TOWN OF TAZEWELL, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

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TOWN OF TAZEWELL, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2017

TOWN COUNCIL

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

APPOINTED OFFICIALS

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

INDEPENDENT AUDITORS

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

ATTORNEYS

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

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FINANCIAL SECTION

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council
Town of Tazewell, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia, (the "Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Report on Summarized Comparative Information

We have previously audited the Town's 2016 financial statements, on which, in our report dated November 30, 2016, we expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

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

Other Matters (Continued)

Other Information (Continued)

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2017

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FINANCIAL STATEMENTS

EXHIBIT 1

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-Type Activities	Totals 2017	Totals (For Comparative Purposes Only) 2016
ASSETS				
Cash and cash equivalents (Note 2)	$ 80,145	$ 413,165	$ 493,310	$ 264,646
Investments (Note 2)	596,389	-	596,389	146,832
Investments, restricted (Note 2)	165,217	-	165,217	402,503
Receivables, net (Note 3)	275,887	408,580	684,467	962,489
Due from other governmental units (Note 4)	800,837	-	800,837	965,276
Internal balances (Note 5)	(135,265)	135,265	-	-
Capital assets: (Note 6)				
Not depreciated	5,768,906	37,663	5,806,569	5,026,301
Depreciated, net	1,953,004	9,057,946	11,010,950	9,671,148
Note Receivable (Note 14)	-	666,133	666,133	681,964
Net pension asset (Note 8)	-	-	-	98,649
Total assets	9,505,120	10,718,752	20,223,872	18,219,808
DEFERRED OUTFLOWS OF RESOURCES				
Net difference between expected and actual experience (Note 8)	121,967	31,838	153,805	-
Net difference between projected and actual investment earnings (Note 8)	140,713	36,744	177,457	-
Pension contributions subsequent to measurement date (Note 8)	94,225	24,601	118,826	101,235
Total deferred outflows of resources	356,905	93,183	450,088	101,235
LIABILITIES				
Accounts payable	841,508	134,688	976,196	603,160
Accrued payroll and related liabilities	117,880	17,487	135,367	121,371
Accrued interest payable	14,640	14,265	28,905	30,326
Customer deposits	-	126,589	126,589	110,154
Noncurrent liabilities:				
Net pension liability (Note 8)	317,440	82,880	400,320	-
Unearned revenue (Note 14)	-	1,177,351	1,177,351	1,213,858
Due within one year (Note 7)	124,257	196,593	320,850	304,138
Due in more than one year (Note 7)	1,130,338	4,163,468	5,293,806	5,429,011
Total liabilities	2,546,063	5,913,321	8,459,384	7,812,018
DEFERRED INFLOWS OF RESOURCES				
Net difference between projected and actual investment earnings (Note 8)	-	-	-	153,759
Net difference between expected and actual experience (Note 8)	33,991	8,875	42,866	74,155
Total deferred inflows of resources	33,991	8,875	42,866	227,914
NET POSITION				
Net investment in capital assets	6,904,649	5,441,552	12,346,201	9,379,822
Unrestricted	377,322	(551,813)	(174,491)	901,289
Total net position	$ 7,281,971	$ 4,889,739	$ 12,171,710	$ 10,281,111

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

EXHIBIT 2

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		Totals	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	2017	(For Comparative Purposes Only) 2016
Governmental activities:								
General government administration	$ 860,223	$ -	$ -	$ 393,000	$ (467,223)	$ -	$ (467,223)	$ (910,840)
Public safety	2,049,947	322,930	135,696	-	(1,591,321)	-	(1,591,321)	(1,183,256)
Public works	1,616,176	340,676	2,156,984	-	881,484	-	881,484	1,027,324
Parks, recreation, and cultural	530,389	107,784	-	-	(422,605)	-	(422,605)	(418,286)
Interest on long-term debt	26,929	-	-	-	(26,929)	-	(26,929)	(19,028)
Total governmental activities	5,083,664	771,390	2,292,680	393,000	(1,626,594)	-	(1,626,594)	(1,504,086)
Business-type activities:								
Water and sewer	2,667,883	2,448,916	-	-	-	(218,967)	(218,967)	457,883
Total business-type activities	2,667,883	2,448,916	-	-	-	(218,967)	(218,967)	457,883
Total primary government	$ 7,751,547	$ 3,220,306	$ 2,292,680	$ 393,000	$ (1,626,594)	(218,967)	(1,845,561)	(1,046,203)
General revenues:								
Property taxes					829,003	-	829,003	849,219
Sales taxes					292,010	-	292,010	299,561
Meals taxes					741,498	-	741,498	703,880
Utilities taxes					47,241	-	47,241	33,586
Business license taxes					534	-	534	157,872
Bank franchise taxes					182,088	-	182,088	202,734
Other local taxes and charges					372,316	-	372,316	243,013
Intergovernmental revenue, unrestricted					159,867	-	159,867	251,374
Investment income					12,558	31,128	43,686	25,702
Other					86,051	53,187	139,238	167,649
Total general revenues					2,723,166	84,315	2,807,481	2,934,590
Change in net position					1,096,572	(134,652)	961,920	1,888,387
NET POSITION AT JULY 1, AS RESTATED (Note 16)					6,185,399	5,024,391	11,209,790	8,392,724
NET POSITION AT JUNE 30					$ 7,281,971	$ 4,889,739	$ 12,171,710	$ 10,281,111

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

EXHIBIT 3

TOWN OF TAZEWELL, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

	General Fund	
	2017	**(For Comparative Purposes Only) 2016**
ASSETS		
Cash and cash equivalents	$ 80,145	$ 18,308
Investments	596,389	146,832
Investments, restricted	165,217	402,503
Receivables, net	275,887	452,413
Due from other governmental units	800,837	920,546
Total assets	$ 1,918,475	$ 1,940,602
LIABILITIES		
Accounts payable	$ 841,508	$ 471,495
Accrued payroll and related liabilities	117,880	102,287
Due to other fund	135,265	206,164
Total liabilities	1,094,653	779,946
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	78,061	98,472
FUND BALANCES		
Restricted:		
Public works	165,217	402,503
Committed:		
Public works	1,719,951	1,284,372
Unassigned	(1,139,407)	(624,691)
Total fund balances	745,761	1,062,184
Total liabilities, deferred inflows of resources and fund balances	$ 1,918,475	$ 1,940,602

RECONCILIATION TO THE STATEMENT OF NET POSITION	
Total fund balance	$ 745,761
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	7,721,910
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	78,061
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows related to pensions	356,905
Deferred inflows of resources related to pensions	(33,991)
Net pension liability	(317,440)
Long-term liabilities, including notes payable, accrued interest, net OPEB obligation, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund	(1,269,235)
Net position of governmental activities	$ 7,281,971

