

TOWN OF MARION, VIRGINIA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2017

TOWN OF MARION, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

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TOWN OF MARION, VIRGINIA

TOWN COUNCIL

David P. Helms, Mayor

James Gates

Larry Carter

Bill Weaver

Tricia Spencer

Jim Barker

Suzanne Jennings

Avery Cornett

OTHER OFFICIALS

Bill Rush	Town Manager
Cindy Stanley	Town Clerk/Director of Finance
Mark Fenyk.....	Town Attorney
Rex Anders.....	Police Chief
Cecil Hicks.....	Town Engineer/Assist Town Manager



RONALD C. BOSTIC, CPA
GREGORY D. TUCKER, CPA

P.O. Box 505, Lebanon, VA 24266
(276) 889-3103 Fax: (276) 889-0229
www.bthcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Marion, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Marion, 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 management's discussion and analysis and budgetary comparison information on pages 4–13 and 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Sostis, Tucker & Company, P.C.

Lebanon, Virginia
January 5, 2018

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Our discussion and analysis of the Town of Marion's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights

The general fund is the chief operating fund of the Town. At the end of the 2016 fiscal year, the unassigned fund balance of the general fund was \$106,663 and there were nonspendable prepaid expenses of \$119,587. For the current fiscal year, 2017, the unassigned fund balance of the general fund was \$(118,521) and there were nonspendable prepaid expenses of \$118,790.

The total net position of the Town of Marion's governmental activities was \$4,290,150 as of June 30, 2016. The total net position for 2017 is \$4,514,934. The increase occurred due largely to increases in capital assets and net deferred outflows related to pensions, and decreases in accounts payable and accrued liabilities.

The total net position of the business-type activities was \$8,672,866 as of June 30, 2016. The total net position for 2017 is \$8,631,009. The water, sewer and swimming pool funds reported operating revenues of \$3,149,350, a decrease of \$422,362 compared to 2016 operating revenues.

Overview of the Basic Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Town of Marion's basic financial statements. The basic financial statements consist of 1) Government-wide Financial Statements; 2) Fund Financial Statements; and 3) Notes to the Financial Statements.

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The Statement of Net Position and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements present the information for governmental activities. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

Historically, the primary focus of local government financial statements has been summarized fund-type information on a current financial basis. The basic financial statements are presented under this approach and use the modified accrual basis. This year the report also includes the Statement of Net Position and the Statement of Activities, which use the full accrual basis.

This report contains a Comparative Analysis of Financial Statements. The Town implemented GASB Statement 34 for the fiscal year June 30, 2005 and is therefore required to complete a comparative analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about the Town's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the Town's net position and current-year changes in net position. The Town's net position—the difference between assets and liabilities—is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are an indicator of whether the Town's financial health is improving or declining. Other indicators are non-financial, such as changes in the Town's property tax base and the condition of the Town's roads. Together, financial and non-financial indicators reflect the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, the Town is divided into two kinds of activities: 1) Governmental Activities and 2) Business-type Activities.

The governmental financial statements provide both long-term and short-term information, including the General Fund and Other Governmental Funds. The services reported as governmental activities include general government; public safety; public works; parks, recreation, and cultural; and community development. These activities are financed by property taxes and other local taxes, state and federal funding, and transfers from the Water and Sewer Fund.

The business-type financial statements represent the Water, Sewer and Swimming Pool Funds. These funds charge customers for services. Transfers are made from the Water & Sewer Fund to balance any shortfalls in the General Fund or Swimming Pool Fund.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established, by State law or by bond covenants. However, the Town Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other moneys. The Town's three kinds of funds are governmental, proprietary and fiduciary.

Governmental funds—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Exhibits 4 and 6 reconcile the differences between governmental funds reported on the modified accrual basis and the Statement of Net Position and Statement of Activities.

Fund Financial Statements (continued)

Proprietary funds—When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary funds—This fund accounts for assets held by the Town in a purely custodial capacity. The reporting entity includes one fiduciary fund, which is the Perpetual Care Fund. All of the Town's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the Fund Financial Statements.

Government-wide Financial Analysis – Governmental Activities

Net position may serve over time as a useful indicator of government's financial position. In the case of the Town of Marion, assets exceeded liabilities by \$4,290,150 as of June 30, 2016. As of June 30, 2017, assets exceeded liabilities by \$4,514,934.

The largest portion of the Town's net position reflects its \$8,225,246 net investment in capital assets. Net investment in capital assets includes assets such as land, buildings, equipment, improvements, infrastructure, and construction in progress, less any outstanding debt used to acquire those assets. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position is \$219,941 in resources that are subject to external restriction on how they may be used. The remaining balance of unreserved net position is \$(3,930,253).

General revenues and transfers were \$4,716,378 for governmental activities. General revenues include property taxes, other local taxes, interest income, miscellaneous income, and transfers from other funds. Program revenues were \$3,204,207 for governmental activities. The source of the program revenues is from charges for services, operating grants and contributions, and capital grants and contributions. Total expenses for governmental activities were \$7,695,801, which included expenses for general government, public safety, public works, culture and recreation, community development, and interest expense. Governmental activities exhibited a change in net position of \$224,784.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Government-wide Financial Analysis – Business-type Activities

Business-type activities include the water, sewer, and swimming pool funds.

The total net position for business-type activities was \$8,631,009 which includes net investment in capital assets of \$7,936,517, restricted for debt service and bond covenants of \$403,974, and unreserved net position of \$290,518.

Program revenues for business-type activities for the Town were \$3,149,350 for charges for services and \$201,156 for capital grants and contributions. Program revenues include charges for water and sewer usage, tap and connection fees, pool fees, and grants. The expenses incurred to provide these services were \$2,310,204. General revenues and transfers include interest income of \$208 and transfers to other funds of \$(1,082,367). The change in net position for business-type activities resulted in a decrease to net position of \$41,857.

Table 1 compares the net assets of the Town's governmental and business-type activities at June 30, 2016 and 2017.

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Current Assets	\$ 2,424,277	\$ 2,149,663	\$ 2,094,391	\$ 2,102,007	\$ 4,518,668	\$ 4,251,670
Capital Assets	10,650,303	10,778,363	12,475,975	13,203,678	23,126,278	23,982,041
Total Assets	13,074,580	12,928,026	14,570,366	15,305,685	27,644,946	28,233,711
Deferred Outflows of Resources	430,961	586,106	85,920	162,065	516,881	748,171
Current Liabilities	1,032,132	846,038	149,325	249,437	1,181,457	1,095,475
Long-term Liabilities	6,928,721	7,037,158	5,770,952	6,553,844	12,699,673	13,591,002
Total Liabilities	7,960,853	7,883,196	5,920,277	6,803,281	13,881,130	14,686,477
Deferred Inflows of Resources	1,254,538	1,116,002	63,143	33,460	1,317,681	1,149,462
Net Position:						
Net Investment in Capital Assets	7,919,083	8,225,246	7,626,911	7,936,517	15,545,994	16,161,763
Restricted	219,941	219,941	287,799	403,974	507,740	623,915
Unrestricted	(3,848,874)	(3,930,253)	758,156	290,518	(3,090,718)	(3,639,735)
Total Net Position	\$ 4,290,150	\$ 4,514,934	\$ 8,672,866	\$ 8,631,009	\$ 12,963,016	\$ 13,145,943

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**
Government-wide Financial Analysis (continued)

Table 2 compares the revenues and expenses for the Town's governmental activities and business-type activities as of the years ended June 30, 2016 and 2017.

Table 2

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Charges for Services	\$ 1,230,480	\$ 1,323,942	\$ 3,571,712	\$ 3,149,350	\$ 4,802,192	\$ 4,473,292
Operating Grants/Contributions	1,942,168	1,880,265	-	-	1,942,168	1,880,265
Capital Grants/Contributions	145,255	-	199,234	201,156	344,489	201,156
Program Revenues	3,317,903	3,204,207	3,770,946	3,350,506	7,088,849	6,554,713
Taxes	3,442,822	3,281,626	-	-	3,442,822	3,281,626
Interest Income	14,057	13,520	60	208	14,117	13,728
Miscellaneous	51,429	154,184	-	-	51,429	154,184
Fines, forfeitures, permits	17,377	20,244	-	-	17,377	20,244
Recovered costs	819,333	98,263	-	-	819,333	98,263
Grants not restricted to program	72,203	66,174	-	-	72,203	66,174
General Revenues	4,417,221	3,634,011	60	208	4,417,281	3,634,219
Total Revenues	7,735,124	6,838,218	3,771,006	3,350,714	11,506,130	10,188,932
General Government	1,326,908	1,367,052	-	-	1,326,908	1,367,052
Public Safety	1,875,229	2,100,570	-	-	1,875,229	2,100,570
Public Works	2,871,732	2,128,625	-	-	2,871,732	2,128,625
Parks, Recreation, Cultural	1,062,583	1,091,145	-	-	1,062,583	1,091,145
Community Development	1,002,968	973,886	-	-	1,002,968	973,886
Interest expense	116,184	34,523	-	-	116,184	34,523
Swimming pool	-	-	44,010	89,422	44,010	89,422
Water and Sewer	-	-	2,233,194	2,220,782	2,233,194	2,220,782
Total Expenses	8,255,604	7,695,801	2,277,204	2,310,204	10,532,808	10,006,005
Transfers	1,372,735	1,082,367	(1,372,735)	(1,082,367)	-	-
Change in Net Position	852,255	224,784	121,067	(41,857)	973,322	182,927
Beginning Net Position	3,437,895	4,290,150	8,551,799	8,672,866	11,989,694	12,963,016
Ending Net Position	\$ 4,290,150	\$ 4,514,934	\$ 8,672,866	\$ 8,631,009	\$ 12,963,016	\$ 13,145,943

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Analysis of the Town's Funds – Governmental Funds

The focus of the Town of Marion's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirement. Particularly unreserved or unassigned fund balances, which may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town of Marion's governmental funds reported a combined ending fund balance of \$304,522. Fund balance includes \$144,403 nonspendable for prepaid expenses and inventory, \$223,752 restricted for specific purposes, \$211,180 assigned to golf course and \$(274,813) unassigned.

Total revenues were \$6,991,146 for governmental funds. The governmental funds revenues include property taxes, other local taxes, permits, fees and licenses, fines and forfeitures, revenue from the use of money and property, charges for services, recovered costs, intergovernmental, and miscellaneous income.

Total expenses for governmental funds were \$13,584,912. These expenses are for general government, public safety, public works, culture and recreation, community development, debt service principal retirement and interest expense. This resulted in a deficiency before other financing sources of \$6,593,766 in the governmental funds. The governmental funds obtained other financing sources of \$6,385,127, which included operating transfers from the Water and Sewer Fund of \$1,145,535, operating transfers to the Swimming Pool Fund of \$63,168, proceeds from a line of credit of \$5,169,000, and proceeds of indebtedness of \$133,760. After the other financing sources were received by the governmental funds, there was a change in fund balance of \$(208,639) at June 30, 2017.

Financial Analysis of the Town's Funds – Proprietary Funds

The Town's proprietary funds statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net position for the water and sewer fund decreased from \$8,488,040 to \$8,440,131. The balance is composed of \$7,745,801 net investment in capital assets, \$403,974 restricted for debt service and bond covenants, and \$290,356 unreserved.

Swimming pool fund net position increased from \$184,826 to \$190,878. Operating expenses were \$44,010 in fiscal year 2016 and \$89,422 in fiscal year 2017. The net position balance includes net investment in capital assets of \$190,716 and unreserved of \$162.

