| 2015 | 93,319 | 93,319 | - | 1,631,896 | 5.72% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Current year contributions are from the Town records and prior year contributions are from the VRS actuarial valuation performed each year.

Town of Tazewell, Virginia
Notes to Required Supplementary Information - Pension Plan
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the 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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 20% |

Largest 10 - Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Increased rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 70% |

All Others (Non 10 Largest) - Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

All Others (Non 10 Largest) - Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Increased age 50 rates, and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better fit experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 60% to 45% |

Town of Tazewell, Virginia
Schedule of Changes in Total OPEB (Health Insurance) Liability (Asset) and Related Ratios
For the Year Ended June 30, 2018

| | <u>2018</u> |
|--|-------------------------|
| Total OPEB liability | |
| Service cost | \$ 195,313 |
| Interest | 65,733 |
| Changes in assumptions | (47,905) |
| Differences between expected and actual experience | - |
| Benefit payments | <u>(123,001)</u> |
| Net change in total OPEB liability | \$ 90,140 |
| Total OPEB liability - beginning | <u>1,743,763</u> |
| Total OPEB liability - ending | <u><u>1,833,903</u></u> |
| Covered-employee payroll | \$ N/A |
| Town total OPEB liability (asset) as a percentage of covered-employee payroll | N/A |

Town of Tazewell, Virginia
Notes to Required Supplementary Information - Town Health Insurance OPEB
For the Year Ended June 30, 2018

Valuation Date: 6/30/2018
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

| | |
|-----------------------------------|---|
| Actuarial Cost Method | Entry age normal level % of salary |
| Discount Rate | 3.50% as of June 30, 2017; 3.87% as of June 30, 2018 |
| Inflation | 2.50% per year as of June 30, 2017; 2.50% per year as of June 30, 2018 |
| Healthcare Trend Rate | The healthcare trend rate assumption starts at 5.60% in 2018 increasing to 6.30% in 2019 and gradually grading to 4.20% by the year 2085 and after |
| Salary Increase Rates | The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service |
| Mortality Rates-General Employees | The pre-retirement mortality rates are based on RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. The post-retirement mortality rates are based on RP 2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85. The post-disablement mortality rates are based on RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates. |
| Mortality Rates-Public Safety | The pre-retirement mortality rates are based on RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year. The post-retirement mortality rates are based on RP 2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years. The post-disablement mortality rates are based on RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male. |

Town of Tazewell, Virginia
Schedule of Employer's Share of Net LODA OPEB Liability
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018

| Date (1) | Employer's Proportion of the Net LODA OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) (3) | Covered- Employee Payroll * (4) | Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total LODA OPEB Liability (6) |
|-------------|--|--|--|--|--|
| 2017 | 0.1946% | \$ 511,000 | \$ N/A | N/A | 1.30% |

* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

Town of Tazewell, Virginia
Schedule of Employer Contributions
Line of Duty Act Program (LODA)
For the Years Ended June 30, 2017 through June 30, 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Covered- Employee Payroll * (4) | Contributions as a % of Covered - Employee Payroll (5) |
|------|--|---|---|--|---|
| 2018 | \$ 19,149 | \$ 19,149 | \$ - | \$ N/A | N/A |
| 2017 | 20,993 | 20,993 | - | N/A | N/A |

*The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Town of Tazewell, Virginia
Notes to Required Supplementary Information
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |

SPORS Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 85% |

VaLORS Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates, and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 50% to 35% |

Employees in the Largest Ten Locality Employers with Public Safety Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Increased disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 70% |

Employees in the Non-Largest Ten Locality Employers with Public Safety Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 60% to 45% |

Town of Tazewell, Virginia
Combining Statement of Net Position
Proprietary Fund
At June 30, 2018

