

TOWN OF TAZEWELL, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012

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INTRODUCTORY SECTION

TOWN OF TAZEWELL, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2012

TOWN COUNCIL

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

APPOINTED OFFICIALS

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

INDEPENDENT AUDITORS

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

ATTORNEYS

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Tazewell, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information, where presented, has been derived from the Town's 2011 financial statements on which, in our report dated October 27, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of June 30, 2012 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Town has not presented a management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information and analysis of funding progress, as listed in the table of contents, are also required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2012

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FINANCIAL STATEMENTS

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2012

			Totals	
	Governmental Activities	Business-Type Activities	2012	(For Comparative Purposes Only) 2011
ASSETS				
Cash and cash equivalents (Note 2)	\$ 185,853	\$ 21,276	\$ 207,129	\$ 290,382
Receivables, net (Note 3)	344,044	349,179	693,223	731,151
Due from other governmental units (Note 4)	119,297	-	119,297	114,055
Internal balances (Note 5)	2,418,085	(2,418,085)	-	-
Capital assets: (Note 6)				
Not depreciated	2,396,284	514,568	2,910,852	2,250,695
Depreciated, net	2,145,187	5,416,319	7,561,506	8,031,895
Note Receivable (Note 14)	-	741,623	741,623	750,266
Total assets	<u>7,608,750</u>	<u>4,624,880</u>	<u>12,233,630</u>	<u>12,168,444</u>
LIABILITIES				
Accounts payable	188,595	304,657	493,252	475,961
Accrued payroll and related liabilities	23,303	5,485	28,788	85,510
Accrued interest payable	1,657	5,697	7,354	8,459
Customer deposits payable	-	87,433	87,433	73,494
Noncurrent liabilities:				
Unearned revenue (Note 14)	-	1,359,886	1,359,886	1,387,266
Due within one year (Note 7)	509,473	188,701	698,174	512,619
Due in more than one year (Note 7)	95,186	1,565,221	1,660,407	1,914,998
Total liabilities	<u>818,214</u>	<u>3,517,080</u>	<u>4,335,294</u>	<u>4,458,307</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	4,409,422	4,195,977	8,605,399	8,035,356
Unrestricted	2,381,114	(3,088,177)	(707,063)	(325,219)
Total net assets	<u>\$ 6,790,536</u>	<u>\$ 1,107,800</u>	<u>\$ 7,898,336</u>	<u>\$ 7,710,137</u>

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

EXHIBIT 2

TOWN OF TAZEVELL, VIRGINIA

STATEMENT OF ACTIVITIES

June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Totals	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	2012	(For Comparative Purposes Only) 2011
Governmental activities:								
General government administration	\$ 770,426	\$ -	\$ -	\$ -	\$ (770,426)		\$ (770,426)	\$ (662,521)
Public safety	1,491,351	219,370	121,793	-	(1,150,188)		(1,150,188)	(405,144)
Public works	1,587,212	356,750	1,309,389	-	78,927		78,927	(60,537)
Parks, recreation, and cultural	286,610	68,241	-	-	(218,369)		(218,369)	(255,090)
Interest on long-term debt	16,311	-	-	-	(16,311)		(16,311)	(11,284)
Total governmental activities	4,151,910	644,361	1,431,182	-	(2,076,367)		(2,076,367)	(1,394,576)
Business-type activities:								
Water and sewer	1,996,753	1,924,942	-	-		(71,811)	(71,811)	(88,127)
Total business-type activities	1,996,753	1,924,942	-	-		(71,811)	(71,811)	(88,127)
Total primary government	\$ 6,148,663	\$ 2,569,303	\$ 1,431,182	\$ -	(2,076,367)	(71,811)	(2,148,178)	(1,482,703)
General revenues:								
Property taxes					706,639	-	706,639	764,847
Sales taxes					281,866	-	281,866	262,142
Meals taxes					538,335	-	538,335	515,228
Utilities taxes					31,532	-	31,532	29,194
Business license taxes					242,467	-	242,467	205,572
Bank franchise taxes					172,745	-	172,745	171,228
Other local taxes and charges					130,056	-	130,056	101,643
Intergovernmental revenue, unrestricted					185,199	-	185,199	134,148
Investment income					555	20,274	20,829	1,080
Other					25,270	1,439	26,709	14,942
Total general revenues					2,314,664	21,713	2,336,377	2,200,024
Change in net assets					238,297	(50,098)	188,199	717,321
NET ASSETS AT JULY 1					6,552,239	1,157,898	7,710,137	6,992,816
NET ASSETS AT JUNE 30					\$ 6,790,536	\$ 1,107,800	\$ 7,898,336	\$ 7,710,137

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

TOWN OF TAZEWELL, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2012

	General Fund	
		(For Comparative Purposes Only)
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 185,853	\$ 259,960
Receivables, net	344,044	367,542
Due from other governmental units	119,297	114,055
Advances due from other fund	2,418,085	2,054,828
Total assets	<u>\$ 3,067,279</u>	<u>\$ 2,796,385</u>
LIABILITIES		
Accounts payable	\$ 188,595	\$ 175,765
Accrued payroll and related liabilities	45,822	67,955
Deferred revenue	213,621	198,673
Total liabilities	<u>448,038</u>	<u>442,393</u>
FUND BALANCES		
Nonspendable:		
Advances	2,418,085	2,054,828
Assigned:		
Public works	25,502	10,748
Unassigned	175,654	288,416
Total fund balances	<u>2,619,241</u>	<u>2,353,992</u>
Total liabilities and fund balances	<u>\$ 3,067,279</u>	<u>\$ 2,796,385</u>
RECONCILIATION TO THE STATEMENT OF NET ASSETS		
Total fund balance	\$ 2,619,241	\$ 2,353,992
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	4,541,471	4,353,222
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	213,621	198,673
Long-term liabilities, including notes payable, accrued interest, capital leases, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(583,797)	(353,648)
Net assets of governmental activities	<u>\$ 6,790,536</u>	<u>\$ 6,552,239</u>