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

EXHIBIT 4

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended June 30, 2017

	General Fund	
	2017	**(For Comparative Purposes Only) 2016**
REVENUES		
General property taxes	$ 849,414	$ 827,328
Other local taxes	1,352,602	1,329,286
Permits, privilege fees, and regulatory licenses	229,531	256,332
Fines and forfeitures	53,554	55,028
Revenue from use of money and property	12,558	2,463
Charges for services	430,714	442,500
Refuse charges	340,676	389,133
Intergovernmental	2,452,547	3,392,383
Other	86,051	102,006
Total revenues	5,807,647	6,796,459
EXPENDITURES		
Current:		
General government administration	816,425	846,402
Public safety	2,001,069	1,961,563
Public works	1,540,952	2,379,047
Parks, recreation, and cultural	514,481	469,937
Capital outlay	1,144,011	1,112,846
Debt service:		
Principal retirement	109,178	117,418
Interest and fiscal charges	26,954	22,389
Total expenditures	6,153,070	6,909,602
Excess (deficiency) of revenue over expenditures	(345,423)	(113,143)
OTHER FINANCING SOURCES		
Debt proceeds	29,000	-
Total other financing sources	29,000	-
Net change in fund balance	(316,423)	(113,143)
FUND BALANCE AT JULY 1	1,062,184	1,175,327
FUND BALANCE AT JUNE 30	$ 745,761	$ 1,062,184

Net change in fund balance	$ (316,423)
Adjustments for the Statement of Activities:	
Governmental funds report capital outlays ($1,352,977) as expenditures while governmental activities report depreciation expense ($282,035) to allocate those expenditures over the life of the assets. Governmental activities report asset contributions in the amount of $393,000. This is the amount by which new capital assets exceeded depreciation in the current period.	1,463,942
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.	(20,411)
Governmental funds report employer pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. This is the amount by which employer pension contributions exceed pension expense in the current period.	30,315
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of the difference in the treatment of long-term debt and related items.	80,178
Some expenses reported in the statement of activities, such as compensated absences, net OPEB obligation, and accrued interest, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(141,029)
Change in net position of governmental activities	$ 1,096,572

EXHIBIT 5

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2017

	Enterprise Fund Water and Sewer 2017	(For Comparative Purposes Only) 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 413,165	$ 246,338
Receivables, net	408,580	510,076
Due from other governments	-	44,730
Due from other fund	135,265	206,164
Total current assets	957,010	1,007,308
Noncurrent assets:		
Note receivable	666,133	681,964
Net pension asset	-	11,223
Capital assets:		
Not depreciated	37,663	809,245
Depreciated, net	9,057,946	8,558,915
Total noncurrent assets	9,761,742	10,061,347
Total assets	10,718,752	11,068,655
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between expected and actual experience	31,838	-
Net difference between projected and actual investment earnings	36,744	-
Pension contributions subsequent to measurement date	24,601	11,517
Total deferred outflows of resources	93,183	11,517
LIABILITIES		
Current liabilities:		
Accounts payable	134,688	131,665
Accrued payroll and related liabilities	17,487	19,084
Accrued interest payable	14,265	15,661
Customer deposits	126,589	110,154
Current portion of noncurrent liabilities	196,593	192,484
Total current liabilities	489,622	469,048
Noncurrent liabilities:		
Net pension liability	82,880	-
Unearned revenue	1,177,351	1,213,858
Due in more than one year	4,163,468	4,346,946
Total noncurrent liabilities	5,423,699	5,560,804
Total liabilities	5,913,321	6,029,852
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual investment earnings on pension plan investments	-	17,498
Net difference between expected and actual experience	8,875	8,431
Total deferred inflows of resources	8,875	25,929
NET POSITION		
Net investment in capital assets	5,441,552	4,947,973
Unrestricted	(551,813)	76,418
Total net position	$ 4,889,739	$ 5,024,391

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

EXHIBIT 6

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2017

	Enterprise Fund Water and Sewer 2017	Enterprise Fund Water and Sewer (For Comparative Purposes Only) 2016
OPERATING REVENUES		
Water service charges and fees	$ 1,213,566	$ 1,233,634
Sewer service charges and fees	1,224,974	1,151,858
Water/sewer penalties	10,376	8,168
Other revenue	53,187	3,213
Total operating revenues	2,502,103	2,396,873
OPERATING EXPENSES		
Salaries	688,779	624,537
Fringe benefits	206,010	190,191
Maintenance	199,571	219,038
Utilities	193,474	191,796
Materials and supplies	164,699	160,317
Purchased water	630,711	521,882
Administrative	55,451	54,571
Miscellaneous	58,427	5,865
Depreciation	387,070	344,500
Total operating expenses	2,584,192	2,312,697
Operating income (loss)	(82,089)	84,176
NONOPERATING REVENUES (EXPENSES)		
Interest income	31,128	23,239
Intergovernmental revenue	-	412,589
Interest expense	(83,691)	(35,669)
Net nonoperating income (expenses)	(52,563)	400,159
Change in net position	(134,652)	484,335
NET POSITION AT JULY 1, AS RESTATED (Note 16)	5,024,391	4,540,056
NET POSITION AT JUNE 30	$ 4,889,739	$ 5,024,391

TOWN OF TAZEWELL, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2017

	Enterprise Fund Water and Sewer 2017	Enterprise Fund Water and Sewer (For Comparative Purposes Only) 2016
OPERATING ACTIVITIES		
Receipts from customers	$ 2,583,527	$ 2,322,153
Payments to suppliers	(1,392,720)	(1,557,169)
Payments to employees	(681,830)	(616,467)
Net cash provided by operating activities	508,977	148,517
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(148,805)	(1,152,525)
Principal paid on debt	(192,532)	(175,500)
Debt proceeds	-	750,540
Capital grant received	44,730	423,581
Payments received on note receivable	15,831	16,496
Interest paid on capital debt	(92,502)	(79,542)
Net cash used in capital and related financing activities	(373,278)	(216,950)
INVESTING ACTIVITIES		
Interest received	31,128	23,239
Net increase (decrease) in cash and cash equivalents	166,827	(45,194)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	246,338	291,532
Ending at June 30	$ 413,165	$ 246,338
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (82,089)	$ 84,176
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	387,070	344,500
Pension expense net of employer contributions	(4,617)	(37,230)
Change in assets and liabilities:		
Decrease (increase) in:		
Receivables, net	101,496	(48,182)
Due from other funds	70,899	(206,164)
Increase (decrease) in:		
Accounts payable	44,724	46,599
Due to other funds	-	(53,944)
Accrued payroll and related liabilities	2,039	6,443
Net OPEB obligation	9,527	38,857
Customer deposits	16,435	9,969
Unearned revenue	(36,507)	(36,507)
Net cash provided by operating activities	$ 508,977	$ 148,517
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capitalized interest	$ 7,415	$ 48,007
Capital assets financed by accounts payable	$ -	$ 41,701

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

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Tazewell (the "Town") was established in 1916. It is a political subdivision of the Commonwealth of Virginia operating under the Mayor-Council form of government. The Town Council consists of a mayor and six other council members. The Town is part of Tazewell County and has taxing powers subject to statewide restrictions and tax limits. The Town provides a full range of municipal services including police, fire and rescue, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and wastewater services.