Total operating revenues for proprietary funds were \$3,149,350. Operating expenses were \$2,215,141. This resulted in an operating income of \$934,209. The proprietary funds had total non-operating expenses of \$94,855, capital contributions of \$201,156, and net operating transfers out of \$1,082,367. The change in net position was \$(41,857).

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

General Fund Budgetary Highlights

Over the course of the year, the Town Council did not revise the budget.

Budgetary Highlights for 2016-2017:

	General Fund Budget	General Fund Actual	Variance
Revenues	\$ 6,226,609	\$ 6,439,650	\$ 213,041
Expenditures	8,001,025	12,801,174	(4,800,149)

Significant variances in the adopted budget and actual expenditures are reflected in the areas of public works maintenance, community development, and debt service. The variance in the budget revenues and actual revenues is attributed to intergovernmental revenues received for funding projects of the Town. These amounts are variable upon the receipt of grant and loan funding.

Capital Asset and Long-Term Debt Activity

Capital Assets

As of June 30, 2017, the Town had capital assets including land, buildings, construction in progress, land improvements, equipment, and infrastructure.

Major asset events during the fiscal year included the following:

Governmental projects—Capital expenditures for governmental projects totaled \$66,688 for the fiscal year ending June 30, 2017. One golf course project totaling \$13,692 was completed during the fiscal year. Construction in progress of \$85,039 at June 30 includes ongoing projects for the golf course and the downtown streetscape.

Waterline and sewerline replacements and improvements—Capital expenditures on water and sewer lines were \$1,311,152 for the fiscal year ending June 30, 2017. Improvements undertaken by the Comprehensive Infrastructure Replacement Program have not been completed. All expenditures were included in construction in progress.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

Capital Asset and Long-Term Debt Activity

Long-term Debt

At the end of the fiscal year, the Town had the following outstanding debt for governmental activities:

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
General obligation bonds	\$ 837,000	\$ -	\$ (125,000)	\$ 712,000
Premium on bond	5,612	-	(3,885)	1,727
Loans payable	1,888,608	133,760	(182,978)	1,839,390
Line of credit	-	5,169,000	(5,169,000)	-
OPEB liability	567,932	73,555	-	641,487
Pension liability	3,424,033	222,775	-	3,646,808
Compensated absences	205,536	-	(9,790)	195,746
Total	<u>\$ 6,928,721</u>	<u>\$ 5,599,090</u>	<u>\$ (5,490,653)</u>	<u>\$ 7,037,158</u>

At the end of the fiscal year, the Town had the following outstanding debt for business-type activities:

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
General obligation bonds	\$ 4,699,565	\$ 567,262	\$ (385,666)	\$ 4,881,161
Line of credit	149,500	1,281,500	(1,045,000)	386,000
OPEB liability	180,435	25,916	-	206,351
Pension liability	682,647	325,730	-	1,008,377
Compensated absences	58,805	13,150	-	71,955
Total	<u>\$ 5,770,952</u>	<u>\$ 2,213,558</u>	<u>\$ (1,430,666)</u>	<u>\$ 6,553,844</u>

Known Facts, Decisions, or Conditions Expected to Have a Significant Effect on Next Year and Beyond

Scheduled Major Projects

Downtown Streetscape – The upcoming phase has been approved by VDOT; the design phase has been completed with construction beginning this summer. The streetscape design will continue from the Main/Shelley intersection to the South Main/West Main split. Private construction at Blue Ridge Job Corps and Ebenezer Lutheran Church on their adjoining walls will be coordinated with the project construction. VDOT is funding the project. The Town is completing the project with town employees as the Town's grant match.

Marion Community Gateway Project – Funded by DHCD, the primary corridor extending from an area around Exit 45 off Interstate 81 into town continues to be studied for maximizing opportunities for economic development. Building facades, landscaping, gateway signage, and relocation of the state shop are priorities being addressed by this Planning Grant. It is anticipated the Town will leverage this planning grant to apply for Community Development grant funds in 2017-2018 to implement the project.

Emory & Henry College – The Town continues to partner with Emory & Henry College for the development of the Marion campus. As part of that partnership, the office of Community and Economic Development is serving as liaison for addressing needs and opportunities with the school.

"Back of the Dragon" Trail – The Town will continue to position itself as the gateway, to include erecting interstate signage (upon securing logo rights).

Housing Rehabilitation of Crescent and Palmer Avenue – This project was started in fiscal year 2014 and will continue into fiscal year 2018.

Blight Reduction Project – This project is a comprehensive, multiyear plan to replace aging housing stock, both homeowner and residential rental. The Town is currently implementing the first phase of the process—enforcement of existing blight and overgrowth ordinances. The Town is also currently reviewing and revising ordinances to make them more effective in enforcing all owners to keep their properties in good condition. The Town has created the Marion Economic Development Authority, which in conjunction with the Marion Housing Authority is looking at ways to address the shortage of mid-range affordable housing in the town, as well as addressing the potential shortage of mid-range rental units for the anticipated demand generated from Emory & Henry's north campus expansion.

Holston Hill Community Golf Course Loan – The golf course loan was renewed with and by the Smyth County Community Foundation for another five-year term, interest payments only at 2.5% annual rate. In anticipation of the continued operations of the gold course as the centerpiece for the Town's recreation program, Council elected to purchase the next round of mowing equipment and golf cart equipment in anticipation of a net savings of the residual value and potential lengthening of operational life, as opposed to lease. The course is also constructing a driving range, which is anticipated to produce enough net revenues to pay for itself over a five-year period of time. Finally, due to flooding event the main bridge accessing the golf course was severely damaged and a new bridge, anticipated to cost \$300,000, is under design and should be completed by early Fall 2017.

**Known Facts, Decisions, or Conditions Expected to Have a Significant Effect on Next Year and Beyond
(Continued)**

Scheduled Major Projects (Continued)

South Church Street Drainage Project – This project is to address inadequate storm water facilities on South Church Street. This project includes a comprehensive drainage system to handle most of the high intensity storm events and to prevent flooding on South Church Street. The design portion is under review at VDOT and the projected starting date is still to be determined. The estimated cost is \$600,000 and is funded by VDOT.

Water Leak Analysis Repairs – This completed project involved the installation of boundary valves on the water system in strategic locations in order to identify significant water losses in both pressure systems of the Town. The Town is also involved with meter replacement of all commercial and residential connections to the Town's water system. This project will be done in conjunction with the capital infrastructure replacement plan below.

Capital Infrastructure Replacement Plan (CIRP) – This project is a comprehensive, multiyear plan to replace the Town's aging water, sewer, paving, and storm water facilities. It will serve as a framework to coordinate future facility installations by intersections, and will incorporate all exterior utilities such as natural gas, cable, and phone. The Town has completed the Zone Meter Replacement Project, as well as Phase I Water and Phase I Sewer projects in fiscal year 2016-2017. Phase II Water and Phase II Sewer are anticipated to be completed in fiscal year 2017-2018.

Fire/EMS Operations – The final processing portion of the sewer treatment plant needed refurbishment, as the last time it was done was over 15 years ago. The anticipated expense is approximately \$300,000, with Smyth County participating in 17.65% as co-owners. The Town is exploring funding options, including MRPDC DEQ grant programs. The Town expects to bid the project in the Spring of 2018.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Town of Marion
P.O. Box 1005
138 West Main Street
Marion, Virginia 24354

FINANCIAL STATEMENTS

Town of Marion, Virginia
Statement of Net Position
For the Year Ended June 30, 2017

	Primary Government			Component Unit
	Governmental	Business-type	Total	Economic Development
	<u>Activities</u>	<u>Activities</u>		<u>Authority</u>
ASSETS				
Cash and cash equivalents	\$ 272,994	\$ 721,713	\$ 994,707	\$ 25
Receivables (net of allowance for uncollectibles):				
Taxes receivable	915,807	-	915,807	-
Accounts receivable	460,739	365,803	826,542	-
Other receivables	143,307	-	143,307	-
Due from other funds	152,320	556,121	708,441	-
Due from other governmental units	60,093	30,052	90,145	-
Inventories	15,395	-	15,395	-
Prepaid expenses	129,008	24,344	153,352	-
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	212,912	212,912	-
Investments	-	191,062	191,062	-
Capital assets (net of accumulated depreciation):				
Land	1,880,169	707,377	2,587,546	-
Buildings and system	5,832,639	-	5,832,639	-
Improvements other than buildings	-	11,591	11,591	-
Machinery and equipment	799,688	402,065	1,201,753	-
Plant and lines in service	-	10,492,771	10,492,771	-
Infrastructure	2,180,828	-	2,180,828	-
Construction in progress	85,039	1,589,874	1,674,913	-
Total assets	\$ 12,928,026	\$ 15,305,685	\$ 28,233,711	\$ 25
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	\$ 586,106	\$ 162,065	\$ 748,171	\$ -
Total deferred outflows of resources	\$ 586,106	\$ 162,065	\$ 748,171	\$ -
LIABILITIES				
Accounts payable	\$ 85,880	\$ 161,001	\$ 246,881	\$ -
Accrued liabilities	43,958	11,833	55,791	-
Customers' deposits	-	48,830	48,830	-
Accrued interest payable	7,759	27,773	35,532	-
Due to other funds	708,441	-	708,441	-
Long-term liabilities:				
Due within one year	685,448	936,023	1,621,471	-
Due in more than one year	6,351,710	5,617,821	11,969,531	-
Total liabilities	\$ 7,883,196	\$ 6,803,281	\$ 14,686,477	\$ -
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	\$ 994,992	\$ -	\$ 994,992	\$ -
Deferred pensions	121,010	33,460	154,470	-
Total deferred inflows of resources	\$ 1,116,002	\$ 33,460	\$ 1,149,462	\$ -
NET POSITION				
Net Investment in capital assets	\$ 8,225,246	\$ 7,936,517	\$ 16,161,763	\$ -
Restricted for:				
Debt service and bond covenants	-	403,974	403,974	-
Downtown housing project	219,941	-	219,941	-
Unrestricted (deficit)	(3,930,253)	290,518	(3,639,735)	25
Total net position	\$ 4,514,934	\$ 8,631,009	\$ 13,145,943	\$ 25