TOWN OF TAZEWEEL, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUND

June 30, 2012

	General Fund	
		(For Comparative Purposes Only)
	2012	2011
REVENUES		
General property taxes	\$ 687,229	\$ 758,235
Other local taxes	772,806	719,556
Permits, privilege fees, and regulatory licenses	270,842	234,322
Fines and forfeitures	39,955	39,793
Revenue from use of money and property	555	1,060
Charges for services	292,073	342,756
Refuse charges	356,750	366,462
Intergovernmental	1,929,779	1,429,278
Other	25,270	14,292
Total revenues	4,375,259	3,905,754
EXPENDITURES		
Current:		
General government administration	758,981	650,049
Public safety	1,371,358	1,370,597
Public works	1,557,247	1,182,570
Parks, recreation, and cultural	262,698	289,902
Capital outlay	417,481	112,164
Debt service:		
Principal retirement	77,591	76,047
Interest and fiscal charges	14,654	11,284
Total expenditures	4,460,010	3,692,613
Revenues over (under) expenditures	(84,751)	213,141
OTHER FINANCING SOURCES		
Debt proceeds	350,000	24,196
Net change in fund balance	265,249	237,337
FUND BALANCES AT JULY 1	2,353,992	2,116,655
FUND BALANCES AT JUNE 30	\$ 2,619,241	\$ 2,353,992
Net change in fund balance	\$ 265,249	\$ 237,337
Adjustments for the Statement of Activities:		
Governmental funds report capital outlays (2012 \$417,481; 2011 \$120,117) as expenditures while governmental activities report depreciation expense (2012 \$229,232; 2011 \$238,290) to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded (or was less than) depreciation in the current period, plus donated assets of \$539,329 in 2011.	188,249	421,156
The net effect of the change in revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds.	14,948	139,386
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of the difference in the treatment of long-term debt and related items.	(274,066)	51,851
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	43,917	(44,952)
Change in net assets of governmental activities	\$ 238,297	\$ 804,778

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

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUND

June 30, 2012

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
		(For Comparative Purposes Only)
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,276	\$ 30,422
Receivables, net	349,179	363,609
Total current assets	370,455	394,031
Noncurrent assets:		
Note Receivable	741,623	750,266
Capital assets:		
Not depreciated	514,568	243,573
Depreciated, net	5,416,319	5,685,795
Total noncurrent assets	6,672,510	6,679,634
Total assets	7,042,965	7,073,665
LIABILITIES		
Current liabilities		
Accounts payable	304,657	300,196
Accrued payroll and related liabilities	5,485	17,555
Accrued interest payable	5,697	8,459
Customer deposits payable	87,433	73,494
Current portion of noncurrent liabilities	188,701	339,020
Total current liabilities	591,973	738,724
Noncurrent liabilities:		
Advances due to other fund	2,418,085	2,054,828
Unearned revenue	1,359,886	1,387,266
Due in more than one year	1,565,221	1,734,949
Total noncurrent liabilities	5,343,192	5,177,043
Total liabilities	5,935,165	5,915,767
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	4,195,977	3,877,370
Unrestricted	(3,088,177)	(2,719,472)
Total net assets	\$ 1,107,800	\$ 1,157,898

TOWN OF TAZEWEEL, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2012

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
		(For Comparative Purposes Only)
	2012	2011
OPERATING REVENUES		
Water service charges and fees	\$ 984,030	\$ 996,899
Sewer service charges and fees	915,172	868,864
Water/sewer penalties	25,740	23,583
Other revenue	1,439	650
Total operating revenues	<u>1,926,381</u>	<u>1,889,996</u>
OPERATING EXPENSES		
Salaries	389,815	423,319
Fringe benefits	108,548	112,079
Maintenance	103,568	116,583
Utilities	171,003	169,803
Materials and supplies	175,743	174,193
Purchased water	593,267	514,874
Administrative	96,244	89,592
Miscellaneous	17,109	2,041
Depreciation	286,646	300,768
Total operating expenses	<u>1,941,943</u>	<u>1,903,252</u>
Operating loss	<u>(15,562)</u>	<u>(13,256)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	20,274	20
Interest expense	<u>(54,810)</u>	<u>(74,221)</u>
Net nonoperating income (expenses)	<u>(34,536)</u>	<u>(74,201)</u>
Change in net assets	<u>(50,098)</u>	<u>(87,457)</u>
NET ASSETS AT JULY 1	<u>1,157,898</u>	<u>1,245,355</u>
NET ASSETS AT JUNE 30	<u><u>\$ 1,107,800</u></u>	<u><u>\$ 1,157,898</u></u>

TOWN OF TAZEVELL, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
June 30, 2012