| | Enterprise Funds | | |
|---|---------------------|---------------------|----------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 424,491 | \$ - | \$ 424,491 |
| Accounts receivable, net of allowances for uncollectibles | 164,992 | 159,144 | 324,136 |
| Note receivable, current portion | - | 17,171 | 17,171 |
| Total current assets | <u>\$ 589,483</u> | <u>\$ 176,315</u> | <u>\$ 765,798</u> |
| Noncurrent assets: | | | |
| Note receivable, net of current portion | \$ - | \$ 633,769 | \$ 633,769 |
| Net pension asset | 30,340 | 57,437 | 87,777 |
| Capital assets: | | | |
| Land | - | 21,581 | 21,581 |
| Utility plant and buildings in service | 6,020,814 | 10,779,241 | 16,800,055 |
| Machinery and equipment | 295,059 | 430,152 | 725,211 |
| Accumulated depreciation | (3,514,441) | (5,245,689) | (8,760,130) |
| Total net capital assets | <u>\$ 2,801,432</u> | <u>\$ 5,985,285</u> | <u>\$ 8,786,717</u> |
| Total noncurrent assets | <u>\$ 2,831,772</u> | <u>\$ 6,676,491</u> | <u>\$ 9,508,263</u> |
| Total assets | <u>\$ 3,421,255</u> | <u>\$ 6,852,806</u> | <u>\$ 10,274,061</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related items | \$ 28,034 | \$ 40,041 | \$ 68,075 |
| Total deferred outflows of resources | <u>\$ 28,034</u> | <u>\$ 40,041</u> | <u>\$ 68,075</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 110,418 | \$ 69,154 | \$ 179,572 |
| Accrued payroll and related liabilities | 12,529 | 22,133 | 34,662 |
| Customers' deposits | 138,468 | - | 138,468 |
| Accrued interest payable | 4,320 | 8,060 | 12,380 |
| Unearned revenue | - | 1,140,844 | 1,140,844 |
| Line of credit | 209,840 | - | 209,840 |
| Revenue bonds payable - current portion | 16,674 | 145,943 | 162,617 |
| General obligation bonds - current portion | 37,473 | - | 37,473 |
| Compensated absences - current portion | 12,426 | 26,114 | 38,540 |
| Total current liabilities | <u>\$ 542,148</u> | <u>\$ 1,412,248</u> | <u>\$ 1,954,396</u> |
| Noncurrent liabilities: | | | |
| Revenue bonds payable - net of current portion | \$ 539,147 | \$ 1,934,006 | \$ 2,473,153 |
| General obligation bond - net of current portion | 1,354,997 | - | 1,354,997 |
| Compensated absences - net of current portion | 4,142 | 8,705 | 12,847 |
| Net OPEB liability | 169,766 | 321,441 | 491,207 |
| Total noncurrent liabilities | <u>\$ 2,068,052</u> | <u>\$ 2,264,152</u> | <u>\$ 4,332,204</u> |
| Total liabilities | <u>\$ 2,610,200</u> | <u>\$ 3,676,400</u> | <u>\$ 6,286,600</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related items | \$ 41,470 | \$ 69,657 | \$ 111,127 |
| OPEB related items | 3,866 | 7,320 | 11,186 |
| Total deferred inflows of resources | <u>\$ 45,336</u> | <u>\$ 76,977</u> | <u>\$ 122,313</u> |
| NET POSITION | | | |
| Net investment in capital assets | \$ 853,141 | \$ 3,905,336 | \$ 4,758,477 |
| Unrestricted | (59,388) | (765,866) | (825,254) |
| Total net position | <u>\$ 793,753</u> | <u>\$ 3,139,470</u> | <u>\$ 3,933,223</u> |

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

Town of Tazewell, Virginia
Combining Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