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

Town of Marion, Virginia
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit		
					Governmental Activities	Business-type Activities	Total	Economic Development Authority	
PRIMARY GOVERNMENT:									
Governmental activities:									
General government administration	\$ 1,367,052	\$ 4,098	\$ -	\$ -	\$ (1,362,954)	\$ -	\$ (1,362,954)	\$ -	
Public safety	2,100,570	336,883	485,714	-	(1,277,973)	-	(1,277,973)	-	
Public works	2,128,625	409,394	1,291,886	-	(427,345)	-	(427,345)	-	
Parks, recreation, and cultural	1,091,145	568,727	-	-	(522,418)	-	(522,418)	-	
Community development	973,886	4,840	102,665	-	(866,381)	-	(866,381)	-	
Interest on long-term debt	34,523	-	-	-	(34,523)	-	(34,523)	-	
Total government activities	\$ 7,695,801	\$ 1,323,942	\$ 1,880,265	\$ -	\$ (4,491,594)	\$ -	\$ (4,491,594)	\$ -	
Business-type activities:									
Water and Sewer	\$ 2,220,782	\$ 3,117,044	\$ -	\$ 201,156	\$ -	\$ 1,097,418	\$ 1,097,418	\$ -	
Swimming Pool	89,422	32,306	-	-	-	(57,116)	(57,116)	-	
Total business-type activities	\$ 2,310,204	\$ 3,149,350	\$ -	\$ 201,156	\$ -	\$ 1,040,302	\$ 1,040,302	\$ -	
Total primary government	\$ 10,006,005	\$ 4,473,292	\$ 1,880,265	\$ 201,156	\$ (4,491,594)	\$ 1,040,302	\$ (3,451,292)	\$ -	
COMPONENT UNITS:									
Economic Development Authority	\$ 66,000	\$ 66,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total component units	\$ 66,000	\$ 66,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
General revenues:									
General property taxes					\$ 553,350	\$ -	\$ 553,350	\$ -	
Other local taxes:									
Local sales and use taxes					194,791	-	194,791	-	
Consumers' utility taxes					110,124	-	110,124	-	
Business license taxes					576,885	-	576,885	-	
Communication tax					122,979	-	122,979	-	
Motor vehicle licenses					98,183	-	98,183	-	
Bank stock tax					170,106	-	170,106	-	
Meals taxes					1,164,415	-	1,164,415	-	
Other local taxes					290,793	-	290,793	-	
Permits, privilege fees, and regulatory licenses					655	-	655	-	
Fines and forfeitures					19,589	-	19,589	-	
Unrestricted revenues from use of money and property					13,520	208	13,728	-	
Miscellaneous					154,184	-	154,184	-	
Recovered costs					98,263	-	98,263	-	
Grants and contributions not restricted to specific programs					66,174	-	66,174	-	
Gain (loss) on disposal of capital assets					-	-	-	-	
Transfers					1,082,367	(1,082,367)	-	-	
Total general revenues					\$ 4,716,378	\$ (1,082,159)	\$ 3,634,219	\$ -	
Change in net position					\$ 224,784	\$ (41,857)	\$ 182,927	\$ -	
Net position - beginning					4,290,150	8,672,866	12,963,016	-	
Net position - ending					\$ 4,514,934	\$ 8,631,009	\$ 13,145,943	\$ -	

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

Town of Marion, Virginia
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 48,137	\$ 224,857	\$ 272,994
Receivables (net of allowance for uncollectibles):			
Taxes receivable	915,807	-	915,807
Accounts receivable	341,648	119,091	460,739
Other receivables	143,307	-	143,307
Due from other funds	33,951	118,369	152,320
Due from primary government	-	-	-
Due from other governmental units	60,093	-	60,093
Inventories	-	15,395	15,395
Prepaid expenses	118,790	10,218	129,008
Restricted assets:			
Investments	-	-	-
Total assets	<u>\$ 1,661,733</u>	<u>\$ 487,930</u>	<u>\$ 2,149,663</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 56,632	\$ 29,248	\$ 85,880
Accrued liabilities	41,849	2,109	43,958
Due to other funds	556,121	152,320	708,441
Total liabilities	<u>\$ 654,602</u>	<u>\$ 183,677</u>	<u>\$ 838,279</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	<u>\$ 1,006,862</u>	<u>\$ -</u>	<u>\$ 1,006,862</u>
FUND BALANCE			
Fund balances:			
Nonspendable			
Prepaid expense	\$ 118,790	\$ 10,218	\$ 129,008
Inventory	-	15,395	15,395
Restricted for:			
Debt service and bond covenants	-	-	-
DARE	-	1,311	1,311
Downtown housing	-	219,941	219,941
Master redevelopment	-	2,500	2,500
Assigned to:			
Golf Course	-	211,180	211,180
Unassigned	(118,521)	(156,292)	(274,813)
Total fund balances	<u>\$ 269</u>	<u>\$ 304,253</u>	<u>\$ 304,522</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,661,733</u>	<u>\$ 487,930</u>	<u>\$ 2,149,663</u>

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

Town of Marion, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 304,522
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,778,363
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	11,870
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(7,044,917)
Deferred outflows of resources reported in the Statement of Net Position	586,106
Deferred inflows of resources reported in the Statement of Net Position	(121,010)
Net position of governmental activities	<u>\$ 4,514,934</u>

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

Town of Marion, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 640,192	\$ -	\$ 640,192
Other local taxes	2,728,276	-	2,728,276
Permits, privilege fees, and regulatory licenses	655	-	655
Fines and forfeitures	19,589	-	19,589
Revenue from the use of money and property	13,520	-	13,520
Charges for services	772,446	551,077	1,323,523
Miscellaneous	145,184	419	145,603
Recovered costs	173,349	-	173,349
Intergovernmental revenues:			
Commonwealth	1,771,267	-	1,771,267
Federal	175,172	-	175,172
Total revenues	<u>\$ 6,439,650</u>	<u>\$ 551,496</u>	<u>\$ 6,991,146</u>
EXPENDITURES			
Current:			
General government administration	\$ 1,290,385	\$ -	\$ 1,290,385
Public safety	2,112,993	-	2,112,993
Public works	2,213,453	-	2,213,453
Parks, recreation, and cultural	319,399	743,113	1,062,512
Community development	953,939	-	953,939
Capital projects	406,044	-	406,044
Debt service:			
Principal retirement	5,476,978	-	5,476,978
Interest and other fiscal charges	27,983	40,625	68,608
Total expenditures	<u>\$ 12,801,174</u>	<u>\$ 783,738</u>	<u>\$ 13,584,912</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (6,361,524)</u>	<u>\$ (232,242)</u>	<u>\$ (6,593,766)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 832,783	\$ 249,584	1,082,367
Proceeds from a line of credit	5,169,000	-	5,169,000
Proceeds of loans payable	133,760	-	133,760
Total other financing sources (uses)	<u>\$ 6,135,543</u>	<u>\$ 249,584</u>	<u>\$ 6,385,127</u>
Net change in fund balances	\$ (225,981)	\$ 17,342	\$ (208,639)
Fund balances - beginning	226,250	286,911	513,161
Fund balances - ending	<u>\$ 269</u>	<u>\$ 304,253</u>	<u>\$ 304,522</u>

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

Town of Marion, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$	(208,639)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.		128,060
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(86,842)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		178,101
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		214,104
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Change in net position of governmental activities	\$	<u>224,784</u>
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The notes to the financial statements are an integral part of this statement.

Town of Marion, Virginia
Statement of Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Funds		
	Water, Sewer and CIRP Fund	Swimming Pool Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 721,513	\$ 200	\$ 721,713
Accounts receivables, net of allowances for uncollectibles	365,803	-	365,803
Due from other funds	556,121	-	556,121
Due from other governmental units	30,052	-	30,052
Prepaid expenses	24,344	-	24,344
Total current assets	<u>\$ 1,697,833</u>	<u>\$ 200</u>	<u>\$ 1,698,033</u>
Noncurrent assets:			
Restricted current assets:			
Cash and cash equivalents	\$ 212,912	\$ -	\$ 212,912
Investments	\$ 191,062	-	191,062
Total restricted current assets	<u>\$ 403,974</u>	<u>\$ -</u>	<u>\$ 403,974</u>
Capital assets:			
Utility plant in service	\$ 21,788,457	-	\$ 21,788,457
Machinery and equipment	2,972,169	29,151	3,001,320
Land	528,252	179,125	707,377
Pool	-	974,651	974,651
Less accumulated depreciation	(13,865,790)	(992,211)	(14,858,001)
Construction in progress	1,589,874	-	1,589,874
Total capital assets	<u>\$ 13,012,962</u>	<u>\$ 190,716</u>	<u>\$ 13,203,678</u>
Total noncurrent assets	<u>\$ 13,416,936</u>	<u>\$ 190,716</u>	<u>\$ 13,607,652</u>
Total assets	<u>\$ 15,114,769</u>	<u>\$ 190,916</u>	<u>\$ 15,305,685</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	\$ 162,065	\$ -	\$ 162,065
Total deferred outflows of resources	<u>\$ 162,065</u>	<u>\$ -</u>	<u>\$ 162,065</u>

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

Town of Marion, Virginia
Statement of Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Funds		
	Water, Sewer and CIRP Fund	Swimming Pool Fund	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 160,963	\$ 38	\$ 161,001
Accrued liabilities	11,833	-	11,833
Customers' deposits	48,830	-	48,830
Accrued interest payable	27,773	-	27,773
Compensated absences	53,966	-	53,966
Pension liability	93,577	-	93,577
General obligation bonds payable - current portion	402,480	-	402,480
Line of credit	386,000	-	386,000
Total current liabilities	\$ 1,185,422	\$ 38	\$ 1,185,460
Noncurrent liabilities:			
General obligation bonds payable - net of current portion	\$ 4,478,681	\$ -	\$ 4,478,681
Compensated absences	17,989	-	17,989
Pension liability	914,800	-	914,800
OPEB liability	206,351	-	206,351
Total noncurrent liabilities	\$ 5,617,821	\$ -	\$ 5,617,821
Total liabilities	\$ 6,803,243	\$ 38	\$ 6,803,281
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	\$ 33,460	\$ -	\$ 33,460
Total deferred inflows of resources	\$ 33,460	\$ -	\$ 33,460
NET POSITION			
Net Investment in capital assets	\$ 7,745,801	\$ 190,716	\$ 7,936,517
Restricted for debt service and bond covenants	403,974	-	403,974
Unrestricted	290,356	162	290,518
Total net position	\$ 8,440,131	\$ 190,878	\$ 8,631,009

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

Town of Marion, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Funds		
	Water, Sewer and CIRP Fund	Swimming Pool Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 3,113,505	\$ 27,571	\$ 3,141,076
Other revenues	3,539	4,735	8,274
Total operating revenues	<u>\$ 3,117,044</u>	<u>\$ 32,306</u>	<u>\$ 3,149,350</u>
OPERATING EXPENSES			
Personal services	\$ 548,980	\$ 22,094	\$ 571,074
Maintenance and repairs	-	49,950	49,950
Fringe benefits	427,420	1,176	428,596
Contractual services	44,224	553	44,777
Materials and supplies	167,009	8,518	175,527
Other charges	277,912	3,039	280,951
Depreciation	660,174	4,092	664,266
Total operating expenses	<u>\$ 2,125,719</u>	<u>\$ 89,422</u>	<u>\$ 2,215,141</u>
Operating income (loss)	<u>\$ 991,325</u>	<u>\$ (57,116)</u>	<u>\$ 934,209</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	\$ -	\$ -	\$ -
Investment earnings	208	-	208
Interest expense	(95,063)	-	(95,063)
Total nonoperating revenues (expenses)	<u>\$ (94,855)</u>	<u>\$ -</u>	<u>\$ (94,855)</u>
Income before contributions and transfers	<u>\$ 896,470</u>	<u>\$ (57,116)</u>	<u>\$ 839,354</u>
Capital contributions	\$ 201,156	\$ -	\$ 201,156
Transfers in	\$ -	63,168	63,168
Transfers out	<u>\$ (1,145,535)</u>	<u>-</u>	<u>(1,145,535)</u>
Change in net position	<u>\$ (47,909)</u>	<u>\$ 6,052</u>	<u>\$ (41,857)</u>
Total net position - beginning	<u>\$ 8,488,040</u>	<u>\$ 184,826</u>	<u>\$ 8,672,866</u>
Total net position - ending	<u><u>\$ 8,440,131</u></u>	<u><u>\$ 190,878</u></u>	<u><u>\$ 8,631,009</u></u>