	Business-Type Activities	
	Enterprise Fund	
	Water and Sewer	
	(For Comparative Purposes Only)	
	2012	2011
OPERATING ACTIVITIES		
Receipts from customers	\$ 1,927,370	\$ 1,903,582
Payments to suppliers	(1,094,810)	(1,133,109)
Payments to employees	(404,844)	(401,371)
Net cash provided by operating activities	427,716	369,102
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(82,640)	(23,510)
Principal paid on debt	(317,088)	(290,674)
Payments on note receivable received	8,643	-
Interest paid on capital debt	(66,051)	(76,870)
Net cash used in capital and related financing activities	(457,136)	(391,054)
INVESTING ACTIVITIES		
Interest received	20,274	20
Net decrease in cash and cash equivalents	(9,146)	(21,932)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	30,422	52,354
Ending at June 30	<u>\$ 21,276</u>	<u>\$ 30,422</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (15,562)	\$ (13,256)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	286,646	300,768
Change in assets and liabilities:		
Decrease (increase) in:		
Receivables, net	14,430	1,508
Increase (decrease) in:		
Accounts payable	(192,585)	64,508
Accrued payroll and related liabilities	(15,029)	21,948
Advances due to other fund	363,257	(18,452)
Customer deposits payable	13,939	12,078
Unearned revenue	(27,380)	-
Net cash provided by operating activities	<u>\$ 427,716</u>	<u>\$ 369,102</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capitalized interest	<u>\$ 8,479</u>	<u>\$ -</u>
Capital asset acquired through capital lease	<u>\$ -</u>	<u>\$ 17,000</u>
Capital asset purchases financed by accounts payable	<u>\$ 197,046</u>	<u>\$ 183,109</u>

TOWN OF TAZEWell, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers non-grant revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary fund:

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

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting

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

- 1) During the regular May Council meetings, the Town Manager submits a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget for the general fund is legally enacted through passage of an Appropriations Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The Appropriations Ordinance places legal restrictions on expenditures at the department or category level. The appropriations for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer amounts within general governmental departments.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted utilizing the cash basis of accounting.
- 7) Appropriations lapse on June 30 for all Town units.
- 8) All budget data presented is the final revised budget.
- 9) For the year ended June 30, 2012, the general government administration, public safety, public works, parks and recreation, and debt service categories overspent their budgets.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

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

	<u>General Fund</u>
Net change in fund balance (non-GAAP budgetary basis)	\$ 289,150
Modified accrual basis adjustments	<u>(23,901)</u>
Net change in fund balance (GAAP basis)	<u><u>\$ 265,249</u></u>

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end, of \$25,502, are reported as assigned fund balance since they do not constitute expenditures or liabilities. All reported amounts relate to public records.

F. Cash and Cash Equivalents

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

G. Allowance for Uncollectible Accounts

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

H. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$8,479 of interest was capitalized in the Water and Sewer Fund. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

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

I. Deferred and Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue consisted of delinquent property taxes, fire services, and ambulatory services not collected within 45 days of year end.

The water and sewer fund reports unearned revenue in connection with non-cash proceeds from the sale of capacity rights to the Town's sewer treatment plant. Revenue is recognized over the term of the agreement. During the year ended June 30, 2012, \$27,380 of revenue has been recognized.

J. Compensated Absences

The Town's policies allow for the accumulation and vesting of limited amounts of personal time off until termination or retirement. Each employee can only carryover a maximum of 100 hours of personal time off at the end of the calendar year. Such absences are accrued when earned in the government-wide and proprietary financial statements. A liability is reported in governmental fund only when the leave is due and payable.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

K. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity

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

The classifications are as follows:

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

L. Fund Equity (Continued)

Restricted Amounts

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

M. Estimates

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

N. Comparative data

Comparative total data for the year ended June 30, 2011 has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations.

Note 2. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia . Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town has not formally adopted deposit and investment policies that limit the Town's allowable deposits or investments or addresses the specific types of risk to which the Town may be exposed.

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3. Receivables

Receivables for individual major funds are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables			
Taxes	\$ 313,295	\$ -	\$ 313,295
Accounts	130,413	457,655	588,068
Ambulance services	183,637	-	183,637
Gross receivables	627,345	457,655	1,085,000
Less: allowance for uncollectibles	(283,301)	(108,476)	(391,777)
	\$ 344,044	\$ 349,179	\$ 693,223

Note 4. Due from Other Governmental Units

A summary of funds due from other governmental units follows:

	<u>General</u>
Tazewell County	
Sales tax	\$ 49,106
Commonwealth of Virginia	
Personal property tax relief	54,820
Other various grants	15,371
	\$ 119,297

Note 5. Interfund Advances Receivable and Payable

An amount of \$2,418,085 was due to the General Fund from the Water and Sewer Fund for water and sewer expenditures paid out of the General Fund. Management is in the process of determining a repayment schedule between the funds and this balance is not expected to be paid back within a year.