| | Enterprise Funds | | |
|---|---------------------|---------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| OPERATING REVENUES | | | |
| Charges for services: | | | |
| Charges for services | \$ 1,358,466 | \$ 1,170,765 | \$ 2,529,231 |
| Penalties and service charges | - | 8,288 | 8,288 |
| Miscellaneous | 9,301 | - | 9,301 |
| Total operating revenues | <u>\$ 1,367,767</u> | <u>\$ 1,179,053</u> | <u>\$ 2,546,820</u> |
| OPERATING EXPENSES | | | |
| Salaries, wages and fringes | \$ 244,617 | \$ 427,564 | \$ 672,181 |
| Fringe benefits | 92,642 | 156,543 | 249,185 |
| Insurance | 6,681 | 5,567 | 12,248 |
| Professional services | - | 2,000 | 2,000 |
| Office supplies | 5,069 | 363 | 5,432 |
| Postage | 9,352 | 4,100 | 13,452 |
| Telecommunications | 5,987 | 10,576 | 16,563 |
| Uniforms | 1,226 | 2,095 | 3,321 |
| Training | 150 | 3,747 | 3,897 |
| Maintenance | 111,498 | 68,696 | 180,194 |
| Equipment | 716 | 10,393 | 11,109 |
| Motor fuel and oil | 6,044 | 1,398 | 7,442 |
| Water works fees | 5,803 | - | 5,803 |
| Wastewater fees | - | 8,892 | 8,892 |
| Supplies | 23,194 | 20,614 | 43,808 |
| Purchased water | 613,900 | - | 613,900 |
| Utilities | 36,508 | 143,169 | 179,677 |
| Chemicals | - | 111,126 | 111,126 |
| Miscellaneous | 4,140 | 3,297 | 7,437 |
| Depreciation | 121,226 | 307,096 | 428,322 |
| Total operating expenses | <u>\$ 1,288,753</u> | <u>\$ 1,287,236</u> | <u>\$ 2,575,989</u> |
| Operating income (loss) | <u>\$ 79,014</u> | <u>\$ (108,183)</u> | <u>\$ (29,169)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest income | \$ - | \$ 28,154 | \$ 28,154 |
| Interest expense | (60,895) | (33,500) | (94,395) |
| Total nonoperating revenues (expenses) | <u>\$ (60,895)</u> | <u>\$ (5,346)</u> | <u>\$ (66,241)</u> |
| Income before transfers | <u>\$ 18,119</u> | <u>\$ (113,529)</u> | <u>\$ (95,410)</u> |
| Transfers in | - | 3,217 | 3,217 |
| Transfers out | (318,645) | - | (318,645) |
| Change in net position | <u>\$ (300,526)</u> | <u>\$ (110,312)</u> | <u>\$ (410,838)</u> |
| Total net position - beginning, as restated | 1,094,279 | 3,249,782 | 4,344,061 |
| Total net position - ending | <u>\$ 793,753</u> | <u>\$ 3,139,470</u> | <u>\$ 3,933,223</u> |

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

Town of Tazewell, Virginia
Discretely Presented Component Unit
Industrial Development Authority
Statement of Net Position
At June 30, 2018

| | <u>Enterprise Fund</u> |
|----------------------------------|--------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 59 |
| Total current assets | <u>\$ 59</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Land | \$ 62,430 |
| Construction in progress | 82,790 |
| Total net capital assets | <u>\$ 145,220</u> |
| Total noncurrent assets | <u>\$ 145,220</u> |
| Total assets | <u>\$ 145,279</u> |
| NET POSITION | |
| Net investment in capital assets | \$ 145,220 |
| Unrestricted | 59 |
| Total net position | <u><u>\$ 145,279</u></u> |

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

Town of Tazewell, Virginia
 Discretely Presented Component Unit
 Industrial Development Authority
 Statement of Revenues, Expenses, and Changes in Net Position
 For the Year Ended June 30, 2018

| | <u>Enterprise Fund</u> |
|--|--------------------------|
| OPERATING EXPENSES | |
| Economic incentive-contribution of assets | \$ 393,000 |
| Total operating expenses | <u>\$ 393,000</u> |
| Operating income (loss) | <u>\$ (393,000)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Contribution from Town of Tazewell, Virginia | \$ 538,220 |
| Total nonoperating revenues (expenses) | <u>\$ 538,220</u> |
| Change in net position | \$ 145,220 |
| Total net position - beginning, as restated | <u>59</u> |
| Total net position - ending | <u><u>\$ 145,279</u></u> |

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

Town of Tazewell, Virginia
Discretely Presented Component Unit
Industrial Development Authority
Statement of Cash Flows
For the Year Ended June 30, 2018

| | <u>Enterprise Fund</u> |
|--|------------------------|
| Cash and cash equivalents - beginning | 59 |
| Cash and cash equivalents - ending | <u>\$ 59</u> |
| Noncash investing, capital, and financing activities: | |
| Contributions of capital assets from government | \$ 538,220 |
| Contributions of capital assets to private sector | (393,000) |
| Total noncash investing, capital, and financing activities | <u>\$ 145,220</u> |

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

Town of Tazewell, Virginia
Schedule of Revenues - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2018