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

Town of Marion, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Funds		
	Water, Sewer and CIRP Fund	Swimming Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 3,261,508	\$ 32,306	\$ 3,293,814
Payments to suppliers	(791,055)	(67,287)	(858,342)
Payments to and for employees	(330,096)	(28,187)	(358,283)
Net cash provided (used by) operating activities	\$ 2,140,357	\$ (63,168)	\$ 2,077,189
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (1,145,535)	\$ -	\$ (1,145,535)
Transfers from other funds	-	63,168	63,168
Net cash provided (used) by noncapital financing activities	\$ (1,145,535)	\$ 63,168	\$ (1,082,367)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to capital assets	\$ (1,391,969)	\$ -	\$ (1,391,969)
Proceeds from the sale of assets	-	-	-
Principal payments on bonds	(1,430,666)	-	(1,430,666)
Capital contributions	180,040	-	180,040
Intergovernmental contributions	-	-	-
Proceeds from indebtedness	1,848,762	-	1,848,762
Interest payments	(81,423)	-	(81,423)
Net cash provided (used) by capital and related financing activities	\$ (875,256)	\$ -	\$ (875,256)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 208	\$ -	\$ 208
Net cash provided (used) by investing activities	\$ 208	\$ -	\$ 208
Net increase (decrease) in cash and cash equivalents	\$ 119,774	\$ -	\$ 119,774
Cash and cash equivalents - beginning	\$ 1,005,713	\$ 200	\$ 1,005,913
Cash and cash equivalents - ending	\$ 1,125,487	\$ 200	\$ 1,125,687
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 991,325	\$ (57,116)	\$ 934,209
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	\$ 660,174	\$ 4,092	\$ 664,266
(Increase) decrease in accounts receivable	144,284	-	144,284
(Increase) decrease in prepaid expenses	(11,010)	-	(11,010)
Increase (decrease) in customer deposits	180	-	180
Increase (decrease) in operating accounts payable	96,437	(10,144)	86,293
Increase (decrease) in OPEB liability	25,916	-	25,916
Increase (decrease) in pension liability	325,729	-	325,729
Increase (decrease) in deferred pensions	(105,828)	-	(105,828)
Increase (decrease) in compensated absences	13,150	-	13,150
Total adjustments	\$ 1,149,032	\$ (6,052)	\$ 1,142,980
Net cash provided (used) by operating activities	\$ 2,140,357	\$ (63,168)	\$ 2,077,189

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

Town of Marion, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

Cemetery
Fund

ASSETS

Cash and cash equivalents	\$ 5,857
Investments, at fair value	125,041
Total assets	<u>\$ 130,898</u>

NET POSITION

Amounts held for cemetery maintenance	130,898
Total liabilities	<u>\$ 130,898</u>

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

Town of Marion, Virginia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	Cemetery <u>Fund</u>
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 4,726
Realized gain on investment	1,410
Unrealized gain on investment	<u>3,939</u>
Total additions	<u>\$ 10,075</u>
DEDUCTIONS	
Distribution	\$ 3,385
Fiduciary fees	<u>135</u>
Total deductions	<u>\$ 3,520</u>
Change in net position	\$ 6,555
Net position - beginning	<u>124,343</u>
Net position - ending	<u><u>\$ 130,898</u></u>

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

NOTES TO
FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity:

The Town of Marion, Virginia (the Town) was incorporated in 1832. The Town operates under a council-manager form of government and provides the following services as authorized by its charter: public safety, development services, culture, community development, water services, sewer services, and industrial development. The accompanying financial statements present the government.

Blended Component Units - None

Discretely Presented Component Units – The component unit column in the financial statements include the financial data of the Town's discretely presented component unit, the Economic Development Authority.

The Economic Development Authority (EDA) of the Town of Marion encourages and provides financing for economic development in the Town. The EDA directors are appointed by the Town Council. The EDA is fiscally dependent upon the Town because the Town provides significant funding and approves all debt issuances. In addition, the EDA does not have separate taxing powers. The EDA is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate economic development. The EDA is presented as an enterprise fund type and does not issue separate financial statements.

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

The government-wide financial statements (the Statement of Net position and the Statement of Activities) report information on all 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 segments 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*.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation:

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, 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. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues.

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

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

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds. All general tax revenue and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the general fund.

The Town operates a sewage collection and treatment system and a water distribution system. The activities of the systems are accounted for in the water and sewer fund. In addition to the water and sewer fund, the Town has a swimming pool fund that is operated as a proprietary fund.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (continued)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds consist of a cemetery fund for perpetual care.

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

D. Assets, liabilities, and net position or equity:

1. Deposits and Investments

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

2. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable December 6. The Town bills and collects its own property taxes.

Note 1 - Summary of Significant Accounting Policies (continued)**D. Assets, liabilities, and net position or equity: (continued)****3. Allowance for Uncollectible Accounts**

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for governmental activities amounted to approximately \$101,180 for property taxes and \$28,982 for garbage billings at June 30, 2017. The allowance for business-type activities amounted to approximately \$208,573 for water and sewer billings at June 30, 2017.

4. Use of Estimates

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets, not including infrastructure assets, with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of three years. Infrastructure assets capitalized have an original cost of \$5,000 or more. 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.

The cost 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. No interest was capitalized during the current year.

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Water and Sewer System	30-50
Infrastructure	20-35
Machinery and equipment	5-10
Improvements	10-20

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, liabilities, and net position or equity: (continued)

6. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Government Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The Town accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

7. 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 governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are expensed when incurred.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Net Position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is divided into three components:

- Net investment in capital assets—consist of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted—consist of assets that are restricted by the Town's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on share revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted—all other net position is reported in this category.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, liabilities, and net position or equity: (continued)

10. Concentration of Credit Risk

The Town has a credit risk associated with water and sewer fund accounts receivable due to geographic proximity of the Town's customers. The risk is mitigated by the large number of customers and relatively low individual balances.

11. Prepaid Expenses

Prepaid expenses are for payments made by the Town in the current fiscal year to provide services occurring in the subsequent fiscal year.

12. Governmental Accounting Standards Board Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

The Town implemented the financial reporting provisions of GASB Statement No. 63 for the fiscal year ended June 30, 2014. This Statement provides guidance for reporting deferred inflows and outflows of resources. The requirement of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position". The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

13. Governmental Accounting Standards Board Statement No. 65 Items Previously Reported as Assets and Liabilities

The Town implemented the financial reporting provisions of GASB Statement No. 65 for the fiscal year ended June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

14. Net Position Flow Assumption

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

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, liabilities, and net position or equity: (continued)

15. Inventory

Inventory generally is recorded at cost using the first-in/first-out (FIFO) method. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

E. New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statement:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 77, *Tax Abatement Disclosures*, increases the disclosure of information about tax abatement agreements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions, for pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*, amends the blending requirements, established in Statement No. 14, *The Financial Reporting Entity*, for the financial statement presentation of component units of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues in Statements No. 67, No. 68, and No. 73 regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and 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 contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions

For purposes of measuring the net pension liability, 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.

Plan Description

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. 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.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

<p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>employees*</p> <ul style="list-style-type: none"> • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>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.</p>
<p>Retirement Contributions Employees contribute 5% 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% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund.</p>	<p>Retirement Contributions Employees contribute 5% 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% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>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,</p>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

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

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

<p>Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a
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Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

		<p>member is 100% vested and may withdraw 100% of employer contributions.</p> <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>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.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013, and 1.7% on creditable service earned, purchased or granted before January 1, 2013.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.0%.</p> <p>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</p>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

<p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive</p>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

		distributions upon leaving employment, subject to restrictions.
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

<p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
<p>Disability Coverage Members who are eligible to be</p>	<p>Disability Coverage Members who are eligible to be</p>	<p>Disability Coverage Employees of political subdivision</p>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Summary of Significant Accounting Policies (continued)

F. Pensions (continued)

<p>considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>(including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>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.</p>
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported services • The cost of purchasing refunded service is the higher of 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 on-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 2 - Reconciliation of Government-Wide and Fund Financial Statements

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this \$(7,044,917) difference for the primary government is as follows:

	Primary Government
General obligation bonds and loans payable	\$ 2,553,117
Interest payable	7,759
OPEB liability	641,487
Pension liability	3,646,808
Compensated absences	195,746
	<hr/>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	\$ 7,044,917
	<hr/>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 2 - Reconciliation of Government-Wide and Fund Financial Statements (continued)

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The detail of this \$128,060 difference for the primary government is as follows:

	Primary Government
Capital outlays	\$ 645,933
Depreciation expense	(526,873)
Disposal of capital assets	<u>9,000</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 128,060</u>

Another element of that reconciliation explains that some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The detail of this \$214,104 difference for the primary government is as follows:

	Primary Government
Change in compensated absences	\$ 9,790
Change in interest payable	(10,423)
Change in OPEB liability	(73,555)
Pension expense	<u>288,292</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 214,104</u>

Note 3 - Stewardship, Compliance, and Accountability

A. Budgetary information

The Town charter establishes the fiscal year as the twelve-month period beginning July 1st. The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital 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 is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level or category level. Only the Town Council can revise the appropriation for each department or category.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all Town units.

B. Deficit fund equity

At June 30, 2017, the CDBG Gilman Street Fund had a deficit fund equity of \$(32,951) and the Streetscape Fund had a deficit fund equity of \$(97,728). These funds are combined with non- major funds and reflected as an other governmental fund in the financial statement.

Note 4 - Deposits and Investments

Deposits

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The Town has two bond sinking accounts that are invested in U.S. Bank. For one of the accounts the Town escrows the amounts monthly that are paid to the lender on a yearly basis. The other account is part of a loan refinancing. To avoid certain prepayment penalties, the refinance funds and a cash deposit were placed into a refunding escrow account. Amounts in the account were expected to entirely cover the outstanding loan amounts without further contributions. Therefore, neither refunding escrow account nor the related debt are reported in the Statement of Net Position. At June 30, 2017, the market value of the refunding escrow account was \$1,723,298. Debt service requirements of the refunded bonds were \$1,728,641. Bonds related to the sinking accounts were paid in full as of November 2017 and the bond sinking accounts have been closed.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 5 - Due from Other Governmental Units

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

	<u>Primary Government</u>
<u>Commonwealth of Virginia:</u>	
Local sales tax	\$ 32,471
Communication tax	20,218
Non-categorical aid	<u>7,404</u>
Total	<u><u>\$ 60,093</u></u>

Note 6 - Interfund Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 834,792	\$ 2,009
Other Governmental Funds	249,584	-
Water and Sewer Fund	-	1,145,535
Swimming Pool Fund	63,168	-
Total	<u><u>\$ 1,147,544</u></u>	<u><u>\$ 1,147,544</u></u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 7 - Long-Term Debt

Primary Government - Governmental Activity Indebtedness

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

Year Ending June 30,	General Obligation Bonds		Loan Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 121,000	\$ 17,452	\$ 96,153	\$ 45,960	\$ 217,153	\$ 63,412
2019	55,000	15,166	22,232	43,895	77,232	59,061
2020	36,000	13,936	22,704	43,423	58,704	57,359
2021	38,000	13,000	23,196	42,931	61,196	55,931
2022	38,000	12,012	1,523,709	36,168	1,561,709	48,180
2023-2027	206,000	44,694	114,141	16,097	320,141	60,791
2028-2032	218,000	16,484	37,255	2,185	255,255	18,669
2033-2037	-	-	-	-	-	-
2038-2042	-	-	-	-	-	-
2043-2047	-	-	-	-	-	-
Totals	<u>\$ 712,000</u>	<u>\$ 132,744</u>	<u>\$ 1,839,390</u>	<u>\$ 230,659</u>	<u>\$ 2,551,390</u>	<u>\$ 363,403</u>

The following is a summary of long-term debt transactions for governmental activities for the year ended June 30, 2017.