For fiscal year 2013, management has budgeted \$20,000 to start reducing this amount.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets

Capital asset activity was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 1,983,576	\$ -	\$ -	\$ 1,983,576
Construction in progress	23,546	389,162	-	412,708
	<u>2,007,122</u>	<u>389,162</u>	<u>-</u>	<u>2,396,284</u>
Capital assets, depreciated:				
Vehicles	1,761,573	-	20,568	1,741,005
Buildings and improvements	2,767,502	28,319	-	2,795,821
Equipment, furniture, and fixtures	1,010,803	-	-	1,010,803
	<u>5,539,878</u>	<u>28,319</u>	<u>20,568</u>	<u>5,547,629</u>
Less accumulated depreciation for:				
Vehicles	1,316,251	91,909	20,568	1,387,592
Buildings and improvements	1,065,420	76,379	-	1,141,799
Equipment, furniture, and fixtures	812,107	60,944	-	873,051
	<u>3,193,778</u>	<u>229,232</u>	<u>20,568</u>	<u>3,402,442</u>
Capital assets, depreciated, net	<u>2,346,100</u>	<u>(200,913)</u>	<u>-</u>	<u>2,145,187</u>
Governmental activities capital assets, net	<u>\$ 4,353,222</u>	<u>\$ 188,249</u>	<u>\$ -</u>	<u>\$ 4,541,471</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 21,581	\$ -	\$ -	\$ 21,581
Construction in progress	221,992	270,995	-	492,987
	<u>243,573</u>	<u>270,995</u>	<u>-</u>	<u>514,568</u>
Capital assets, depreciated:				
Distribution/transmission systems	5,462,954	17,170	-	5,480,124
Water and wastewater plants	6,194,257	-	-	6,194,257
Machinery and equipment	723,076	-	-	723,076
	<u>12,380,287</u>	<u>17,170</u>	<u>-</u>	<u>12,397,457</u>
Less accumulated depreciation	<u>6,694,492</u>	<u>286,646</u>	<u>-</u>	<u>6,981,138</u>
Capital assets, depreciated, net	<u>5,685,795</u>	<u>(269,476)</u>	<u>-</u>	<u>5,416,319</u>
Business-type activities capital assets, net	<u>\$ 5,929,368</u>	<u>\$ 1,519</u>	<u>\$ -</u>	<u>\$ 5,930,887</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 36,215
Public safety	130,546
Public works	36,941
Parks, recreation, and cultural	<u>25,530</u>
	<u>\$ 229,232</u>
Business-type activities:	
Water and sewer	<u>\$ 286,646</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Notes payable	\$ 179,120	\$ 350,000	\$ 55,107	\$ 474,013	\$ 411,289
Due to County	61,278	-	14,404	46,874	14,412
Capital lease obligations	16,116	-	8,080	8,036	8,036
Compensated absences	97,134	-	21,398	75,736	75,736
	<u>\$ 353,648</u>	<u>\$ 350,000</u>	<u>\$ 98,989</u>	<u>\$ 604,659</u>	<u>\$ 509,473</u>
Business-Type Activities					
General obligation bonds	\$ 1,626,785	\$ -	\$ 30,303	\$ 1,596,482	\$ 31,261
Revenue bonds	407,192	-	268,764	138,428	138,428
Capital lease obligations	18,021	-	18,021	-	-
Compensated absences	21,971	-	2,959	19,012	19,012
	<u>\$ 2,073,969</u>	<u>\$ -</u>	<u>\$ 320,047</u>	<u>\$ 1,753,922</u>	<u>\$ 188,701</u>

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities (Continued)

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

Fiscal Year	Governmental Activities					
	Notes Payable		Capital Lease Obligations		Due to County	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 411,289	\$ 3,529	\$ 8,036	\$ 417	\$ 14,412	\$ -
2014	62,724	1,260	-	-	14,412	-
2015	-	-	-	-	14,412	-
2016	-	-	-	-	3,638	-
	<u>\$ 474,013</u>	<u>\$ 4,789</u>	<u>\$ 8,036</u>	<u>\$ 417</u>	<u>\$ 46,874</u>	<u>\$ -</u>

Fiscal Year	Business-Type Activities					
	Revenue Bonds		General Obligation Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 138,428	\$ 2,769	\$ 31,261	\$ 51,467	\$ 603,426	\$ 58,182
2014	-	-	32,293	50,436	109,429	51,696
2015	-	-	33,358	49,370	47,770	49,370
2016	-	-	34,458	48,270	38,096	48,270
2017	-	-	35,595	47,133	35,595	47,133
2018-2022	-	-	196,381	217,259	196,381	217,259
2023-2027	-	-	230,981	182,659	230,981	182,659
2028-2032	-	-	271,677	141,963	271,677	141,963
2033-2037	-	-	319,544	94,096	319,544	94,096
2038-2042	-	-	375,845	37,795	375,845	37,795
2043-2047	-	-	35,089	315	35,089	315
	<u>\$ 138,428</u>	<u>\$ 2,769</u>	<u>\$ 1,596,482</u>	<u>\$ 920,763</u>	<u>\$ 2,263,833</u>	<u>\$ 928,738</u>

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Original Amount</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Notes Payable:						
Note Payable, Fire Truck	3.64%	06-07	06-14	\$ 400,000	\$ 124,013	\$ -
Line of Credit	3.47%	10-11	10-12	\$ 350,000	350,000	-
					<u>\$ 474,013</u>	<u>\$ -</u>
Bonds:						
Rural Development, General Obligation	3.25%	2003	2043	\$ 1,800,000	\$ -	\$ 1,596,482
Virginia Resource Authority, Revenue	4.00%	04-93	10-12	\$ 3,798,531	-	138,428
					<u>\$ -</u>	<u>\$ 1,734,910</u>
Capital Lease Obligations:						
Ford Credit	8.35%	10-10	04-13	\$ 24,196	\$ 8,036	\$ -

Payable to County

During 2010, the Town entered into an agreement with Tazewell County to pay back \$72,081 for sales tax amounts received in prior years due to inaccurate child count numbers within the Town. This will be paid over a five-year period at \$1,200 per month and does not include an interest component. As of June 30, 2012, the remaining balance was \$46,874.