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| General Fund: | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real property taxes | \$ 626,000 | \$ 626,000 | \$ 673,524 | \$ 47,524 |
| Personal property taxes | 155,000 | 155,000 | 137,047 | (17,953) |
| Penalties and Interest | 12,400 | 12,400 | 51,168 | 38,768 |
| Total general property taxes | \$ 793,400 | \$ 793,400 | \$ 861,739 | \$ 68,339 |
| Other local taxes: | | | | |
| Local sales and use taxes | \$ 300,000 | \$ 300,000 | \$ 303,188 | \$ 3,188 |
| Public service utility tax | 70,000 | 70,000 | 33,596 | (36,404) |
| Meals tax | 700,000 | 700,000 | 794,260 | 94,260 |
| Cigarette tax | 95,000 | 95,000 | 116,250 | 21,250 |
| Transient occupancy tax | 10,000 | 10,000 | 12,144 | 2,144 |
| Bank stock tax | 200,000 | 200,000 | 199,597 | (403) |
| Business license tax | 167,000 | 167,000 | 253,145 | 86,145 |
| Local consumption tax | - | - | 18,029 | 18,029 |
| Motor vehicle licenses | 41,000 | 41,000 | 34,919 | (6,081) |
| Total other local taxes | \$ 1,583,000 | \$ 1,583,000 | \$ 1,765,128 | \$ 182,128 |
| Permits, privilege fees, and regulatory licenses: | | | | |
| Permits and other licenses | \$ 1,200 | \$ 1,200 | \$ 1,495 | \$ 295 |
| Total permits, privilege fees, and regulatory licenses | \$ 1,200 | \$ 1,200 | \$ 1,495 | \$ 295 |
| Fines and forfeitures: | | | | |
| Court fines and forfeitures | \$ 45,000 | \$ 45,000 | \$ 48,545 | \$ 3,545 |
| Parking fines | 200 | 200 | 2,075 | 1,875 |
| Total fines and forfeitures | \$ 45,200 | \$ 45,200 | \$ 50,620 | \$ 5,420 |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 250 | \$ 250 | \$ 3,340 | \$ 3,090 |
| Revenue from use of property | 6,000 | 6,000 | 10,345 | 4,345 |
| Total revenue from use of money and property | \$ 6,250 | \$ 6,250 | \$ 13,685 | \$ 7,435 |
| Charges for services: | | | | |
| Refuse collections | \$ 396,000 | \$ 396,000 | \$ 378,536 | \$ (17,464) |
| Pool admission | 14,000 | 14,000 | 14,985 | 985 |
| Youth activities | - | - | 8,340 | 8,340 |
| Lessons | 5,000 | 5,000 | 1,925 | (3,075) |
| Concessions | 10,000 | 10,000 | 12,900 | 2,900 |
| Pool rentals | 3,000 | 3,000 | 7,287 | 4,287 |
| Gym rentals | 3,000 | 3,000 | 3,355 | 355 |
| Shelter rentals | 1,500 | 1,500 | 3,362 | 1,862 |
| Miscellaneous recreation fees | 4,600 | 4,600 | 611 | (3,989) |
| Rescue squad billings | 400,000 | 400,000 | 398,450 | (1,550) |
| Total charges for services | \$ 837,100 | \$ 837,100 | \$ 829,751 | \$ (7,349) |
| Miscellaneous: | | | | |
| Donations | \$ 25,800 | \$ 25,800 | \$ 6,476 | \$ (19,324) |
| Miscellaneous | 130,764 | 130,764 | 76,054 | (54,710) |
| Unclaimed property | - | - | 101,186 | 101,186 |
| Total miscellaneous | \$ 156,564 | \$ 156,564 | \$ 183,716 | \$ 27,152 |
| Total revenue from local sources | \$ 3,422,714 | \$ 3,422,714 | \$ 3,706,134 | \$ 283,420 |

Town of Tazewell, Virginia
Schedule of Revenues - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2018