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary fund:

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

D. Reclassifications

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

E. Budgets and Budgetary Accounting

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

1) During the regular May Council meetings, the Town Manager submits a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
2) Public hearings are conducted to obtain citizen comments.
3) Prior to June 30, the budget for the general fund is legally enacted through passage of an Appropriations Ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
4) The Appropriations Ordinance places legal restrictions on expenditures at the department or category level. The appropriations for each department or category can be revised only by the Town Council. The Town Manager is authorized to transfer amounts within general governmental departments.
5) Formal budgetary integration is employed as a management control device during the year.
6) Budgets are adopted utilizing the cash basis of accounting.
7) Appropriations lapse on June 30 for all Town units.
8) All budget data presented is the final revised budget.
9) For the year ended June 30, 2017, general government administration and public safety categories overspent their budgets.

Note 1. Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting (Continued)

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

	General Fund
Net change in fund balance (non-GAAP budgetary basis)	$ 345,007
Modified accrual basis adjustments	(661,430)
Net change in fund balance (GAAP basis)	$ (316,423)

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General Fund. There were no outstanding encumbrances at year end.

G. Cash and Cash Equivalents

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

H. Allowance for Uncollectible Accounts

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

I. Capital Assets

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

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

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

J. Capitalization of Interest

The Town capitalizes interest costs on funds borrowed to finance the construction of capital assets in the water and sewer Fund. For the current year, interest capitalized totaled $7,415.

K. Unearned Revenue

The water and sewer fund reports unearned revenue in connection with receipt of capital assets from the sale of capacity rights to the Town's sewer treatment plant. Revenue is recognized over the term of the agreement. During the year ended June 30, 2017, $36,507 of revenue was recognized under this agreement.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has three items that qualify for reporting in this category. The first consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third consists of differences between expected and actual experience for economic or demographic factors in the total pension liability measurement.

Note 1. Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three types of these items. One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third consists of differences between expected and actual experience for economic or demographic factors in the total pension liability measurement.

M. Compensated Absences

The Town's policies allow for the accumulation and vesting of limited amounts of personal time off until termination or retirement. Each employee can only carryover a maximum of 160 hours of personal time off at the end of the calendar year. Such absences are accrued when earned in the government-wide and proprietary financial statements. A liability is reported in governmental fund only when the leave is due and payable.

N. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

O. Pensions

For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

Note 1. Summary of Significant Accounting Policies (Continued)

P. Fund Equity

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

The classifications are as follows:

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

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

Q. Restricted Amounts

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

R. Estimates

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

Note 1. Summary of Significant Accounting Policies (Continued)

S. Comparative data

Comparative total data for the prior year has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations.

Note 2. Deposits and Investments

Deposits

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

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the carrying value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of $1 per share in accordance with GASB No. 79). The Town has not formally adopted deposit and investment policies that limit the Town's allowable deposits or investments or address the specific types of risk to which the Town may be exposed.

At June 30, all of the Town's investments were in LGIP. $165,217 of these investments represent unspent debt proceeds restricted for specific capital projects.

Note 3. Receivables

Receivables for individual major funds are as follows:

	General	Water and Sewer	Total
Receivables			
Taxes	$ 340,052	$ -	$ 340,052
Accounts	100,188	517,455	617,643
Ambulance services	144,827	-	144,827
Decals	32,744	-	32,744
Gross receivables	617,811	517,455	1,135,266
Less: allowance for uncollectibles	(341,924)	(108,875)	(450,799)
	$ 275,887	$ 408,580	$ 684,467

Note 4. Due from Other Governmental Units

A summary of funds due from other governmental units follows:

	General
Due from other governments	
Tazewell County sales tax	$ 50,879
Commonwealth of Virginia personal property tax relief	54,820
VDOT Highway Planning	119,136
United States Department of Transportation Highway Planning	476,545
United States Department of Housing and Urban Development	20,457
USDA	79,000
	$ 800,837

Note 5. Interfund Receivables and Payables

$135,265 was due to the water and sewer fund from the general fund for general expenses paid out of water and sewer fund cash.

Note 6. Capital Assets

Capital asset activity was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 2,046,006	$ 393,000	$ -	$ 2,439,006
Construction in progress	2,171,050	1,158,850	-	3,329,900
	4,217,056	1,551,850	-	5,768,906
Capital assets, depreciated:				
Vehicles	2,166,332	134,297	-	2,300,629
Buildings and improvements	2,805,085	25,306	-	2,830,391
Equipment, furniture, and fixtures	1,097,308	34,523	-	1,131,831
	6,068,725	194,127	-	6,262,852
Less accumulated depreciation for:				
Vehicles	1,612,193	170,388	-	1,782,581
Buildings and improvements	1,451,361	77,661	-	1,529,022
Equipment, furniture, and fixtures	964,259	33,986	-	998,245
	4,027,813	282,035	-	4,309,848
Capital assets, depreciated, net	2,040,912	(87,908)	-	1,953,004
Governmental activities capital assets, net	$ 6,257,968	$ 1,463,942	$ -	$ 7,721,910

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	787,664	22,809	(794,391)	16,082
	809,245	22,809	(794,391)	37,663
Capital assets, depreciated:				
Distribution/transmission systems	9,758,002	807,116	-	10,565,118
Water and wastewater plants	6,194,257	-	-	6,194,257
Machinery and equipment	758,775	78,985	(133,177)	704,583
	16,711,034	886,101	(133,177)	17,463,958
Less accumulated depreciation	8,152,119	387,070	133,177	8,406,012
Capital assets, depreciated, net	8,558,915	499,031	-	9,057,946
Business-type activities capital assets, net	$ 9,368,160	$ 521,840	$ (794,391)	$ 9,095,609

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	$ 26,001
Public safety	165,680
Public works	80,502
Parks, recreation, and cultural	9,852
	$ 282,035
Business-type activities:	
Water and sewer	$ 387,070

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
General obligation bonds	$ 820,511	$ -	$ (81,658)	$ 738,853	$ 83,888
Notes payable	76,929	29,000	(27,520)	78,409	40,369
Net OPEB obligation	211,052	139,301	-	350,353	-
Compensated absences	85,227	1,753	-	86,980	-
	$ 1,193,719	$ 170,054	$ (109,178)	$ 1,254,595	$ 124,257

Business-Type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
General obligation bonds	$ 1,465,486	$ -	$ (35,643)	$ 1,429,843	$ 36,769
Revenue bonds	2,366,267	-	(142,054)	2,224,213	144,264
Net OPEB obligation	78,601	8,987	-	87,588	-
Revenue Loans*	588,434	-	(14,835)	573,599	15,560
Compensated absences	41,182	3,636	-	44,818	-
	$ 4,539,970	$ 12,623	$ (192,532)	$ 4,360,061	$ 196,593

* As restated, See Note 16.