Note Payable – Police Cruiser

Subsequent to year end, Council approved the purchase of a police cruiser of \$24,702 to be financed by a note payable, due in monthly installments of \$553 for 48 months at 3.625% interest.

Revenue Anticipation Note

To assist with cash flow needs, subsequent to year end, the Town borrowed \$650,000 in the form of a General Obligation Revenue Anticipation Note. The proceeds of this note were used to repay the \$350,000 line of credit due in October 2012. The note, due in June 2013, bears interest at 1.12% per year and will be payable from the collection of taxes and other revenues during 2013.

Note 8. Defined Benefit Pension Plan and Deferred Compensation Plan

Plan Description

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave, and previously refunded VRS service as credit in their plan.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Plan Description (Continued)

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP, or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS website at www.varetire.org/Pdf/Publications/2010-Annual-Report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 7.79% of annual covered payroll. The Town's contribution rate includes the employee's share of 5% paid by the employee.

Annual Pension Cost

For fiscal year 2012, the Town's annual pension cost of \$127,457 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases included an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 88,351	100%	\$ -
June 30, 2011	\$ 122,537	100%	\$ -
June 30, 2012	\$ 127,457	100%	\$ -

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 94.83% funded. The actuarial accrued liability for benefits was \$4,721,219, and the actuarial value of assets was \$4,477,082, resulting in an unfunded actuarial accrued liability (UAAL) of \$244,137. The covered payroll (annual payroll of active employees covered by the plan) was \$1,418,882, and ratio of the UAAL to the covered payroll was 17.21%.

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

Note 9. Property Taxes

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

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

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

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

Note 10. Risk Management

The Risk Management Programs are as follows:

Workers' Compensation Insurance is provided through the Virginia Municipal League. During 2010-2011, total premiums paid were approximately \$63,000. Benefits are those afforded through Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates, and claims experience.

General liability and other insurance are provided through policies with a commercial insurance company. General liability and business automobile coverage have a \$2,000,000 and \$1,000,000 limit per occurrence, respectively. Property insurance is covered per statement of values and is approximately \$2,000,000. Police professional liability and public officials' liability insurance with a \$3,000,000 limit are covered through a policy with a commercial insurance company. Total premiums paid for these policies were approximately \$117,000.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 10. Risk Management (Continued)

Healthcare coverage is provided for employees through a policy with Anthem Blue Cross-Blue Shield. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for the year ended June 30 were approximately \$471,000.

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

Note 11. Net Assets

At June 30, the Water and Sewer fund had a deficit in unrestricted net assets totaling \$ 3,088,177. This deficit is anticipated to be recovered through future revenues as well as possible transfers from the General Fund.

Note 12. Commitments and Contingencies

Tazewell County Gymnasium Lease

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

American Legion Building Lease

In May 2007, the Town entered a 40 year lease agreement with American Legion Post #133 for the American Legion Building with annual rent of \$1. Pursuant to the terms of the lease, the Town agreed to assume and pay the expenses related to utilities, repair, maintenance, or renovation costs, all taxes associated with the building, and hazard insurance premiums on the property. Through 2012, the Town expended and capitalized approximately \$28,319 for renovations.

Litigation

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

Construction Commitments

During the prior year, Council approved the commencement of the Route 61 project. \$363,685 has been incurred as of yearend and the total project is expected to cost \$3.0 to \$3.5 million. This project will be administered by the Virginia Department of Transit. The Town was awarded \$2.1 million of state and federal funding for this project. The Town also started the Drytown sewer project in the prior year and has incurred \$394,000 in engineering costs as of yearend. The total project is expected to cost \$4.0 to \$4.5 million. The Town was awarded state and federal funding in the amount of \$720,000 for the Dry Town Sewer Project. The remaining cost will be financed by the Virginia Revolving Loan Program. Both projects will require a local match and additional grant funding for these projects are being pursued.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 13. Service Contract

Effective September 1996, the Town entered into an agreement with the Tazewell County Public Service Authority (the "PSA") to purchase water for a forty year period at which time the agreement may be renewed in additional five year increments. The Town also conveyed its water treatment plant to the PSA as part of the agreement. For 2012, the Town paid \$593,267 to the PSA for water.

Note 14. Sewer Treatment Facility Capacity

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

The PSA will also pay a monthly Treatment and Disposal Volume Charge determined by the Town's total direct and indirect costs to maintain the facility and the number of gallons discharged into the facility by the PSA. Any unexpected capital expenditures along with necessary maintenance, repairs, replacements or upgrades, of any sanitary sewer lines used to transport the PSA's flow into the facility will be paid by both parties based on their capacities in the facility. Both parties will jointly contribute \$1,000 per month to a capital reserve fund not to exceed \$50,000 to assist with unexpected capital expenditures. As of June 30, 2012, the PSA has started discharging into the facility and has paid \$8,643 to the Town against the note receivable.