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| General Fund: (Continued) | | | | |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Communications tax | \$ 25,000 | \$ 25,000 | \$ 25,185 | \$ 185 |
| Rolling stock tax | 6,200 | 6,200 | 5,907 | (293) |
| Motor vehicle carriers' tax | 1,500 | 1,500 | 1,161 | (339) |
| Personal property tax relief funds | 54,500 | 54,500 | 54,820 | 320 |
| Total noncategorical aid | <u>\$ 87,200</u> | <u>\$ 87,200</u> | <u>\$ 87,073</u> | <u>\$ (127)</u> |
| Categorical aid: | | | | |
| Street maintenance | \$ 1,070,000 | \$ 1,070,000 | \$ 1,069,833 | \$ (167) |
| Litter control grant | 2,400 | 2,400 | 2,413 | 13 |
| Local law enforcement grant | 102,220 | 102,220 | 102,216 | (4) |
| Fire program fund grants | 18,000 | 18,000 | 30,484 | 12,484 |
| Asset forfeitures | 116,358 | 116,358 | 366 | (115,992) |
| Tobacco commission grant | - | - | 680,000 | 680,000 |
| VDOT - Route 61 funding | - | - | 344,975 | 344,975 |
| RSAF grant | - | - | 143,872 | 143,872 |
| Total categorical aid | <u>\$ 1,308,978</u> | <u>\$ 1,308,978</u> | <u>\$ 2,374,159</u> | <u>\$ 1,065,181</u> |
| Total revenue from the Commonwealth | <u>\$ 1,396,178</u> | <u>\$ 1,396,178</u> | <u>\$ 2,461,232</u> | <u>\$ 1,065,054</u> |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Federal police grants | \$ - | \$ - | \$ 20,464 | \$ 20,464 |
| Highway planning and construction grant - Route 61 | 1,000,000 | 1,000,000 | 257,577 | (742,423) |
| Highway planning and construction grant - Train station | 325,000 | 325,000 | 277,845 | (47,155) |
| Total categorical aid | <u>\$ 1,325,000</u> | <u>\$ 1,325,000</u> | <u>\$ 555,886</u> | <u>\$ (769,114)</u> |
| Total revenue from the federal government | <u>\$ 1,325,000</u> | <u>\$ 1,325,000</u> | <u>\$ 555,886</u> | <u>\$ (769,114)</u> |
| Total General Fund | <u>\$ 6,143,892</u> | <u>\$ 6,143,892</u> | <u>\$ 6,723,252</u> | <u>\$ 579,360</u> |

Town of Tazewell, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2018

| <u>Fund, Function and Department Expenditures</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| General Fund: | | | | |
| General government administration: | | | | |
| General and financial administration: | | | | |
| Town Council | \$ 46,800 | \$ 46,800 | \$ 65,277 | \$ (18,477) |
| Administration | 509,050 | 509,050 | 463,146 | 45,904 |
| Treasurer | 66,765 | 66,765 | 63,443 | 3,322 |
| Bookkeeping | 22,747 | 22,747 | 21,141 | 1,606 |
| Insurance | 66,576 | 66,576 | 66,166 | 410 |
| Town attorney | 37,100 | 37,100 | 55,231 | (18,131) |
| Total general and financial administration | <u>\$ 749,038</u> | <u>\$ 749,038</u> | <u>\$ 734,404</u> | <u>\$ 14,634</u> |
| Total general government administration | <u>\$ 749,038</u> | <u>\$ 749,038</u> | <u>\$ 734,404</u> | <u>\$ 14,634</u> |
| Public safety: | | | | |
| Law enforcement and traffic control: | | | | |
| Police department | \$ 1,185,813 | \$ 1,185,813 | \$ 1,141,517 | \$ 44,296 |
| Total law enforcement and traffic control | <u>\$ 1,185,813</u> | <u>\$ 1,185,813</u> | <u>\$ 1,141,517</u> | <u>\$ 44,296</u> |
| Fire and rescue services: | | | | |
| Fire Department | \$ 135,989 | \$ 135,989 | \$ 74,431 | \$ 61,558 |
| Rescue Squad | 483,929 | 483,929 | 686,862 | (202,933) |
| Total fire and rescue services | <u>\$ 619,918</u> | <u>\$ 619,918</u> | <u>\$ 761,293</u> | <u>\$ (141,375)</u> |
| Development services | | | | |
| Building, planning, zoning, and engineering | \$ 132,069 | \$ 132,069 | \$ 76,412 | \$ 55,657 |
| Total development services | <u>\$ 132,069</u> | <u>\$ 132,069</u> | <u>\$ 76,412</u> | <u>\$ 55,657</u> |
| Total public safety | <u>\$ 1,937,800</u> | <u>\$ 1,937,800</u> | <u>\$ 1,979,222</u> | <u>\$ (41,422)</u> |
| Public works: | | | | |
| Maintenance of highways, streets, bridges and sidewalks: | | | | |
| Highways, streets, bridges and sidewalks | \$ 994,990 | \$ 994,990 | \$ 975,119 | \$ 19,871 |
| Total maintenance of highways, streets, bridges and sidewalks | <u>\$ 994,990</u> | <u>\$ 994,990</u> | <u>\$ 975,119</u> | <u>\$ 19,871</u> |
| Sanitation and waste removal: | | | | |
| Refuse collection and disposal | \$ 237,459 | \$ 237,459 | \$ 349,231 | \$ (111,772) |
| Total sanitation and waste removal | <u>\$ 237,459</u> | <u>\$ 237,459</u> | <u>\$ 349,231</u> | <u>\$ (111,772)</u> |
| Maintenance of general buildings and grounds: | | | | |
| Mowing | \$ 78,203 | \$ 78,203 | \$ 90,631 | \$ (12,428) |
| Total maintenance of general buildings and grounds | <u>\$ 78,203</u> | <u>\$ 78,203</u> | <u>\$ 90,631</u> | <u>\$ (12,428)</u> |
| Maintenance of vehicle and heavy equipment | | | | |
| Maintenance | \$ 158,140 | \$ 158,140 | \$ 253,449 | \$ (95,309) |
| Total maintenance of vehicle and heavy equipment | <u>\$ 158,140</u> | <u>\$ 158,140</u> | <u>\$ 253,449</u> | <u>\$ (95,309)</u> |
| Total public works | <u>\$ 1,468,792</u> | <u>\$ 1,468,792</u> | <u>\$ 1,668,430</u> | <u>\$ (199,638)</u> |