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
General obligation bonds	\$ 837,000	\$ -	\$ (125,000)	\$ 712,000
Premium on bond	5,612	-	(3,885)	1,727
Loans payable	1,888,608	133,760	(182,978)	1,839,390
Line of credit	-	5,169,000	(5,169,000)	-
OPEB liability	567,932	73,555	-	641,487
Pension liability	3,424,033	222,775	-	3,646,808
Compensated absences	205,536	-	(9,790)	195,746
Total	<u>\$ 6,928,721</u>	<u>\$ 5,599,090</u>	<u>\$ (5,490,653)</u>	<u>\$ 7,037,158</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 7 - Long-Term Debt (continued)

Primary Government - Governmental Activity Indebtedness (continued)

Details of long-term indebtedness:

	<u>Total Amount</u>	<u>Due Within One Year</u>
General Obligation Bonds		
Bank of Marion bond, issued June 29, 2016, annual installments of principal and semi-annual installments of interest. Interest computed at a rate of 2.6% for sixteen years.	\$ 606,000	\$ 35,000
Bank of Marion bond, issued June 29, 2016, annual installments of principal and semi-annual installments of interest. Interest computed at a rate of 1.6% for three years.	106,000	86,000
Total General Obligation Bonds	<u>\$ 712,000</u>	<u>\$ 121,000</u>
Loan Payable		
Smyth County Community Foundation, issued November 11, 2011 and extended March 2, 2017, monthly installments of interest in the amount of \$3,125 for five years with a balloon payment at the end of the five years. Interest computed at a rate of 2.5%.	\$ 1,500,000	\$ -
Bank of Marion, issued February 18, 2015, monthly installments of principal and interest in the amount of \$1,311. Interest computed at a rate of 4.5% for fifteen years.	150,319	9,161
Caterpillar Financial Services, issued October 25, 2016, monthly installments of principal and interest in the amount of \$3,425. Interest computed at a rate of 3.2% for one year.	20,332	20,332
Bank of Marion, issued October 12, 2016, monthly installments of principal and interest in the amount of \$4,600. Interest computed at a rate of 4% for two years.	54,041	54,041
Virginia Resources Authority, issued March 18, 2016, semi-annual installments of principal and interest in the amount of \$6,449. Interest computed at a rate of 0.25% for ten years.	114,698	12,619
Total Loans Payable	<u>\$ 1,839,390</u>	<u>\$ 96,153</u>
Line of Credit		
Line of credit with Bank of Marion dated May 1, 2013 for an amount up to \$1,000,000. Interest is variable, computed at June 30, 2017 at a rate of 3.50%.	<u>\$ -</u>	<u>\$ -</u>
Other Obligations		
Premium on bond	\$ 1,727	\$ 1,295
OPEB liability	641,487	-
Pension liability	3,646,808	320,190
Compensated absences	195,746	146,810
Total Other Obligations	<u>\$ 4,485,768</u>	<u>\$ 468,295</u>
Total Long-Term Obligations	<u>\$ 7,037,158</u>	<u>\$ 685,448</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 7 - Long-Term Debt (continued)

Primary Government - Business-type Activity Indebtedness

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2018	\$ 788,480	\$ 93,119
2019	411,642	85,187
2020	414,895	76,815
2021	427,241	68,350
2022	434,684	59,594
2023-2027	1,762,187	167,658
2028-2032	469,863	70,596
2033-2037	209,815	51,492
2038-2042	120,466	35,533
2043-2047	133,066	20,019
2048-2052	94,822	3,665
2053-2057	-	-
Totals	<u>\$ 5,267,161</u>	<u>\$ 732,028</u>

The following is a summary of long-term debt transactions for business-type activities for the year ended June 30, 2017.

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
General obligation bonds	\$ 4,699,565	\$ 567,262	\$ (385,666)	\$ 4,881,161
Line of credit	149,500	1,281,500	(1,045,000)	386,000
OPEB liability	180,435	25,916	-	206,351
Pension liability	682,647	325,730	-	1,008,377
Compensated absences	58,805	13,150	-	71,955
Total	<u>\$ 5,770,952</u>	<u>\$ 2,213,558</u>	<u>\$ (1,430,666)</u>	<u>\$ 6,553,844</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 7 - Long-Term Debt (continued)

Primary Government - Business-type Activity Indebtedness (continued)

Details of long-term indebtedness:

	<u>Total Amount</u>	<u>Due Within One Year</u>
General Obligation Bonds:		
Virginia Resource Authority, issued on July 7, 1992, semi-annual principal and interest payments computed at a rate of 2.5%. Partially refinanced on June 29, 2016.	\$ 200,000	\$ 200,000
Bank of Marion bond, issued June 29, 2016, annual installments of principal and semi-annual installments of interest. Interest computed at a rate of 2.16% for nine years.	1,787,000	31,000
Virginia Resource Authority, issued on March 24, 2006, total issuance price of \$1,684,600. Semi-annual principal and interest payments computed at a rate of 3%.	966,138	84,326
Virginia Resource Authority, issued December 15, 2011, semi-annual principal reductions of \$25,257. There is no interest rate on this note.	751,405	50,514
Rural Development, issued a \$606,000 loan on July 14, 2011. Monthly payments of principal and interest of \$1,988 at a rate of 2.375%.	556,518	10,752
Virginia Resource Authority, issued June 16, 2016, semi-annual principal and interest payments computed at a rate of 2.25% for thirty years.	128,236	6,507
Virginia Resource Authority, issued April 20, 2017, semi-annual principal and interest payments computed at a rate of 2.65% for thirty years.	150,678	3,351
Virginia Resource Authority, issued September 30, 2016, semi-annual principal and interest payments computed at a rate of .65% for twenty years.	341,186	16,030
Total General Obligation Bonds	<u>\$ 4,881,161</u>	<u>\$ 402,480</u>
Line of Credit		
Line of credit with Bank of Marion dated September 10, 2015 for an amount up to \$1,500,000. Interest is variable, computed at June 30, 2017 at a rate of 3.50%.	<u>\$ 386,000</u>	<u>\$ 386,000</u>
Other Obligations		
OPEB liability	\$ 206,351	\$ -
Pension liability	1,008,377	93,577
Compensated absences	71,955	53,966
Total Other Obligations	<u>\$ 206,351</u>	<u>\$ -</u>
Total Long Term Obligations	<u>\$ 5,473,512</u>	<u>\$ 788,480</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans

All full-time, salaried permanent employees of the Town are automatically covered by the VRS Retirement Plan upon employment. This plan is 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. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service. The System administers three different benefit structures for covered employees—Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria.

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:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>52</u>
Inactive members:	
Vested inactive members	5
Non-vested Inactive members	18
Inactive members active elsewhere in VRS	<u>16</u>
Total inactive members	39
Active members	<u>79</u>
Total covered employees	<u><u>170</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This was phased in through fiscal year end June 30, 2016, and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Beginning July 1, 2016, all employees pay the 5% member contribution.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Contributions (continued)

The Town's contractually required contribution rate for the year ended June 30, 2017 was 13.09% 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. Employer contributions to the pension plan were \$429,323 and \$516,881 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Town'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 – General Employees

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	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, 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 return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Actuarial Assumptions – General Employees (continued)

Mortality rates: 14% of deaths are assumed to be service related

All Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disabled Life Mortality Table with males set back 3 years and no provision for future mortality improvement.

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

All 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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision 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	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Actuarial Assumptions – Public Safety Employees (continued)

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

Mortality rates: 60% of deaths are assumed to be service related

All LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disabled Life Mortality Table with males set back 3 years and no provision for future mortality improvement.

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (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%
	<u>100.00%</u>		<u>5.83%</u>
	Inflation		2.50%
* Expected arithmetic nominal return			<u>8.33%</u>

* 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%.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (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 Liability (a) - (b)
Balance at June 30, 2015	\$ 16,191,117	\$ 12,084,436	\$ 4,106,681
Changes for the year:			
Service Cost	300,090	-	300,090
Interest	1,106,559	-	1,106,559
Differences between expected and actual experience	(945)	-	(945)
Contributions - employer	-	491,344	(491,344)
Contributions - employee	-	164,306	(164,306)
Net investment income	-	209,114	(209,114)
Benefit payments, including refunds of employee contributions	(766,265)	(766,265)	-
Administrative expenses	-	(7,475)	7,475
Other changes	-	(89)	89
Net changes	639,439	90,935	548,504
Balance at June 30, 2016	\$ 16,830,556	\$ 12,175,371	\$ 4,655,185

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

Discount Rate	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
Net Pension Liability	<u>\$ 6,774,737</u>	<u>\$ 4,655,185</u>	<u>\$ 2,883,638</u>

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

For the year ended June 30, 2017, the Town recognized pension expense of \$288,292. At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 154,470
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	318,848	-
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 318,848</u>	<u>\$ 154,470</u>

\$429,323 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:

<u>Year ended June 30</u>	<u>Amortization Amount</u>
2018	(72,736)
2019	(71,965)
2020	182,555
2021	126,524
Thereafter	-
	<u>\$ 164,378</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Payables to the Pension Plan

At June 30, 2017, the Town reported a payable of \$53,371 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios

	<u>2016</u>
Total pension liability	
Service cost	\$ 300,090
Interest	1,106,559
Changes of benefit terms	-
Changes of assumptions	-
Differences between expected and actual experience	(945)
Benefit Payments, including refunds of employee contributions	(766,265)
Net change in total pension liability	<u>639,439</u>
Total pension liability - beginning	<u>16,191,117</u>
Total pension liability - ending (a)	<u><u>\$ 16,830,556</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 491,344
Contributions - employee	164,306
Net investment income	209,114
Benefit Payments, including refunds of employee contributions	(766,265)
Administrative expense	(7,475)
Other	(89)
Net change in plan fiduciary net position	<u>90,935</u>
Plan fiduciary net position - beginning	<u>12,084,436</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 12,175,371</u></u>
Political subdivision's net pension liability - ending (a) - (b)	<u><u>\$ 4,655,185</u></u>
Plan fiduciary net position as a percentage of the total Pension liability	72.34%
Covered-employee payroll	\$ 3,185,403
Political subdivision's net pension liability as a percentage of covered-employee payroll	146.14%

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Schedule of Employer Contributions and Related Ratios

Year Ended June 30	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as of % of Covered Employee Payroll (5)
2017	\$ 435,810	\$ 429,323	6,487	\$ 3,329,337	12.90%
2016	516,881	516,881	-	3,112,090	16.61%
2015	527,823	527,823	-	3,020,037	17.48%

Schedule is intended to show information for ten years.

Since 2015 is the first year for this presentation, no other data is available.

Additional years will be included as they become available.

For Reference Only:

Column (1) – Employer contribution rate multiplied by the employer's covered employee payroll

Column (2) – Actual employer contribution remitted to VRS

Column (4) – Employer's covered employee payroll amount for the fiscal year ended June 30, 2017

Changes of Benefit Terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2015 are minimal.

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 8 - Pension Plans (continued)

Changes of Assumptions (continued)

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 9 - Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows.