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

Short-term borrowing:

The Town has a line of credit with an interest rate of 4.25% to cover cash shortfalls during the year, depositing proceeds in the general fund. The Town drew down $100,000 in July 2016 and repaid the line in full in September 2016.

Note 7. Long-Term Liabilities (Continued)

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

	Governmental Activities					
	General Obligation Bonds		Notes Payable		Totals	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 83,888	$ 20,171	$ 40,369	$ 1,811	$ 124,257	$ 21,982
2019	86,178	17,881	28,106	617	114,284	18,498
2020	88,531	15,528	9,934	149	98,465	15,677
2021	90,948	13,111	-	-	90,948	13,111
2022	93,431	10,628	-	-	93,431	10,628
2023-2027	295,877	16,299	-	-	295,877	16,299
	$ 738,853	$ 93,618	$ 78,409	$ 2,576	$ 817,262	$ 96,195

	Business-type Activities							
	Revenue Bonds		General Obligation Bonds		Loans		Totals	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 144,264	$ 33,918	$ 36,769	$ 45,959	$ 15,560	$ 13,620	196,593	$ 93,497
2019	146,509	31,674	37,982	44,746	15,854	13,326	200,345	89,746
2020	148,789	29,394	39,235	43,493	16,212	12,968	204,236	85,855
2021	151,104	27,079	40,529	42,199	16,579	12,601	208,212	81,879
2022	153,455	24,728	41,866	40,862	16,954	12,226	212,275	77,815
2023-2027	803,843	87,070	230,981	182,659	90,702	55,198	1,125,526	324,927
2028-2032	676,250	23,447	271,677	141,963	101,439	44,461	1,049,367	209,871
2033-2037	-	-	319,544	94,096	113,446	32,454	432,990	126,550
2038-2042	-	-	375,845	37,795	126,875	19,239	502,719	57,035
2043-2046	-	-	35,415	315	59,977	4,295	95,392	4,611
	$ 2,224,213	$ 257,310	$ 1,429,843	$ 674,087	$ 573,599	$ 220,388	$ 4,227,655	$1,151,785

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity	Original Amount	Governmental Activities	Business-Type Activities
Bonds and Notes Payable						
General Obligation Bond	2.73%	2014	2024	$ 900,000	$ 738,853	$ -
Garbage Truck	3.15%	2014	2019	$ 148,155	49,409	-
USDA	2.75%	2017	2020	29,000	29,000	-
					$ 817,262	$ -
Bonds						
Rural Development, General Obligation	3.25%	2003	2043	$ 1,800,000	$ -	$ 1,429,843
Virginia Resources Authority,						
Revenue Loans	2.25%	2015	2045	$ 553,545	-	573,599
Revenue Loan	1.55%	2013	2034	$ 2,988,696	-	2,224,213
					$ -	$ 4,227,655

Note 8. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Tazewell, Virginia, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefits provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at *http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf.*

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

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

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

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

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

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

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

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

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

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age –** Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility –** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
  - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
  - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
    - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
    - The member retires on disability.
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Exceptions to COLA Effective Dates (Continued)**
    - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election –** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.

(Continued)

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Creditable Service –** Same as Plan 1.
- **Vesting –** Same as Plan 1.
- **Calculating the Benefit –** See definition under Plan 1.
- **Average Final Compensation –** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age –** Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility –** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
  - **Eligibility** – Same as Plan 1.
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service –** Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Eligible Members –** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members –** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions –** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service –**
  - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn credible 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 credible service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
  - **Defined Contributions Component –** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting –**
  - **Defined Benefit Component –** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (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.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting – (Continued)**
  - **Defined Contributions Component –** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component –** See definition under Plan 1.
  - **Defined Contribution Component –** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component –** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component –** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement –**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides 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 –**
  - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
  - **Defined Contribution Component** – Not Applicable.

Note 8. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	38
Inactive members:	
Vested inactive members	3
Non-vested inactive members	26
Inactive members active elsewhere in VRS	25
Total inactive members	54
Active members	53
Total covered employees	145

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 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.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $118,826 and $101,235 for the years ended June 30, 2017 and June 30, 2016, respectively.

Note 8. Defined Benefit Pension Plan (Continued)

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

Note 8. Defined Benefit Pension Plan (Continued)

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
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed Income	15.00	0.09	0.01
Emerging Debt	3.00	3.51	0.11
Rate Sensitive Credit	4.50	3.51	0.16
Non Rate Sensitive Credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public Real Estate	2.25	6.12	0.14
Private Real Estate	12.75	7.10	0.91
Private Equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
Total	100.00 %		5.83 %
		Inflation	2.50 %
		*Expected arithmetic nominal return	8.33 %

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%

Note 8. Defined Benefit 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, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension (Assets) Liability (a) – (b)**
Balances at June 30, 2015	$ 5,805,777	$ 5,904,426	$ (98,649)
Changes for the year:			
Service cost	162,448	-	162,448
Interest	395,660	-	395,660
Change in benefit terms	(37,298)		(37,298)
Differences between expected and actual experience	262,365	-	262,365
Contributions – employer	-	101,017	(101,017)
Contributions – employee	-	86,660	(86,660)
Net investment income	-	100,250	(100,250)
Benefit payments, including refunds of employee contributions	(306,981)	(306,981)	-
Administrative expenses	-	(3,678)	3,678
Other changes	-	(43)	43
Net changes	476,194	(22,775)	498,969
Balances at June 30, 2016	$ 6,281,971	$ 5,881,651	$ 400,320

Note 8. Defined Benefit 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 political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability (assets) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability (asset)	$ 1,192,547	$ 400,320	$ (256,947)

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of $83,676. At June 30, 2017, the political subdivision 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	$ 177,457	$ 42,866
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	153,805	-
Employer contributions subsequent to the measurement date	118,826	-
Total	$ 450,088	$ 42,866

Note 8. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $118,826 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	$ 54,809
2019	74,519
2020	97,318
2021	61,750
2022	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 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.