Town of Tazewell, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Fund
For the Year Ended June 30, 2018

| <u>Fund, Function and Department Expenditures</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| General Fund: (Continued) | | | | |
| Parks, recreation, and cultural: | | | | |
| Parks and recreation: | | | | |
| Recreation | \$ 267,692 | \$ 267,692 | \$ 407,317 | \$ (139,625) |
| American Legion building | 10,550 | 10,550 | 17,315 | (6,765) |
| Total parks and recreation | <u>\$ 278,242</u> | <u>\$ 278,242</u> | <u>\$ 424,632</u> | <u>\$ (146,390)</u> |
| Total parks, recreation, and cultural | <u>\$ 278,242</u> | <u>\$ 278,242</u> | <u>\$ 424,632</u> | <u>\$ (146,390)</u> |
| Community development: | | | | |
| Planning and community development: | | | | |
| Planning commission | \$ 6,400 | \$ 6,400 | \$ 4,746 | \$ 1,654 |
| Community development | 53,201 | 53,201 | 43,851 | 9,350 |
| Economic development - incentive payments | - | - | 680,000 | (680,000) |
| Total planning and community development | <u>\$ 59,601</u> | <u>\$ 59,601</u> | <u>\$ 728,597</u> | <u>\$ (668,996)</u> |
| Total community development | <u>\$ 59,601</u> | <u>\$ 59,601</u> | <u>\$ 728,597</u> | <u>\$ (668,996)</u> |
| Capital projects/outlays: | | | | |
| Capital projects and capital outlays | <u>\$ 1,507,959</u> | <u>\$ 1,507,959</u> | <u>\$ 1,294,386</u> | <u>\$ 213,573</u> |
| Total capital projects | <u>\$ 1,507,959</u> | <u>\$ 1,507,959</u> | <u>\$ 1,294,386</u> | <u>\$ 213,573</u> |
| Debt service: | | | | |
| Principal retirement (1) | \$ 110,280 | \$ 110,280 | \$ 813,068 | \$ (702,788) |
| Interest and other fiscal charges | 32,180 | 32,180 | 29,777 | 2,403 |
| Total debt service | <u>\$ 142,460</u> | <u>\$ 142,460</u> | <u>\$ 842,845</u> | <u>\$ (700,385)</u> |
| Total General Fund | <u>\$ 6,143,892</u> | <u>\$ 6,143,892</u> | <u>\$ 7,672,516</u> | <u>\$ (1,528,624)</u> |

1. Includes early payoff of \$654,964 related to series 2014 bond.

Table 1

Town of Tazewell, Virginia
General Governmental Expenditures by Function
Last Six Fiscal Years (1)