Governmental Activities:	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 1,880,169	\$ -	\$ -	\$ 1,880,169
Construction in progress	32,043	66,688	(13,692)	85,039
Total capital assets not being depreciated	<u>\$ 1,912,212</u>	<u>\$ 66,688</u>	<u>\$ (13,692)</u>	<u>\$ 1,965,208</u>
Capital assets, being depreciated:				
Buildings	\$ 9,655,613	\$ -	\$ -	\$ 9,655,613
Infrastructure	2,865,159	-	-	2,865,159
Machinery and equipment	6,420,089	601,937	(316,805)	6,705,221
Total capital assets being depreciated	<u>\$ 18,940,861</u>	<u>\$ 601,937</u>	<u>\$ (316,805)</u>	<u>\$ 19,225,993</u>
Less: accumulated depreciation for:				
Buildings	\$ (3,606,939)	\$ (216,035)	\$ -	\$ (3,822,974)
Infrastructure	(602,450)	(81,881)	-	(684,331)
Machinery and equipment	(5,993,381)	(228,957)	316,805	(5,905,533)
Total accumulated depreciation	<u>\$ (10,202,770)</u>	<u>\$ (526,873)</u>	<u>\$ 316,805</u>	<u>\$ (10,412,838)</u>
Total capital assets being depreciated, net	<u>\$ 8,738,091</u>	<u>\$ 75,064</u>	<u>\$ -</u>	<u>\$ 8,813,155</u>
Governmental activities capital assets, net	<u>\$ 10,650,303</u>	<u>\$ 141,752</u>	<u>\$ (13,692)</u>	<u>\$ 10,778,363</u>

Depreciation expense was charged to Governmental functions/programs as follows.

Governmental Activities:	
General government	\$ 112,869
Public safety	132,104
Public works	156,029
Parks, recreation, and culture	<u>125,871</u>
Total depreciation expense - governmental activities	<u>\$ 526,873</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 9 - Capital Assets (continued)

Business-type Activities: Water, Sewer and CIRP Fund	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 528,252	\$ -	\$ -	\$ 528,252
Construction in progress	278,722	1,311,152	-	1,589,874
Total capital assets not being depreciated	<u>\$ 806,974</u>	<u>\$ 1,311,152</u>	<u>\$ -</u>	<u>\$ 2,118,126</u>
Capital assets, being depreciated:				
Utility plant and equipment	\$ 21,788,457	\$ -	\$ -	\$ 21,788,457
Machinery and equipment	2,891,352	80,817	-	2,972,169
Total capital assets being depreciated	<u>\$ 24,679,809</u>	<u>\$ 80,817</u>	<u>\$ -</u>	<u>\$ 24,760,626</u>
Less: accumulated depreciation for:				
Utility plant and equipment	\$ (10,726,769)	\$ (568,917)	\$ -	\$ (11,295,686)
Machinery and equipment	(2,478,847)	(91,257)	-	(2,570,104)
Total accumulated depreciation	<u>\$ (13,205,616)</u>	<u>\$ (660,174)</u>	<u>\$ -</u>	<u>\$ (13,865,790)</u>
Total capital assets being depreciated, net	<u>\$ 11,474,193</u>	<u>\$ (579,357)</u>	<u>\$ -</u>	<u>\$ 10,894,836</u>
Business-type activities capital assets, net	<u>\$ 12,281,167</u>	<u>\$ 731,795</u>	<u>\$ -</u>	<u>\$ 13,012,962</u>
Business-type Activities: Swimming Pool Fund	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 179,125	\$ -	\$ -	\$ 179,125
Total capital assets not being depreciated	<u>\$ 179,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,125</u>
Capital assets, being depreciated:				
Pool	\$ 974,651	\$ -	\$ -	\$ 974,651
Equipment	29,151	-	-	29,151
Total capital assets being depreciated	<u>\$ 1,003,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,003,802</u>
Less: accumulated depreciation for:				
Pool	\$ (958,968)	\$ (4,092)	\$ -	\$ (963,060)
Equipment	(29,151)	-	-	(29,151)
Total accumulated depreciation	<u>\$ (988,119)</u>	<u>\$ (4,092)</u>	<u>\$ -</u>	<u>\$ (992,211)</u>
Total capital assets being depreciated, net	<u>\$ 15,683</u>	<u>\$ (4,092)</u>	<u>\$ -</u>	<u>\$ 11,591</u>
Business-type activities capital assets, net	<u>\$ 194,808</u>	<u>\$ (4,092)</u>	<u>\$ -</u>	<u>\$ 190,716</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 9 - Capital Assets (continued)

Depreciation expense was charged to Business-type funds as follows.

Business-type Activities:	
Water, Sewer and CIRP	\$ 660,174
Swimming Pool	<u>4,092</u>
Total depreciation expense - business type activities	<u><u>\$ 664,266</u></u>

Note 10 - Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$1,006,862 is comprised of the following:

Property Taxes - \$917,408 representing uncollected tax billings not available for funding current expenditures.

RBEG Loan - \$89,454 representing uncollected loan payments not available for funding current expenditures.

Note 11 - Risk Management

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

Note 12 - Surety Bonds

Primary Government:

<u>Virginia Municipal Liability Pool</u>	
Public Employees Dishonesty Coverage	\$ 200,000

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 13 - Restricted Net Position

<u>Governmental Activities</u>	<u>Balance</u>
Restricted for debt service and bond covenants	\$ -
Restricted for downtown housing project	219,941
Total	<u>\$ 219,941</u>
<u>Business-type Activities</u>	<u>Balance</u>
Restricted for debt service and bond covenants	\$ 403,974
Total	<u>\$ 403,974</u>

Note 14 - Restricted Cash and Cash Equivalents

Restricted cash of \$212,912 is reflected in the financial statements for business-type activities and represents the amount set aside for debt service in the water and sewer fund.

Note 15 - Restricted Investment

Restricted investment of \$191,062 is reflected in the financial statements for business-type activities and represents the amount set aside to cover the requirements set forth by Virginia Resource Authority in connection with the general obligation bond.

Note 16 - Contingencies

The Town participates in certain federal and state assisted grant programs. Grant funds are subject to audit by the funding agencies to determine compliance with various grant requirements. Should any expenditure be disallowed, they must be refunded to the granting agencies. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

Note 17 - Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. Town employees with up to five years of service earn vacation at the rate of one day for each month. After five years, thirteen vacation days are earned annually; after ten years, fourteen days vacation is earned; after fifteen years an employee earns fifteen days vacation; after twenty years, sixteen days vacation are earned. The employees also earn an additional one-half day vacation time when employees are accident-free for 90 days. No benefits or pay is received for unused sick leave upon termination. However, upon retirement with 30 years of VRS service, the Town will pay 25% of all accumulated and unused sick pay up to \$2,500. No sick leave will be accrued at June 30, 2017 due to the difficulty in estimating the number of employees who may retire with 30 years of VRS service.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 18 - Restricted Fund Balances

Other Governmental Funds	Balance
Dare Fund	\$ 1,311
Downtown Housing Fund	219,941
Master Redevelopment	2,500
Total	<u>\$ 223,752</u>

Note 19 - Interfund Balances

Interfund balances consisted of the following at June 30, 2017:

Fund	Due from	Due to
Primary Government:		
General Fund	\$ 33,951	\$ 556,121
Water and Sewer Fund	556,121	-
Downtown Housing Fund	118,369	-
CDBG Gilman Street Fund	-	32,951
Streetscape Fund	-	118,369
Master Redevelopment Fund	-	1,000
Total	<u>\$ 708,441</u>	<u>\$ 708,441</u>

Note 20 - Other Post-Employment Benefits

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the period in which the cost occurs, rather than in the future years when it will be paid. The Town adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2010. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing with the 2010 liability.

The Town meets the requirements to use the alternative measurement method and elects to use the alternative measurement method.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 20 - Other Post-Employment Benefits (continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2017, the Town's annual OPEB costs of \$121,132 for governmental activities and \$25,916 for business-type activities, respectively, were greater than the Annual Required Contribution (ARC).

	Governmental Activities	Business-type Activities
Annual required contribution	\$ 129,123	\$ 25,659
Interest on net OPEB obligation	11,802	5,410
Adjustment to annual required contribution	(19,793)	(5,153)
Annual OPEB cost	121,132	25,916
Contributions made	(47,577)	-
Increase in net OPEB obligation	73,555	25,916
Net OPEB obligation-beginning of year	567,932	180,435
Net OPEB obligation-end of year	\$ 641,487	\$ 206,351

The Town's annual OPEB cost for governmental activities, 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	\$ 121,132	0%	\$ 641,487
June 30, 2016	30,506	0%	567,932
June 30, 2015	168,412	0%	585,002

The Town's annual OPEB cost for business-type activities, 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	\$ 25,916	0%	\$ 206,351
June 30, 2016	(686)	0%	180,435
June 30, 2015	26,557	0%	181,121

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 20 - Other Post-Employment Benefits (continued)

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2017 was as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Actuarial Accrued Liability (AAL)	\$ 1,028,022	\$ 221,328
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,028,022	\$ 221,328
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	\$ 3,007,378	\$ 831,569
UAAL as a Percentage of Covered Payroll	34.18%	26.62%

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

Actuarial Methods and Assumptions

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

The entry age normal cost method was used to determine liabilities under the alternative measurement method. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. Active employees are assumed to retire at age 62 which is the historical average age of retirement for employees of the Town. Active employees age 62 or older who have qualified postemployment benefits under the plan are assumed to retire in the first projected year. A healthcare plan that includes both retirees and active employees contains a blended rate. The rate used in the calculation is the age-adjusted premium less the contribution from the retiree or blended premium. The actuarial assumptions for the Town included: inflation at 1.00% and an investment rate of return of 2.3%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics.

Note 20 - Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

The 2011 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2017 is 22 years.

Plan Description

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The Town may change, add or delete coverage as they deem appropriate and with the approval of the Town Council. The plan does not grant retirees vested health benefits.

A retiree, eligible for post-retirement medical coverage, is defined as a full-time employee who retires directly from the Town and is eligible to receive an early or regular retirement benefit from the VRS. Employees applying for early or regular retirement are eligible to continue participation in the Retiree Health Plans sponsored by the Town. Employees at the Town are allowed to stay on the plan until death of the employee or eligibility for Medicare coverage. The employee pays 50% of the required premium for single coverage. The employee pays 100% for spouse or dependent health care insurance premiums.

Funding Policy

The Town currently funds post-employment health care benefits on a pay-as-you-go basis. During fiscal year 2017, the Town had not designated any funding for the OPEB liability.

Note 21 - GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions

Purpose

The Town Council of the Town of Marion is dedicated to maintaining an appropriate level of fund balance sufficient to mitigate current and future financial risks and to ensure stable tax rates; and, therefore, formally establishes this policy for the Town's Fund Balance. This policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Note 21 - GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions (continued)

Components of Fund Balance

Fund balance is the difference between the assets and liabilities reported in a governmental fund. The following five fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

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

Committed Fund Balance Policy

The Town Council is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Town Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy

The Town Council has authorized the Town's Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

Resource Flow Policy

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Note 21 - GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions (continued)

Fund balances of the governmental funds at June 30, 2017 were as follows.