Note 9. Property Taxes

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

Property taxes are levied annually on assessed values as of January 1 and are due by December 5. Personal property taxes do not create a lien on property.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of 10% of the unpaid tax is due for late payment. Interest is accrued at 0.83% per month. The effective tax rates per $100 of assessed value for the year ended June 30 were as follows:

Real estate	$ 0.25
Personal property	$ 0.60
Machinery and tools	$ 0.60

Note 10. Risk Management

The Risk Management Programs are as follows:

Workers' Compensation Insurance is provided through the Virginia Municipal League. During 2016-2017, total premiums paid were approximately $89,700. 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 $42,000.

Healthcare coverage is provided for employees through a policy with Anthem Blue Cross-Blue Shield. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for the year ended June 30 were approximately $575,000.

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

Note 11. Net Position and Fund Balance

At June 30, the general fund had a deficit unassigned fund balance of $(1,139,407). This deficit is anticipated to be recovered through future revenues.

Note 12. Commitments and Contingencies

Tazewell County Gymnasium Lease

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

American Legion Building Lease

In May 2007, the Town entered a 40 year lease agreement with American Legion Post #133 for the American Legion Building with annual rent of $1. Pursuant to the terms of the lease, the Town agreed to assume and pay the expenses related to utilities, repair, maintenance, or renovation costs, all taxes associated with the building, and hazard insurance premiums on the property. These assets are being depreciated over 25 years and are included in the governmental activities, buildings and improvements line in Note 6.

Note 12. Commitments and Contingencies

Litigation

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

Construction Commitments

In 2012, Council approved the commencement of the Route 61 project. To date, $3.2 million has been incurred and the total project is expected to cost $5 million. This project will be administered by the Virginia Department of Transportation. The Town was awarded $2.1 million of state and federal funding for this project. At June 30, 2016, $1,719,951 of fund balance was committed for the remaining costs of this project. The Town started a renovation of a train station this year and has incurred $38,482 in costs to date and the total project is expected to be $405,000. This year, the Town started the construction of a parking garage with an expected cost of $2 million and has incurred $82,790 in costs to date.

Grant Programs

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as to being appropriate expenditures under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, related to such audits would not be material to the financial position of the Town at June 30, 2017.

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 2017, the Town paid approximately $672,000 to the PSA for water.

Note 14. Sewer Treatment Facility Capacity

During 2010, the Town entered into an agreement with the PSA whereby the Town allocated 40% of its sewer treatment plant capacity to the PSA in exchange for water lines valued at $637,000 and a note receivable for $750,266. The note has a term of 30 years, an annual interest rate of 4.07%, and monthly payments of $3,612 which began in 2012.

The PSA will also pay a monthly Treatment and Disposal Volume Charge determined by the Town's total direct and indirect costs to maintain the facility and the number of gallons discharged into the facility by the PSA. Any unexpected capital expenditures along with necessary maintenance, repairs, replacements, or upgrades, of any sanitary sewer lines used to transport the PSA's flow into the facility will be paid by both parties based on their respective capacities in the facility. Both parties will each contribute $500, $1,000 in total, per month to a capital reserve fund not to exceed $50,000 to assist with unexpected capital expenditures. Through June 30, 2017, the PSA has paid $84,133 to the Town against the note receivable.

(Continued)

Note 14. Sewer Treatment Facility 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 15. Other Post-Employment Benefits

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

Plan Description

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

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

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

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

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

Funding Policy

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

Note 15. Other Post-Employment Benefits (Continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For 2017, the Town's OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	$	260,700
Interest on net OPEB obligation		10,119
Adjustment to annual required contribution		(10,691)
Annual OPEB cost		260,128
Contributions made		(111,840)
Change in net OPEB obligation		148,288
Net OPEB obligation – beginning of year		289,653
Net OPEB obligation – end of year	$	437,941

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

Fiscal Year Ending		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
June 30, 2017	$	260,128	42.79%	$	437,941
June 30, 2016		249,613	42.35%		289,653

Funded Status and Funding Progress

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

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

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

(Continued)

Note 15. Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions

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

In the 2015 actuarial valuation, the alternative measurement method, as described in Governmental Accounting Standard No. 45, was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 3.50% discount rate, and an initial annual healthcare cost trend of 6.30% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.50%. A general inflation rate of 2.50% was used. The unfunded accrued liability is being amortized as a level percent of payroll. The open amortization period for 2017 was 30 years.

Note 16. Prior Period Restatement

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

	Water and Sewer Fund
Net position, June 30, 2016, as previously stated	$ 5,059,280
Reclassify grant revenue to loan	(34,889)
Net position, June 30, 2016, as restated	$ 5,024,391

Note 17. Subsequent Events

In July 2017, Town Council approved the donation of a movie theatre and seven parcels of land, collectively referred to as the Cox property, to the Industrial Development Authority.

(Continued)

Note 18. New Accounting Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

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

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

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

Note 18. New Accounting Standards (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB 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 will be effective for the year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

Note 18. New Accounting Standards (Continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* 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. This Statement will be effective for the year ending June 30, 2021.

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

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 8

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues				
General property taxes:				
Real property taxes	$ 702,000	$ 702,000	$ 675,466	$ (26,534)
Personal property taxes	149,000	149,000	132,008	(16,992)
Penalties and interest on delinquent taxes	27,000	27,000	52,998	25,998
Total general property taxes	878,000	878,000	860,472	(17,528)
Other local taxes:				
Public service corporation taxes	35,000	35,000	47,241	12,241
Meals taxes	650,000	650,000	737,173	87,173
Cigarette taxes	64,000	64,000	79,238	15,238
Transient occupancy	6,000	6,000	10,526	4,526
Local sales and use taxes	300,000	300,000	290,073	(9,927)
Bank stock tax	215,000	215,000	182,088	(32,912)
Total other local taxes	1,270,000	1,270,000	1,346,339	76,339
Permits, privilege fees, and regulatory licenses:				
Planning and zoning	1,200	1,200	1,583	383
Retail sales	148,000	148,000	136,337	(11,663)
Real estate and professional	50,000	50,000	41,470	(8,530)
Personal business service	10,100	10,100	7,258	(2,842)
Decal fees	42,000	42,000	35,958	(6,042)
Business license taxes	-	-	534	534
Total permits and privilege fees	251,300	251,300	223,140	(28,160)
Fines and forfeitures:				
Court fines	45,000	45,000	56,017	11,017
Parking fines	500	500	650	150
Total fines and forfeitures	45,500	45,500	56,667	11,167
Revenue from use of money and property:				
Interest earned	250	250	12,558	12,308
Total revenue from use of money and property	250	250	12,558	12,308