| Fiscal Year | General and Financial Administration | | Public Safety | | Public Works | | Parks, Recreation, and Cultural | | Community Development | | Capital Outlay | | Debt Service | | Total |
|----------------|--|---------|------------------|-----------|-----------------|-----------|---------------------------------------|---------|--------------------------|---------|-------------------|-----------|-----------------|---------|--------------|
| | \$ | | \$ | | \$ | | \$ | | \$ | | \$ | | \$ | | |
| 2013-14 | \$ | 708,674 | \$ | 1,402,518 | \$ | 1,354,398 | \$ | 224,035 | \$ | - | \$ | 228,610 | \$ | 458,402 | \$ 4,376,637 |
| 2014-15 | | 735,709 | | 1,445,140 | | 1,289,641 | | 342,256 | | - | | 479,339 | | 98,449 | 4,390,534 |
| 2015-16 | | 749,359 | | 1,596,981 | | 1,764,012 | | 379,408 | | - | | 305,786 | | 61,184 | 4,856,730 |
| 2015-16 | | 846,402 | | 1,961,563 | | 2,379,047 | | 469,937 | | - | | 1,112,846 | | 139,807 | 6,909,602 |
| 2016-17 | | 816,425 | | 2,001,069 | | 1,540,952 | | 514,481 | | - | | 1,144,011 | | 136,132 | 6,153,070 |
| 2017-18 | | 734,404 | | 1,979,222 | | 1,668,430 | | 424,632 | | 728,597 | | 1,294,386 | | 842,845 | 7,672,516 |

(1) Information only been available for six years.
Restatements have not been applied retroactively.

Table 2

Town of Tazewell, Virginia
General Governmental Revenues by Source
Last Six Fiscal Years

| Fiscal Year | Revenue from the | | | | | | | | | | Charges | | Refuse | | Inter- | | Miscellaneous | Total |
|----------------|------------------------------|-------------------------|---|-----------------------------|---------------------------------|----------------------------|------------|--------------|--------------|--------------|---------|--|--------|--|--------|--|---------------|-------|
| | General Property Taxes | Other Local Taxes | Permits, Privilege Fees, Regulatory Licenses | Fines and Forfeitures | Use of Money and Property | Charges for Services | Charges | Charges | governmental | | | | | | | | | |
| 2012-13 | \$ 854,002 | \$ 1,069,875 | \$ 263,122 | \$ 73,316 | \$ 2,504 | \$ 321,025 | \$ 395,795 | \$ 1,350,960 | \$ 38,552 | \$ 4,369,151 | | | | | | | | |
| 2013-14 | 797,897 | 1,107,274 | 252,986 | 65,190 | 632 | 357,001 | 393,884 | 1,406,412 | 75,949 | 4,457,225 | | | | | | | | |
| 2014-15 | 855,569 | 1,274,358 | 270,571 | 46,172 | 308 | 344,169 | 398,036 | 1,529,203 | 100,637 | 4,819,023 | | | | | | | | |
| 2015-16 | 827,328 | 1,329,286 | 256,332 | 55,028 | 2,463 | 442,500 | 389,133 | 3,392,383 | 102,006 | 6,796,459 | | | | | | | | |
| 2016-17 | 849,414 | 1,352,602 | 229,531 | 53,554 | 12,558 | 430,714 | 340,676 | 2,452,547 | 86,051 | 5,807,647 | | | | | | | | |
| 2017-18 | 861,739 | 1,765,128 | 1,495 | 50,620 | 13,685 | 451,215 | 378,536 | 3,017,118 | 183,716 | 6,723,252 | | | | | | | | |

(1) Information only been available for six years.

Table 3

Town of Tazewell, Virginia
Computation of Legal Debt Margin
At June 30, 2018

| | |
|---|----------------------|
| Total assessed value of taxed real property | \$ 277,656,800 |
| Debt limit - 10 percent of total assessed value | 27,765,680 |
| Amount of debt applicable to debt limit | <u>(4,182,433)</u> |
| Legal debt margin | <u>\$ 23,583,247</u> |
| Total net debt applicable to the limit as percentage of debt limit | 15.06% |

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of
the 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 the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Tazewell, Virginia as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Tazewell, Virginia's basic financial statements and have issued our report thereon dated November 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Tazewell, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Tazewell, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Tazewell, Virginia'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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses. (2018-001, 2018-002, 2018-003, 2018-004)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Tazewell, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2018-004.