Nonspendable Fund Balance	Balance
Prepaid expense	129,008
Inventory	15,395
	<hr/>
Total	<u><u>\$ 144,403</u></u>
Restricted Fund Balance	Balance
Debt service and bond covenants	-
DARE	1,311
Downtown Housing	219,941
Master Redevelopment	2,500
	<hr/>
Total	<u><u>\$ 223,752</u></u>
Assigned Fund Balance	Balance
Golf Course	211,180
	<hr/>
Total	<u><u>\$ 211,180</u></u>

Note 22 - New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements. Management has not yet estimated the effects, if any, of adopting the standards below, but does not expect them to be material.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of irrevocable split-interest agreements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

Note 22 - New Accounting Standards (continued)

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 85, *Omnibus 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics: (1) 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, (2) measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (3) timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, (4) recognizing on-behalf payments for pension or OPEB in employer financial statements, (5) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (6) classifying employer-paid member contributions for OPEB, (7) simplifying certain aspects of the alternative measurement method for OPEB, (8) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

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—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. 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, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Note 23 - Subsequent Events

Subsequent events have been evaluated as of January 5, 2018, which is the date the financial statements were issued.

Note 24 - Economic Development Authority

The Town Council issued an ordinance to create an Economic Development Authority (EDA) pursuant to the Industrial Development and Revenue Bond Act which Authority shall be a political subdivision of the Commonwealth. The Town desires to create an Economic Development Authority to benefit the inhabitants of the Commonwealth and the Town through the increase of their commerce and through the promotion of their safety, health, welfare, convenience and prosperity.

The Economic Development Authority of the Town of Marion, Virginia, a political subdivision of the Commonwealth of Virginia, is empowered by Section 15.2-4901 of the Code to acquire, own, lease, and dispose of properties and make loans for the benefit of the inhabitants of the Commonwealth through the promotion of their safety, health, welfare, convenience, and prosperity.

The Board of Directors of the EDA has determined that the Town has immediate need for the rehabilitation of the property commonly known as the location of the future Wayne C. Henderson School of Appalachian Music and Arts located in the former Marion Schoolhouse Building (the Property). The Board has been presented a plan for financing the rehabilitation of the Property (the Project). Pursuant to such financing, the EDA will enter into a forty-year long term lease, leasing the Property to Marion Schoolhouse Building, LLC, a for-profit Virginia limited liability company (Building, LLC) formed to undertake the Project. To facilitate the rehabilitation of the Project, the EDA has formed Marion Schoolhouse Manager, LLC (Manager, LLC) and Marion Schoolhouse Development, LLC (Development, LLC), both Virginia limited liability companies, of which the EDA is the sole member. The EDA has agreed or will agree to assume the costs and expenditures of the Town for the Town's efforts in managing the Project prior to the date hereof (the management costs) and the EDA plans to reimburse the Town in part through the efforts of Development, LLC.

The Town will contribute to the EDA approximately \$2,500,000. The EDA will then loan the funds to Building, LLC and Building, LLC will assume all costs and responsibility for the Project from the EDA, including the management costs. Building, LLC investor members will each make a substantial capital contribution to Building, LLC. Building, LLC will use the Funds and the substantial capital contributions of Building, LLC's investor members to undertake the Project. The EDA will contribute to the Town all money, money's worth, or value received in connection with the Project (minus its reasonable expenses, including expenses involved in outsourcing the EDA's responsibilities). The EDA has entered into agreements with all entities involved in the Project. The LLC's were established to obtain the federal and state historic tax credits on the Project. The EDA believes the Project will benefit the inhabitants of the Commonwealth through the promotion of their health, safety, and welfare.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Town of Marion, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 680,200	\$ 680,200	\$ 640,192	\$ (40,008)
Other local taxes	2,857,500	2,857,500	2,728,276	(129,224)
Permits, privilege fees, and regulatory licenses	500	500	655	155
Fines and forfeitures	21,900	21,900	19,589	(2,311)
Revenue from the use of money and property	23,500	23,500	13,520	(9,980)
Charges for services	761,180	761,180	772,446	11,266
Miscellaneous	27,000	27,000	145,184	118,184
Recovered costs	101,075	101,075	173,349	72,274
Intergovernmental revenues:				
Commonwealth	1,739,654	1,739,654	1,771,267	31,613
Federal	14,100	14,100	175,172	161,072
Total revenues	<u>\$ 6,226,609</u>	<u>\$ 6,226,609</u>	<u>\$ 6,439,650</u>	<u>\$ 213,041</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,316,737	\$ 1,316,737	\$ 1,290,385	\$ 26,352
Public safety	2,041,021	2,041,021	2,112,993	(71,972)
Public works	2,359,082	2,359,082	2,213,453	145,629
Parks, recreation, and cultural	345,885	345,885	319,399	26,486
Community development	728,933	728,933	953,939	(225,006)
Capital projects	367,731	367,731	406,044	(38,313)
Debt service:				
Principal retirement	723,288	723,288	5,476,978	(4,753,690)
Interest and other fiscal charges	118,348	118,348	27,983	90,365
Total expenditures	<u>\$ 8,001,025</u>	<u>\$ 8,001,025</u>	<u>\$ 12,801,174</u>	<u>\$ (4,800,149)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,774,416)</u>	<u>\$ (1,774,416)</u>	<u>\$ (6,361,524)</u>	<u>\$ (4,587,108)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 85,922	\$ 85,922	\$ 832,783	\$ 746,861
Transfers out	-	-	-	-
Proceeds from a line of credit	-	-	5,169,000	5,169,000
Proceeds from general obligation bonds	-	-	133,760	133,760
Total other financing sources and uses	<u>\$ 85,922</u>	<u>\$ 85,922</u>	<u>\$ 6,135,543</u>	<u>\$ 6,049,621</u>
Net change in fund balances	<u>\$ (1,688,494)</u>	<u>\$ (1,688,494)</u>	<u>\$ (225,981)</u>	<u>\$ 1,462,513</u>
Fund balances - beginning	-	-	226,250	226,250
Fund balances - ending	<u><u>\$ (1,688,494)</u></u>	<u><u>\$ (1,688,494)</u></u>	<u><u>\$ 269</u></u>	<u><u>\$ 1,688,763</u></u>

Town of Marion, Virginia
Schedule of Funding Progress
For the Year Ended June 30, 2017

Primary Government:

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2016	\$ 12,416,233	\$ 16,463,427	\$ 4,047,194	75.42%	\$ 3,185,403	127.05%
6/30/2015	11,719,097	16,190,234	4,471,137	72.38%	2,985,915	149.74%
6/30/2014	10,770,916	15,624,203	4,853,287	68.94%	2,733,750	177.53%

Post-Employment Benefit Plan-Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2016	\$ -	\$ 1,028,022	\$ 1,028,022	0.00%	\$ 3,007,378	34.18%
7/1/2015	-	1,579,715	1,579,715	0.00%	2,875,685	54.93%
7/1/2014	-	1,484,584	1,484,584	0.00%	2,875,685	51.63%

Post-Employment Benefit Plan-Business-type Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2016	\$ -	\$ 221,328	\$ 221,328	0.00%	\$ 831,569	26.62%
7/1/2015	-	340,105	340,105	0.00%	518,947	65.54%
7/1/2014	-	319,624	319,624	0.00%	518,947	61.59%

OTHER
SUPPLEMENTARY
INFORMATION

Town of Marion, Virginia
Combining Balance Sheet
Other Governmental Funds
For the Year Ended June 30, 2017

	<u>Dare Program</u>	<u>Streetscape Program</u>	<u>Downtown Housing Project</u>	<u>CDBG Gilman Street</u>	<u>Master Redevelopment</u>	<u>Golf Course</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ 1,311	\$ 20,641	\$ 101,572	\$ -	\$ 3,500	\$ 97,833	\$ 224,857
Receivables (net of allowance for uncollectibles):							
Accounts receivable	-	-	-	-	-	119,091	119,091
Due from other funds	-	-	118,369	-	-	-	118,369
Inventories	-	-	-	-	-	15,395	15,395
Prepaid expense	-	-	-	-	-	10,218	10,218
Total assets	<u>\$ 1,311</u>	<u>\$ 20,641</u>	<u>\$ 219,941</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 242,537</u>	<u>\$ 487,930</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,248	\$ 29,248
Accrued liabilities	-	-	-	-	-	2,109	2,109
Due to other funds	-	118,369	-	32,951	1,000	-	152,320
Total liabilities	<u>\$ -</u>	<u>\$ 118,369</u>	<u>\$ -</u>	<u>\$ 32,951</u>	<u>\$ 1,000</u>	<u>\$ 31,357</u>	<u>\$ 183,677</u>
Fund balances:							
Unreserved:							
Designated for subsequent expenditure	\$ 1,311	\$ (97,728)	\$ 219,941	\$ (32,951)	\$ 2,500	\$ 211,180	\$ 304,253
Total fund balances	<u>\$ 1,311</u>	<u>\$ (97,728)</u>	<u>\$ 219,941</u>	<u>\$ (32,951)</u>	<u>\$ 2,500</u>	<u>\$ 211,180</u>	<u>\$ 304,253</u>
Total liabilities and fund balances	<u>\$ 1,311</u>	<u>\$ 20,641</u>	<u>\$ 219,941</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 242,537</u>	<u>\$ 487,930</u>

Town of Marion, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2017

	<u>Dare Program</u>	<u>Streetscape Program</u>	<u>Downtown Housing Project</u>	<u>CDBG Gilman Street</u>	<u>Master Redevelopment</u>	<u>Golf Course</u>	<u>Total</u>
REVENUES							
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 551,077	\$ 551,077
Miscellaneous	-	-	-	-	-	419	419
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 551,496	\$ 551,496
EXPENDITURES							
Current:							
Parks, recreation, and cultural	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 743,113	\$ 743,113
Interest and other fiscal charges	-	-	-	-	-	40,625	40,625
Total expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 783,738	\$ 783,738
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (232,242)	\$ (232,242)
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ -	\$ 4,440	\$ -	\$ -	\$ -	\$ 245,144	\$ 249,584
Transfers out	-	-	-	-	-	-	-
Total other financing sources and uses	\$ -	\$ 4,440	\$ -	\$ -	\$ -	\$ 245,144	\$ 249,584
Net change in fund balances	\$ -	\$ 4,440	\$ -	\$ -	\$ -	\$ 12,902	\$ 17,342
Fund balances - beginning	1,311	(102,168)	219,941	(32,951)	2,500	198,278	286,911
Fund balances - ending	\$ 1,311	\$ (97,728)	\$ 219,941	\$ (32,951)	\$ 2,500	\$ 211,180	\$ 304,253

DISCRETELY PRESENTED
COMPONENT UNIT

Town of Marion, Virginia
Discretely Presented Component Unit
Economic Development Authority
Statement of Net Position - Proprietary Fund
For the Year Ended June 30, 2017

	Enterprise Fund
<hr/>	
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 25
Total current assets/Total assets	<u>\$ 25</u>
NET POSITION	
Unrestricted	\$ 25
Total net position	<u>\$ 25</u>

Town of Marion, Virginia
Discretely Presented Component Unit
Economic Development Authority
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund
For the Year Ended June 30, 2017

	Enterprise Fund
	<hr/>
REVENUES	
Charges for services	\$ 66,000
Total revenues	<hr/> \$ 66,000 <hr/>
EXPENDITURES	
Current:	
Community development	\$ 66,000
Total expenditures	<hr/> \$ 66,000 <hr/>
Excess (deficiency) of revenues over (under) expenditures	<hr/> \$ - <hr/>
Net change in net position	\$ -
Total net position - beginning	\$ 25
Total net position - ending	<hr/> \$ 25 <hr/>

Town of Marion, Virginia
Discretely Presented Component Unit
Economic Development Authority
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2017