(Continued)

EXHIBIT 8

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues (Continued)				
Charges for services:				
Waste collection charges	$ 396,000	$ 396,000	$ 387,169	$ (8,831)
Recreation	40,600	40,600	101,277	60,677
Fire	400	400	367	(33)
Rescue	520,000	520,000	428,578	(91,422)
Miscellaneous charges	6,000	6,000	6,658	658
Total charges for services	963,000	963,000	924,049	(38,951)
Other revenues:				
Debt proceeds	-	-	29,000	29,000
Miscellaneous	95,814	95,814	86,051	(9,763)
Total other revenues	95,814	95,814	115,051	19,237
Total revenue from local sources	3,503,864	3,503,864	3,538,276	34,412
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
Personal property tax reimbursement	54,500	54,500	54,820	320
Rolling stock	6,200	6,200	5,928	(272)
Fire programs	18,000	18,000	-	(18,000)
Litter control grant	2,500	2,500	2,475	(25)
Franchise license tax	25,000	25,000	26,077	1,077
Other	40,000	40,000	73,042	33,042
Total non-categorical aid	146,200	146,200	162,342	16,142
Categorical aid:				
Highway and street maintenance grant	5,700,000	5,700,000	2,246,012	(3,453,988)
Law enforcement aid	215,358	215,358	130,196	(85,162)
Other	355,000	355,000	35,645	(319,355)
Total categorical aid	6,270,358	6,270,358	2,411,853	(3,858,505)
Total intergovernmental revenues	6,416,558	6,416,558	2,574,195	(3,842,363)
Total general fund revenues	$ 9,920,422	$ 9,920,422	$ 6,112,471	$ (3,807,951)

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Expenditures				
General government administration:				
Mayor and Town Council:				
Wages - elected officials	$ 27,600	$ 27,600	$ 27,600	$ -
Travel, training, and education	4,000	4,000	299	3,701
Dues and professional memberships	200	200	-	200
Council donations	15,000	15,000	90,696	(75,696)
Total Mayor and Town Council	46,800	46,800	118,595	(71,795)
Town Attorney/legal services:				
Wages	600	600	600	-
Health insurance	6,500	6,500	7,080	(580)
Legal services	40,000	40,000	44,932	(4,932)
Total Town Attorney/legal services	47,100	47,100	52,612	(5,512)
Treasurer:				
Wages	55,463	55,463	46,704	8,759
Fringes/benefits	19,475	19,475	5,453	14,022
Travel, training, and education	2,000	2,000	-	2,000
Dues and professional memberships	500	500	175	325
Office supplies	1,000	1,000	401	599
Equipment	500	500	-	500
Miscellaneous	500	500	179	321
	79,438	79,438	52,912	26,526
Bookkeeping:				
Wages	11,346	11,346	11,821	(475)
Fringes/benefits	7,437	7,437	5,903	1,534
Travel, training, and education	500	500	-	500
Dues and professional memberships	500	500	-	500
Office supplies	500	500	791	(291)
Postage and delivery services	3,000	3,000	1,285	1,715
Equipment	500	500	-	500
Miscellaneous	500	500	239	261
	24,283	24,283	20,039	4,244

(Continued)

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Expenditures (Continued)				
General government administration (Continued):				
Administration:				
Wages	$ 171,458	$ 171,458	$ 158,547	$ 12,911
Fringes/benefits	55,190	55,190	46,510	8,680
Professional services	42,000	42,000	45,105	(3,105)
Advertising	6,000	6,000	6,592	(592)
Building maintenance	7,500	7,500	9,550	(2,050)
Postage and delivery services	6,000	6,000	6,293	(293)
Motor fuel expense	1,000	1,000	994	6
Vehicle maintenance	300	300	248	52
Utilities	17,000	17,000	17,940	(940)
Internet fees	42,766	42,766	27,124	15,642
Travel, training, and education	4,000	4,000	3,293	707
Dues and professional memberships	6,000	6,000	7,846	(1,846)
General liability insurance	45,000	45,000	36,689	8,311
Office supplies	20,000	20,000	17,939	2,061
Equipment	1,000	1,000	3,326	(2,326)
Equipment maintenance	20,000	20,000	23,777	(3,777)
Bank service charge	500	500	5,591	(5,091)
Maintenance	84,923	84,923	95,274	(10,351)
Miscellaneous	30,000	30,000	76,848	(46,848)
Total administration	560,637	560,637	589,486	(28,849)
Total general government administration	758,258	758,258	833,643	(75,385)

(Continued)

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Expenditures (Continued)				
Public Safety:				
Police department:				
Wages	$ 632,659	$ 632,659	$ 717,250	$ (84,591)
Fringes/benefits	333,224	333,224	309,385	23,839
Professional services	19,000	19,000	15,263	3,737
Advertising	1,000	1,000	578	422
Building maintenance	1,000	1,000	635	365
Postage and delivery services	1,000	1,000	391	609
Motor fuel expense	50,000	50,000	23,629	26,371
Vehicle maintenance	20,000	20,000	34,553	(14,553)
Utilities	22,000	22,000	23,966	(1,966)
Uniforms	17,000	17,000	9,729	7,271
Travel, training, and education	19,000	19,000	29,133	(10,133)
Dues and professional memberships	1,000	1,000	2,566	(1,566)
Office supplies	21,000	21,000	11,383	9,617
Equipment	22,000	22,000	34,091	(12,091)
Equipment maintenance	12,000	12,000	42,854	(30,854)
Internet fees	10,000	10,000	4,403	5,597
Public safety	28,514	28,514	96,867	(68,353)
Narcotics task force	7,000	7,000	7,000	-
Southwest Regional Jail	6,000	6,000	6,308	(308)
Miscellaneous	8,000	8,000	3,811	4,189
Total police department	1,231,397	1,231,397	1,373,795	(142,398)
Volunteer fire department:				
Personnel cost	35,243	35,243	32,820	2,423
Building maintenance	3,000	3,000	5,088	(2,088)
Motor fuel expense	5,000	5,000	1,973	3,027
Utilities	5,700	5,700	5,748	(48)
Miscellaneous	-	-	-	-
Supplies	10,000	10,000	2,829	7,171
Equipment	20,000	20,000	5,651	14,349
Equipment maintenance	2,500	2,500	1,222	1,278
Internet fees	5,650	5,650	3,509	2,141
Vehicle maintenance	5,000	5,000	793	4,207
Fire fund transfer	13,896	13,896	570	13,326
Total volunteer fire department	105,989	105,989	60,203	45,786
Volunteer rescue squad:				
Rescue squad expense	671,184	671,184	526,731	144,453
Total volunteer rescue squad	671,184	671,184	526,731	144,453
Total public safety	2,008,570	2,008,570	1,960,729	47,841