Note 15. New Accounting Standards

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

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

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 15. New Accounting Standards (Continued)

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

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

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

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

TOWN OF TAZEWELL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 15. New Accounting Standards (Continued)

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
General property taxes:				
Real property taxes	\$ 623,507	\$ 623,507	\$ 532,283	\$ (91,224)
Public service corporation taxes	24,000	24,000	29,073	5,073
Personal property taxes	96,678	96,678	95,279	(1,399)
Penalties and interest on delinquent taxes	20,000	20,000	59,667	39,667
Total general property taxes	764,185	764,185	716,302	(47,883)
Other local taxes:				
Meals taxes	480,000	480,000	538,335	58,335
Cigarette taxes	32,000	32,000	32,653	653
Franchise license tax	30,000	30,000	31,532	1,532
Bank stock tax	156,500	156,500	172,745	16,245
Total other local taxes	698,500	698,500	775,265	76,765
Permits, privilege fees, and regulatory licenses:				
Planning and zoning	1,000	1,000	940	(60)
Decal fees	29,000	29,000	27,435	(1,565)
Business license taxes	215,000	215,000	242,467	27,467
Total permits and privilege fees	245,000	245,000	270,842	25,842
Fines and forfeitures:				
Court fines	45,000	45,000	38,885	(6,115)
Parking fines	534	534	1,070	536
Total fines and forfeitures	45,534	45,534	39,955	(5,579)
Revenue from use of money and property:				
Interest earned	4,000	4,000	555	(3,445)
Total revenue from use of money and property	4,000	4,000	555	(3,445)

(Continued)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues (Continued)				
Charges for services:				
Waste collection charges	\$ 370,000	\$ 370,000	\$ 385,832	\$ 15,832
Recreation	35,000	35,000	64,816	29,816
Fire	50,000	50,000	579	(49,421)
Rescue	172,000	172,000	232,617	60,617
Miscellaneous charges	3,000	3,000	3,425	425
Total charges for services	630,000	630,000	687,269	57,269
Other revenues:				
Debt proceeds	-	-	350,000	350,000
Miscellaneous	40,000	40,000	25,270	(14,730)
Total other revenues	40,000	40,000	375,270	335,270
Total revenue from local sources	2,427,219	2,427,219	2,865,458	438,239
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Local sales and use taxes	250,000	250,000	275,668	25,668
Personal property tax reimbursement	56,000	56,000	54,820	(1,180)
Rolling stock	5,500	5,500	5,563	63
Fire programs	9,500	9,500	22,765	13,265
Litter control grant	2,500	2,500	1,998	(502)
Other	75,000	75,000	125,771	50,771
Total non-categorical aid	398,500	398,500	486,585	88,085
Categorical aid:				
Highway and street maintenance grant	856,000	856,000	1,307,391	451,391
Law enforcement aid	99,029	99,029	99,029	-
Total categorical aid	955,029	955,029	1,406,420	451,391
Total intergovernmental revenues	1,353,529	1,353,529	1,893,005	539,476
Total general fund revenues	\$ 3,780,748	\$ 3,780,748	\$ 4,758,463	\$ 977,715

TOWN OF TAZEWell, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
General government administration:				
Mayor and Town Council:				
Wages - elected officials	\$ 6,000	\$ 6,000	\$ 3,000	\$ 3,000
Council support	25,000	25,000	26,877	(1,877)
Travel, training, and education	1,000	1,000	-	1,000
Dues and professional memberships	2,500	2,500	2,178	322
Council community support	50,000	50,000	66,819	(16,819)
Public officials insurance	18,000	18,000	16,974	1,026
Total Mayor and Town Council	102,500	102,500	115,848	(13,348)
Town Attorney/legal services:				
Wages	600	600	600	-
Health insurance	7,000	7,000	6,760	240
Legal services	6,000	6,000	12,702	(6,702)
Total Town Attorney/legal services	13,600	13,600	20,062	(6,462)
Administration:				
Wages	190,993	190,993	244,883	(53,890)
Fringes/benefits	76,295	76,295	75,803	492
Professional services	14,000	14,000	19,915	(5,915)
Advertising	3,000	3,000	7,353	(4,353)
Building maintenance	10,000	10,000	17,405	(7,405)
Postage and delivery services	6,000	6,000	7,130	(1,130)
Motor fuel expense	1,500	1,500	1,628	(128)
Vehicle maintenance	100	100	1,329	(1,229)
Utilities	24,000	24,000	26,082	(2,082)
Internet fees	15,000	15,000	19,781	(4,781)
Travel, training, and education	15,000	15,000	27,560	(12,560)
Dues and professional memberships	6,000	6,000	2,875	3,125
General liability insurance	14,000	14,000	14,828	(828)
Office supplies	34,000	34,000	49,561	(15,561)
Equipment	10,000	10,000	22,173	(12,173)
Equipment maintenance	15,000	15,000	51,960	(36,960)
Bank service charge	500	500	1,460	(960)
Administrative reserve	20,000	20,000	10,041	9,959
Miscellaneous	5,000	5,000	43,437	(38,437)
Total administration	460,388	460,388	645,204	(184,816)
Total general government administration	576,488	576,488	781,114	(204,626)

(Continued)