Town of Tazewell, Virginia's Response to Findings

Town of Tazewell, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Tazewell, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Blacksburg, Virginia
November 2, 2018

Town of Tazewell, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

| | |
|---|---------------|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes |
| Significant deficiency(ies) identified? | None reported |
| Noncompliance material to financial statements noted? | Yes |

Section II - Financial Statement Findings

2018-001

(Material Weakness)

| | |
|------------------------|---|
| Criteria: | Per Statement on Auditing Standards (SAS) No. 115, an auditee should have sufficient expertise in the selection and application of accounting principles used in the preparation of the annual financial report. |
| Condition: | The auditee does not possess sufficient expertise in the selection and application of accounting principles to ensure the annual financial report meets all applicable standards promulgated by the Governmental Accounting Standards Board (GASB). The Town's accounting records required significant adjustments by the auditors. |
| Cause: | The auditee is small and does not have staff with significant experience in preparing financial statements in accordance with current reporting standards. |
| Effect: | There is reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Town's internal controls over financial reporting. |
| Recommendation: | The auditor recommends that the auditee review audit adjustments annually and replicate same in future periods to the extent possible or hire a consultant to assist in closing the Town's books. |
| Managements' Response: | To comply with SAS No. 115, management would be required to hire staff and/or consultants with expertise in the preparation of financial statements using standards referred to above. The additional cost required exceeds any identified benefits. As such, management does not propose to take any action regarding SAS No. 115. |

Town of Tazewell, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2018 (Continued)

Section II - Financial Statement Findings (Continued)

2018-002

(Material Weakness)

Criteria: A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.

Condition: The Town lacks proper segregation of duties - One employee has access to both the accounting records and related assets.

Cause: The Town's limited number of staff does not allow them to properly segregate duties.

Effect: There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Recommendation: Management should further try to segregate duties amongst current staff and/or establish compensating controls to alleviate risk created by improper segregation of duties.

Management's Response: Limited number of staff has precluded the Town from segregating key duties related to accounting records and related assets. Currently, the Town does not plan on hiring additional personnel to address the aforementioned condition as same is not considered cost-effective.

Town of Tazewell, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2018 (Continued)

Section II - Financial Statement Findings (Continued)

2018-003

(Material Weakness)

Criteria: Subsidiary ledgers (receivable listings) should be reconciled to the general ledger periodically.

Condition: Management did not reconcile taxes, utilities, and EMS receivables to the general ledger.

Cause: The auditee is small and has not developed formal procedures for accounting staff to reconcile subsidiary ledgers to the general ledger periodically.

Effect: There is reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Town's internal controls over financial reporting.

Recommendation: We recommend the Town begin performing monthly reconciliations of billed revenues to validate receivable balances and collections for the month.

Management's Response: Management agrees and will begin doing monthly reconciliations of taxes, utilities, and EMS billings.

Town of Tazewell, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2018 (Continued)

Section II - Financial Statement Findings (Continued)

2018-004

(Material Weakness)

(Noncompliance)

| | |
|------------------------|--|
| Criteria: | Expenditures should not exceed appropriations. |
| Condition: | Certain general fund expenditure categories exceed budgeted appropriations. |
| Cause: | The Town does not formally approve supplemental appropriations prior to the expenditure of funds. |
| Effect: | Funds have been spent without an appropriation of the governing body. |
| Recommendation: | The Town should begin comparing expenditures against appropriations and request that the Town Council approve supplemental appropriations, as necessary, on a monthly basis. |
| Management's Response: | Management agrees and will monitor expenses and adjust the budget or issue amendments if necessary. |

Section III - Status of Prior Audit Findings

2008-001

(Material Weakness)

Finding 2008-001 was recurring in fiscal year 2018 as 2018-002.

2008-002

(Material Weakness)

Finding 2008-002 was recurring in fiscal year 2018 as 2018-001.

2017-001

(Material Weakness)

Finding 2017-001 was recurring in fiscal year 2018 as 2018-003.

2017-002

(Material Weakness)

(Noncompliance)

Finding 2017-002 was recurring in fiscal year 2018 as 2018-004.

Town of Tazewell, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2018 (Continued)

Section III - Status of Prior Audit Findings (Continued)

2017-003

Condition: In the prior year, certain Statements of Conflict of Interest submissions were not made by the required date and the late submission was not reported to the Commonwealth's Attorney.

Recommendation: Prior auditors recommended the Statements of Conflict of Interest be completed by the annual reporting deadline. In addition, prior auditors recommended any late submissions be reported to the Commonwealth's Attorney within 30 days of the deadline.

Current Status: Statements of Conflict Interest were completed by the annual reporting

2017-004

Condition: In the prior year, prior auditors noted outstanding checks older than one year were not included on the unclaimed property report.

Recommendation: Prior auditors recommended the Town complete and file the annual unclaimed property report with the State Treasurer by November 1.

Current Status: In the current year, there were outstanding checks older than one year that were not included on the unclaimed property report, however, auditor deemed the amount of outstanding checks not significant to the financial statements.