(Continued)

EXHIBIT 9

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Expenditures (Continued)				
Public works:				
Sanitation:				
Wages	$ 116,930	$ 116,930	$ 139,817	$ (22,887)
Fringes/benefits	83,655	83,655	73,574	10,081
Uniforms	3,000	3,000	1,330	1,670
Fuel	20,000	20,000	6,676	13,324
Miscellaneous	4,400	4,400	3,534	866
Supplies	500	500	-	500
Vehicle maintenance	6,000	6,000	19,608	(13,608)
Total sanitation	234,485	234,485	244,539	(10,054)
Administration:				
Wages	394,852	394,852	399,374	(4,522)
Fringes/benefits	290,998	290,998	226,208	64,790
Signage	-	-	1,377	(1,377)
Fuel	35,000	35,000	23,298	11,702
Utilities	11,800	11,800	15,308	(3,508)
Vehicle maintenance	15,000	15,000	22,999	(7,999)
Building maintenance	4,000	4,000	2,967	1,033
Miscellaneous	-	-	42,724	(42,724)
Supplies	5,000	5,000	60	4,940
Uniforms	10,000	10,000	14,437	(4,437)
Travel, training, and education	500	500	2,072	(1,572)
Internet fees	3,040	3,040	1,711	1,329
Equipment	9,000	9,000	6,135	2,865
Equipment maintenance	25,000	25,000	25,374	(374)
Snow removal	75,000	75,000	26,987	48,013
Mowing	165,000	165,000	152,029	12,971
Total public works administration	1,044,190	1,044,190	963,060	81,130
Paving	-	-	34,996	(34,996)
Street lights	50,000	50,000	63,620	(13,620)
Street, bridge, sidewalk maintenance	101,000	101,000	107,289	(6,289)
Train station	85,000	85,000	20,161	64,839
Historical Society	5,000	5,000	5,000	-
Digital welcome sign	35,000	35,000	7,945	27,055
Total public works	1,554,675	1,554,675	1,446,610	108,065

(Continued)

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL – CASH BASIS
GENERAL FUND
June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Expenditures (Continued)				
Parks, recreation, and cultural:				
Wages	$ 113,049	$ 113,049	$ 141,066	$ (28,017)
Fringes/benefits	42,359	42,359	43,239	(880)
Advertising	300	300	666	(366)
Utilities	11,500	11,500	20,822	(9,322)
Uniforms	1,600	1,600	2,153	(553)
Travel, training, and education	100	100	1,549	(1,449)
Dues and professional memberships	100	100	237	(137)
Planning commission	8,400	8,400	4,275	4,125
Community development	63,201	63,201	57,550	5,651
American Legion building	12,550	12,550	16,693	(4,143)
Back of the Dragon	30,000	30,000	13,176	16,824
Motor fuel expense	1,800	1,800	1,483	317
Adult activities	1,000	1,000	1,449	(449)
Building maintenance	7,000	7,000	9,553	(2,553)
Miscellaneous	11,998	11,998	28,988	(16,990)
Supplies	8,000	8,000	6,547	1,453
Youth activities	5,000	5,000	12,646	(7,646)
Equipment maintenance	6,000	6,000	6,353	(353)
Internet fees	5,650	5,650	3,987	1,663
Equipment	1,500	1,500	538	962
Vehicle maintenance	1,500	1,500	214	1,286
Other recreation	1,500	1,500	1,217	283
Pool operation	15,000	15,000	7,735	7,265
Parks and playground	12,000	12,000	13,697	(1,697)
Groundskeeping	10,000	10,000	17,957	(7,957)
Zoning and property management	123,253	123,253	75,596	47,657
Total parks, recreation, and cultural	494,360	494,360	489,386	4,974
Non-departmental:				
Capital improvements	4,945,903	4,945,903	900,964	4,044,939
Total non-departmental	4,945,903	4,945,903	900,964	4,044,939
Debt service:				
Principal retirement	138,656	138,656	136,132	2,524
Total debt service	138,656	138,656	136,132	2,524
Total general fund expenditures	$ 9,920,422	$ 9,920,422	$ 5,767,465	$ 4,152,957

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
June 30, 2017

	Plan Year		
	2016	**2015**	**2014**
Total Pension Liability			
Service cost	$ 162,448	$ 159,244	$ 159,643
Interest on total pension liability	395,660	387,474	368,277
Changes in benefit terms	(37,298)	-	-
Difference between expected and actual experience	262,365	(105,444)	-
Net investment income	(279,932)	(315,859)	-
Benefit payments, including refunds of employee contributions	(27,049)	(25,830)	(165,664)
Net change in total pension liability	476,194	99,585	362,256
Total pension liability - beginning	5,805,777	5,706,192	5,343,936
Total pension liability - ending	6,281,971	5,805,777	5,706,192
Plan Fiduciary Net Position			
Contributions - employer	101,017	93,319	98,541
Contributions - employee	86,660	79,627	82,807
Net investment income	100,250	261,411	793,580
Benefit payments, including refunds of employee contributions	(306,981)	(341,689)	(165,664)
Administrative expenses	(3,678)	(3,700)	(4,222)
Other	(43)	(55)	42
Net change in plan fiduciary net position	(22,775)	88,913	805,084
Plan fiduciary net position - beginning	5,904,426	5,815,513	5,010,429
Plan fiduciary net position - ending	5,881,651	5,904,426	5,815,513
Net pension liability (asset) - ending	$ 400,320	$ (98,649)	$ (109,321)
Plan fiduciary net position as a percentage of total pension liability	94%	102%	102%
Covered employee payroll	$ 1,813,465	$ 1,631,896	$ 1,631,896
Net pension liability (asset) as a percentage of covered employee payroll	22%	-6%	-7%

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

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

EXHIBIT 11

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2017

Town Fiscal Year Ended June 30	Actuarially Determined Contribution (1)	Contributions in Relation to Actuarially Determined Contribution (2)	Contribution Deficiency (Excess) (3)	Covered Employee Payroll (4)	Contributions as a percentage of Covered Payroll (5)
2015	$ 95,984	$ 95,984	$ -	$ 1,631,896	5.88%
2016	101,235	101,235	-	1,813,465	5.58%
2017	118,826	118,826	-	2,165,434	5.49%

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

EXHIBIT 12

TOWN OF TAZEWELL, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS – OPEB
June 30, 2017

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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

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OTHER INFORMATION SECTION

TABLE 1

TOWN OF TAZEWELL, VIRGINIA

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

Fiscal Years Ended June 30,	General Property Taxes	Other Local Taxes (3)	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services	Refuse Charges	Inter-governmental	Other	Totals
2017	$ 849,414	$ 1,352,602	$ 229,531	$ 53,554	$ 12,558	$ 430,714	$ 340,676	$ 2,452,547	$ 86,051	$ 5,807,647
2016	827,328	1,329,286	256,332	55,028	2,463	442,500	389,133	3,392,383	102,006	6,796,459
2015	855,569	1,274,358	270,571	46,172	308	344,169	398,036	1,529,203	100,637	4,819,023
2014	797,897	1,107,274	252,986	65,190	632	357,001	393,884	1,406,412	75,949	4,457,225
2013	854,002	1,069,875	263,122	73,316	2,504	321,025	395,795	1,350,960	38,552	4,369,151

(1) Consists solely of general fund revenues.