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Continued)				
Public Safety:				
Police department:				
Wages	\$ 525,060	\$ 525,060	\$ 544,877	\$ (19,817)
Fringes/benefits	197,771	197,771	186,377	11,394
Professional services	20,000	20,000	17,553	2,447
Advertising	500	500	-	500
Building maintenance	5,000	5,000	316	4,684
Postage and delivery services	1,200	1,200	1,126	74
Motor fuel expense	35,000	35,000	47,672	(12,672)
Vehicle maintenance	25,000	25,000	26,117	(1,117)
Utilities	19,000	19,000	17,712	1,288
Uniforms	15,000	15,000	16,384	(1,384)
Travel, training, and education	15,000	15,000	18,158	(3,158)
Dues and professional memberships	1,000	1,000	1,144	(144)
General liability insurance	12,000	12,000	14,828	(2,828)
Office supplies	15,000	15,000	18,412	(3,412)
Equipment	15,000	15,000	19,061	(4,061)
Equipment maintenance	10,000	10,000	16,698	(6,698)
Capital outlay	25,000	25,000	4,834	20,166
Internet fees	14,000	14,000	9,670	4,330
Public safety	16,000	16,000	40,874	(24,874)
Narcotics task force	7,000	7,000	7,000	-
Southwest Regional Jail	6,000	6,000	9,184	(3,184)
Miscellaneous	2,000	2,000	4,039	(2,039)
Total police department	981,531	981,531	1,022,036	(40,505)
Volunteer fire department:				
Personnel cost	18,000	18,000	14,046	3,954
Building maintenance	3,000	3,000	2,028	972
Motor fuel expense	4,000	4,000	9,340	(5,340)
Utilities	7,000	7,000	5,286	1,714
General liability insurance	9,000	9,000	15,560	(6,560)
Miscellaneous	-	-	7,049	(7,049)
Supplies	25,000	25,000	6,313	18,687
Equipment	-	-	5,499	(5,499)
Equipment maintenance	3,000	3,000	2,532	468
Internet fees	12,000	12,000	9,487	2,513
Vehicle maintenance	5,000	5,000	3,491	1,509
Third-party billing	50,000	50,000	-	50,000
Fire fund transfer	10,500	10,500	4,577	5,923
Total volunteer fire department	146,500	146,500	85,208	61,292
Volunteer rescue squad:				
Rescue squad expense	172,000	172,000	251,284	(79,284)
Total volunteer rescue squad	172,000	172,000	251,284	(79,284)
Total public safety	1,300,031	1,300,031	1,358,528	(58,497)

(Continued)

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Continued)				
Public works:				
Sanitation:				
Wages	\$ 132,014	\$ 132,014	\$ 92,567	\$ 39,447
Fringes/benefits	71,364	71,364	51,823	19,541
Uniforms	3,500	3,500	4,371	(871)
Equipment maintenance	500	500	-	500
Fuel	25,000	25,000	29,005	(4,005)
Miscellaneous	500	500	639	(139)
Supplies	500	500	19	481
Vehicle maintenance	18,000	18,000	41,598	(23,598)
Total sanitation	251,378	251,378	220,022	31,356
Administration:				
Wages	390,000	390,000	462,239	(72,239)
Fringes/benefits	207,020	207,020	194,515	12,505
Signage	4,000	4,000	8,435	(4,435)
Fuel	40,000	40,000	52,598	(12,598)
Utilities	28,000	28,000	31,098	(3,098)
Vehicle maintenance	30,000	30,000	58,052	(28,052)
Building maintenance	4,000	4,000	11,749	(7,749)
Miscellaneous	-	-	4,152	(4,152)
Supplies	15,000	15,000	29,918	(14,918)
Uniforms	14,000	14,000	18,074	(4,074)
Travel, training, and education	5,000	5,000	1,986	3,014
General liability insurance	9,500	9,500	14,878	(5,378)
Internet fees	12,000	12,000	12,795	(795)
Equipment	65,000	65,000	10,999	54,001
Equipment maintenance	15,000	15,000	15,549	(549)
Engineering	-	-	40,134	(40,134)
Snow removal	40,000	40,000	29,093	10,907
Total public works administration	878,520	878,520	996,264	(117,744)
Paving	150,000	150,000	215,013	(65,013)
Street lights	58,000	58,000	51,890	6,110
Street, bridge, sidewalk maintenance	52,500	52,500	74,058	(21,558)
Total public works	1,390,398	1,390,398	1,557,247	(166,849)
(Continued)				

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (Continued)				
Parks, recreation, and cultural:				
Wages	\$ 87,033	\$ 87,033	\$ 70,498	\$ 16,535
Fringes/benefits	37,749	37,749	35,184	2,565
Advertising	300	300	100	200
Utilities	13,200	13,200	9,287	3,913
Uniforms	2,000	2,000	3,514	(1,514)
Travel, training, and education	1,800	1,800	540	1,260
Dues and professional memberships	100	100	40	60
Motor fuel expense	2,500	2,500	2,061	439
Adult activities	4,000	4,000	9,427	(5,427)
Building maintenance	60,000	60,000	16,169	43,831
Miscellaneous	1,000	1,000	19,797	(18,797)
Supplies	8,000	8,000	11,298	(3,298)
Youth activities	-	-	9,107	(9,107)
Equipment maintenance	6,000	6,000	4,033	1,967
Internet fees	12,000	12,000	11,078	922
General liability insurance	10,000	10,000	14,828	(4,828)
Equipment	3,000	3,000	-	3,000
Vehicle maintenance	1,500	1,500	237	1,263
Other recreation	3,000	3,000	-	3,000
Pool operation	26,000	26,000	39,794	(13,794)
Parks and playground	3,000	3,000	-	3,000
Groundskeeping	5,000	5,000	5,706	(706)
Total parks, recreation, and cultural	<u>287,182</u>	<u>287,182</u>	<u>262,698</u>	<u>24,484</u>
Non-departmental:				
Capital equipment reserve fund	25,000	25,000	-	25,000
Capital improvements	75,000	75,000	-	75,000
Construction and related	25,000	25,000	417,481	(392,481)
Contingency	36,832	36,832	-	36,832
Total non-departmental	<u>161,832</u>	<u>161,832</u>	<u>417,481</u>	<u>(255,649)</u>
Debt service:				
Principal retirement	59,101	59,101	77,591	(18,490)
Interest and other fiscal charges	5,716	5,716	14,654	(8,938)
Total debt service	<u>64,817</u>	<u>64,817</u>	<u>92,245</u>	<u>(27,428)</u>
Total general fund expenditures	<u>\$ 3,780,748</u>	<u>\$ 3,780,748</u>	<u>\$ 4,469,313</u>	<u>\$ (688,565)</u>

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2012

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2009	\$ 4,381,353	\$ 4,034,254	\$ (347,099)	108.60%	\$ 1,279,479	-27.13%
June 30, 2010	\$ 4,380,727	\$ 4,468,036	\$ 87,309	98.05%	\$ 1,455,179	6.00%
June 30, 2011	\$ 4,477,082	\$ 4,721,219	\$ 244,137	94.83%	\$ 1,418,882	17.21%

OTHER INFORMATION SECTION

TABLE 1

TOWN OF TAZEWELL, VIRGINIA

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

Fiscal Years Ended June 30,	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services (2)	Refuse Charges	Inter- governmental	Other	Totals
2012	\$ 687,229	\$ 772,806	\$ 270,842	\$ 39,955	\$ 555	\$ 292,073	\$ 356,750	\$ 1,929,779	\$ 25,270	\$ 4,375,259
2011	758,235	719,556	234,322	39,793	1,060	342,756	366,462	1,429,278	14,292	3,905,754
2010	616,082	617,166	247,085	43,823	5,192	53,165	345,661	1,655,148	23,983	3,607,305
2009	597,883	636,725	227,192	71,818	11,939	62,093	330,905	1,411,671	32,210	3,382,436
2008	551,644	532,414	218,272	56,683	64,053	68,416	305,258	1,577,495	384,200	3,758,435

(1) Consists solely of general fund revenues.

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

TOWN OF TAZEWELL, VIRGINIA

TABLE 2

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

Fiscal Years Ended June 30,	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Capital Outlay	Debt Service	Totals
2012	\$ 758,981	\$ 1,371,358	\$ 1,557,247	\$ 262,698	\$ 417,481	\$ 92,245	\$ 4,460,010
2011	650,049	1,370,597	1,182,570	289,902	112,164	87,331	3,692,613
2010	620,832	1,068,147	1,100,605	353,911	242,268	114,017	3,499,780
2009	613,854	1,084,062	1,189,028	358,884	139,231	94,379	3,479,438
2008	667,697	1,362,242	1,084,981	258,905	434,347	320,063	4,128,235

(1) Consists solely of general fund expenditures.

TOWN OF TAZEWELL, VIRGINIA

TABLE 3

LEGAL DEBT MARGIN INFORMATION
Last Five Fiscal Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Debt limit	\$ 25,176,660	\$ 25,071,740	\$ 21,830,100	\$ 21,798,160	\$ 21,691,900
Total net debt applicable to limit	<u>2,216,959</u>	<u>2,247,234</u>	<u>2,561,956</u>	<u>2,939,976</u>	<u>3,215,382</u>
Legal debt margin	<u><u>\$ 22,959,701</u></u>	<u><u>\$ 22,824,506</u></u>	<u><u>\$ 19,268,144</u></u>	<u><u>\$ 18,858,184</u></u>	<u><u>\$ 18,476,518</u></u>
Total net debt applicable to the limit as a percentage of debt limit	9%	9%	12%	13%	15%

Legal Debt Margin Calculation for Fiscal Years 2012 and 2011

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

COMPLIANCE SECTION

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

Honorable Members of Town Council
Town of Tazewell, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider Items 08-1 and 08-2 described in the accompanying schedule of findings and responses to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is reported as Item 12-1 in the accompanying schedule of findings and responses.**

We noted certain other matters that we reported to management of the Town in a separate letter dated November 30, 2012.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2012

TOWN OF TAZEWELL, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2012

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

State Agency Requirements:

Highway Maintenance Funds

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF TAZEWELL, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT

08-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

08-2: Financial Reporting Controls (Material Weakness)

Condition:

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

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

TOWN OF TAZEWELL, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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

Recommendation:

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

Management's Response:

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

B. FINDINGS – COMMONWEALTH OF VIRGINIA

12-1: General Fund Budget Appropriations

Condition:

As noted in the budget and actual schedule, Exhibit 9, certain general fund expenditure categories exceeded budgeted appropriations.

Recommendation:

Steps should be taken to ensure budgetary compliance.

Management's Response:

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