Source: Financial report for respective year.

TABLE 2

TOWN OF TAZEWELL, VIRGINIA

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
2017	$ 816,425	$ 2,001,069	$ 1,540,952	$ 514,481	$ 1,144,011	$ 136,132	$ 6,153,070
2016	846,402	1,961,563	2,379,047	469,937	1,112,846	139,807	6,909,602
2015	749,359	1,596,981	1,764,012	379,408	305,786	61,184	4,856,730
2014	735,709	1,445,140	1,289,641	342,256	479,339	98,449	4,390,534
2013	708,674	1,402,518	1,354,398	224,035	228,610	458,402	4,376,637

(1) Consists solely of general fund expenditures.

Source: Financial report for respective year.

TOWN OF TAZEWELL, VIRGINIA

TABLE 3

LEGAL DEBT MARGIN INFORMATION
Last Five Fiscal Years

	2017	2016	2015	2014	2013
Debt limit	$ 27,769,160	$ 27,671,610	$ 27,663,030	$ 27,654,930	$ 27,615,780
Total net debt applicable to limit	5,044,918	4,825,115	3,365,017	1,715,688	2,216,959
Legal debt margin	$ 22,724,242	$ 22,846,495	$ 24,298,013	$ 25,939,242	$ 25,398,821
Total net debt applicable to the limit as a percentage of debt limit	18%	17%	12%	6%	8%

Legal Debt Margin Calculation for Fiscal Years 2017, 2016, 2015, 2014, and 2013

	2017	2016	2015	2014	2013
Assessed value	$ 277,691,600	$ 276,716,100	$ 276,330,300	$ 276,549,300	$ 276,157,800
Debt limit (10% of assessed value)	$ 27,769,160	$ 27,671,610	$ 27,633,030	$ 27,654,930	$ 25,176,660
Less debt applicable to limit:					
Revenue bonds and loans	2,797,812	2,919,812	2,310,821	1,662,763	36,545
General obligation bonds	2,168,696	2,285,997	2,399,437	1,532,841	1,565,574
Notes payable	78,409	76,929	111,207	151,347	81,098
Other long-term obligations	-	-	3,650	18,066	32,471
Legal debt margin	$ 22,724,243	$ 22,388,872	$ 22,807,915	$ 24,289,913	$ 22,959,701

Source: Financial report for respective year.

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COMPLIANCE SECTION

TOWN OF TAZEWELL, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Federal Grantor/Pass – Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development:			
Pass Through Payments:			
Community Development Block Grant	14.228	N/A	$ 12,000
Department of Transportation:			
Pass Through Payments:			
Highway Planning and Construction	20.205	N/A	872,901
Department of Agriculture:			
Pass Through Payments:			
Community Facilities Loans and Grants	10.766	N/A	79,000
Total Expenditures of Federal Awards			$ 963,901

NOTE 1 – BASIS OF PRESENTATION:

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

NOTE 2 – DE MINIMUS INDIRECT COST RATE

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

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

Honorable Members of Town Council
Town of Tazewell, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Tazewell, Virginia (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 30, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Items 2017-001, 2008-001, and 2008-002, that we consider to be material weaknesses.**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Items 2017-002 through 2017-004.**

Town of Tazewell's Response to Findings

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Tazewell, Virginia's (the "Town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2017. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 30, 2017

TOWN OF TAZEWELL, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2017

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

STATE COMPLIANCE MATTERS

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

State Agency Requirements:
Highway Maintenance Funds

LOCAL COMPLIANCE MATTERS

Town Charter

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

TOWN OF TAZEWELL, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

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

Name of Program	CFDA #
Highway Planning and Construction	20.205

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

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2017-001: Utilities Ledger Reconciliation (Material Weakness)

Condition:

Management was unable to reconcile the utilities receivable aging report to the general ledger. We were, however, able to perform alternative procedures to audit the balance.

Recommendation:

We recommend working with your software provider to reconcile the two ledgers. We also recommend doing a monthly reconciliation.

Management's Response:

Management agrees and will work with the software provider to resolve.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2008-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

2008-002: Financial Reporting Controls (Material Weakness)

Condition:

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

- There is no documentation of internal reviews over various financial system updates, changes, or billing reports.
- Certain accounts are not reconciled to subsidiary ledgers.
- Improper accounting of debt related items.
- Inadequate access controls over information technology systems.
- Improper accounting for grant related expenditures and the resulting revenue accrual.

Recommendation:

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

Management's Response:

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

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

2017-002: General Fund Budget Appropriations

Condition:

As noted in the Schedule of Expenditures – Budget and Actual – Cash Basis, Exhibit 9, certain general fund expenditure categories exceeded budgeted appropriations.

Recommendation:

Steps should be taken to ensure budgetary compliance.

Management's Response:

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

2017-003: Statement of Conflict of Interest

Condition:

We noted certain Council submissions were not made by the required date and that the late submission was not reported to the Commonwealth's Attorney.

Recommendation:

Statement of Conflict of Interest should be completed by the annual reporting deadline and late filings should be reported to the Commonwealth's Attorney within 30 days of the deadline.

Management's Response:

Management will ensure that the forms are submitted timely and notify the Commonwealth's Attorney about any late submissions.

2017-004: Unclaimed Property

Condition:

Outstanding checks older than one year were not included on unclaimed property report.

Recommendation:

Complete and file the annual unclaimed property report with the State Treasurer by November 1.

Management's Response:

Management will complete and file the report by the deadline.

TOWN OF TAZEWELL, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2017

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2008-001: Segregation of Duties (Material Weakness)

Condition:

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

Current Status:

Similar instances noted in current year.

2008-002: Financial Reporting Controls (Material Weakness)

Condition:

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

- There is no documentation of internal reviews over various financial system updates, changes, or billing reports.
- Certain accounts are not reconciled to subsidiary ledgers.
- Improper accounting of debt related items.
- Inadequate access controls over information technology systems.
- Improper accounting for grant related expenditures and the resulting revenue accrual.

Current Status:

Similar instances noted in current year.