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 66,000
Payments to suppliers	(66,000)
Net cash provided (used by) operating activities	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ -
Cash and cash equivalents - beginning	\$ 25
Cash and cash equivalents - ending	<u><u>\$ 25</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ -
Net cash provided (used) by operating activities	<u><u>\$ -</u></u>

SUPPORTING SCHEDULES

Town of Marion, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2017

Fund, Major and Minor Revenue Source	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 472,000	\$ 472,000	\$ 460,867	\$ (11,133)
Real and personal public service corporation taxes	27,000	27,000	23,436	(3,564)
Personal property taxes	169,200	169,200	133,144	(36,056)
Penalties and Interest	12,000	12,000	22,745	10,745
Total general property taxes	\$ 680,200	\$ 680,200	\$ 640,192	\$ (40,008)
Other local taxes:				
Local sales and use taxes	\$ 192,000	\$ 192,000	\$ 194,791	\$ 2,791
Consumers' utility taxes	108,000	108,000	110,124	2,124
Communications taxes	135,000	135,000	122,979	(12,021)
Lodging taxes	160,000	160,000	129,030	(30,970)
Business license taxes	555,000	555,000	576,885	21,885
Consumer license taxes	30,000	30,000	28,073	(1,927)
Motor vehicle licenses	97,500	97,500	98,183	683
Bank stock taxes	182,000	182,000	170,106	(11,894)
Tobacco taxes	140,000	140,000	126,977	(13,023)
Meals taxes	1,250,000	1,250,000	1,164,415	(85,585)
Comcast PEG capital fees	8,000	8,000	6,713	(1,287)
Total other local taxes	\$ 2,857,500	\$ 2,857,500	\$ 2,728,276	\$ (129,224)
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 500	\$ 500	\$ 655	\$ 155
Total permits, privilege fees, and regulatory licenses	\$ 500	\$ 500	\$ 655	\$ 155
Fines and forfeitures:				
Court fines and forfeitures	\$ 20,000	\$ 20,000	\$ 18,210	\$ (1,790)
Parking Fines	600	600	325	(275)
E-Summons	1,300	1,300	1,054	(246)
Total fines and forfeitures	\$ 21,900	\$ 21,900	\$ 19,589	\$ (2,311)
Revenue from use of money and property:				
Revenue from use of money	\$ 5,000	\$ 5,000	\$ 1,015	\$ (3,985)
Revenue from use of property	18,500	18,500	12,505	(5,995)
Total revenue from use of money and property	\$ 23,500	\$ 23,500	\$ 13,520	\$ (9,980)
Charges for services:				
Parking lot charges	\$ 480	\$ 480	\$ 720	\$ 240
Charges for sanitation and waste removal	425,000	425,000	408,674	(16,326)
Charges for parks and recreation	10,500	10,500	12,437	1,937
Farmers market	1,500	1,500	1,935	435
Fire calls	10,000	10,000	500	(9,500)
Fire/EMS	300,000	300,000	333,043	33,043
DMV stop charges	-	-	3,340	3,340
Credit card fees	3,000	3,000	4,098	1,098
Senior center-District III	5,700	5,700	2,859	(2,841)
Cemetery maintenance fees	5,000	5,000	4,840	(160)
Total charges for services	\$ 761,180	\$ 761,180	\$ 772,446	\$ 11,266

Town of Marion, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2017

<u>Fund, Major and Minor Revenue Source</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous revenue:				
Miscellaneous	\$ 12,000	\$ 12,000	\$ 24,596	\$ 12,596
Insurance proceeds	-	-	105,646	105,646
Sale of property and equipment	5,000	5,000	13,012	8,012
Donations	10,000	10,000	1,930	(8,070)
Total miscellaneous revenue	\$ 27,000	\$ 27,000	\$ 145,184	\$ 118,184
Recovered costs:				
County of Smyth - Recreation facilities	\$ 19,250	\$ 19,250	\$ 19,250	\$ -
County of Smyth - Fire and rescue	53,000	53,000	46,920	(6,080)
Other recovered costs	28,825	28,825	107,179	78,354
Total recovered costs	\$ 101,075	\$ 101,075	\$ 173,349	\$ 72,274
Total revenue from local sources	\$ 4,472,855	\$ 4,472,855	\$ 4,493,211	\$ 20,356
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 6,000	\$ 6,000	\$ 74	\$ (5,926)
Rental tax	20,000	20,000	20,507	507
Set off debt	-	-	(192)	(192)
Personal property tax relief funds	-	-	45,785	45,785
Total noncategorical aid	\$ 26,000	\$ 26,000	\$ 66,174	\$ 40,174
Categorical aid:				
Litter control grant	\$ 3,200	\$ 3,200	\$ 3,042	\$ (158)
Fire programs	20,000	20,000	19,367	(633)
Street and highway maintenance	1,300,188	1,300,188	1,288,844	(11,344)
Law enforcement grants	205,864	205,864	155,554	(50,310)
Commission of the Arts	5,000	5,000	5,000	-
Small Business Loan Pool	-	-	30,000	30,000
Tobacco Commission grant	-	-	45,000	45,000
Asset forfeiture funds	500	500	2,762	2,262
EMS grant	168,222	168,222	143,080	(25,142)
Other state aid	10,680	10,680	12,444	1,764
Total categorical aid	\$ 1,713,654	\$ 1,713,654	\$ 1,705,093	\$ (8,561)
Total revenue from the Commonwealth	\$ 1,739,654	\$ 1,739,654	\$ 1,771,267	\$ 31,613
Revenue from the federal government:				
Categorical aid:				
Community Development Block Grant	\$ -	\$ -	\$ 22,665	\$ 22,665
Police grants	14,000	14,000	151,688	137,688
Asset forfeiture funds	100	100	819	719
Total categorical aid	\$ 14,100	\$ 14,100	\$ 175,172	\$ 161,072
Total revenue from the federal government	\$ 14,100	\$ 14,100	\$ 175,172	\$ 161,072
Total General Fund	\$ 6,226,609	\$ 6,226,609	\$ 6,439,650	\$ 213,041
Total Primary Government	\$ 6,226,609	\$ 6,226,609	\$ 6,439,650	\$ 213,041

Town of Marion, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2017

Fund, Function and Department Expenditures	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
General Fund:				
General government administration:				
Legislative:				
Town council	\$ 89,863	\$ 89,863	\$ 109,489	\$ (19,626)
Town clerk	258,282	258,282	261,816	(3,534)
Total legislative	\$ 348,145	\$ 348,145	\$ 371,305	\$ (23,160)
General and financial administration:				
Town manager	\$ 182,760	\$ 182,760	\$ 175,518	\$ 7,242
Legal services	28,036	28,036	32,029	(3,993)
Independent auditor	29,411	29,411	32,350	(2,939)
Finance	298,928	298,928	277,818	21,110
Information technology	61,667	61,667	79,978	(18,311)
Risk management	132,753	132,753	113,201	19,552
Motor pool	81,434	81,434	68,206	13,228
Central purchasing	153,603	153,603	139,980	13,623
Total general and financial administration	\$ 968,592	\$ 968,592	\$ 919,080	\$ 49,512
Total general government administration	\$ 1,316,737	\$ 1,316,737	\$ 1,290,385	\$ 26,352
Public safety:				
Law enforcement and traffic control:				
Police	\$ 1,617,839	\$ 1,617,839	\$ 1,654,329	\$ (36,490)
Fire and rescue services:				
Fire and rescue services	\$ 423,182	\$ 423,182	\$ 458,664	\$ (35,482)
Total public safety	\$ 2,041,021	\$ 2,041,021	\$ 2,112,993	\$ (71,972)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 1,947,369	\$ 1,947,369	\$ 1,661,629	\$ 285,740
General engineering and administration	185,491	185,491	182,547	2,944
Total maintenance of highways, streets, bridges & sidewalks	\$ 2,132,860	\$ 2,132,860	\$ 1,844,176	\$ 288,684
Sanitation and waste removal:				
Refuse collection and disposal	\$ 226,222	\$ 226,222	\$ 369,277	\$ (143,055)
Total sanitation and waste removal	\$ 226,222	\$ 226,222	\$ 369,277	\$ (143,055)
Total public works	\$ 2,359,082	\$ 2,359,082	\$ 2,213,453	\$ 145,629
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation	\$ 271,182	\$ 271,182	\$ 251,020	\$ 20,162
Senior Citizens Center	74,703	74,703	68,379	6,324
Total parks, recreation, and cultural	\$ 345,885	\$ 345,885	\$ 319,399	\$ 26,486

Town of Marion, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2017

<u>Fund, Function and Department Expenditures</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning	\$ 4,478	\$ 4,478	\$ 5,550	\$ (1,072)
Community development	342,761	342,761	536,251	(193,490)
Cable TV	380,194	380,194	412,138	(31,944)
Transport services	1,500	1,500	-	1,500
Total planning and community development	<u>\$ 728,933</u>	<u>\$ 728,933</u>	<u>\$ 953,939</u>	<u>\$ (225,006)</u>
Total community development	<u>\$ 728,933</u>	<u>\$ 728,933</u>	<u>\$ 953,939</u>	<u>\$ (225,006)</u>
Capital projects:				
Capital outlays	\$ 367,731	\$ 367,731	\$ 406,044	\$ (38,313)
Total capital projects	<u>\$ 367,731</u>	<u>\$ 367,731</u>	<u>\$ 406,044</u>	<u>\$ (38,313)</u>
Debt service:				
Principal retirement	\$ 723,288	\$ 723,288	\$ 5,476,978	\$ (4,753,690)
Interest and other fiscal charges	118,348	118,348	27,983	90,365
Total debt service	<u>\$ 841,636</u>	<u>\$ 841,636</u>	<u>\$ 5,504,961</u>	<u>\$ (4,663,325)</u>
Total General Fund	<u>\$ 8,001,025</u>	<u>\$ 8,001,025</u>	<u>\$ 12,801,174</u>	<u>\$ (4,800,149)</u>
Total Primary Government	<u>\$ 8,001,025</u>	<u>\$ 8,001,025</u>	<u>\$ 12,801,174</u>	<u>\$ (4,800,149)</u>

STATISTICAL INFORMATION

Table 1

Town of Marion, Virginia
Fund Balances - Governmental Funds
Last Ten Fiscal Years

Fiscal Year	General Fund Reserved	General Fund Unreserved	Total General Fund Balance	Other Governmental Fund Reserved	Other Governmental Fund Unreserved	Total Other Governmental Fund Balance
2007-08	\$ 67,903	\$ 654,193	\$ 722,096	\$ 19,984	\$ 119,157	\$ 139,141
2008-09	184,108	265,491	449,599	-	120,145	120,145
2009-10	187,375	(52,282)	135,093	-	124,363	124,363

Fiscal Year	Nonspendable	Restricted	Committed	Assigned	Unassigned	Total Fund Balance
2010-11	\$ 108,273	\$ 226,767	\$ -	\$ -	\$ 264,827	\$ 599,867
2011-12	110,678	230,442	161,590	327,029	(194,092)	635,647
2012-13	73,598	275,289	-	236,032	(469,308)	115,611
2013-14	139,398	212,625	-	247,993	(363,531)	236,485
2014-15	139,959	223,752	-	168,868	(670,499)	(137,920)
2015-16	147,688	223,752	-	198,279	(56,557)	513,162
2016-17	144,403	223,752	-	211,180	(274,813)	304,522

Table 2

Town of Marion, Virginia
Net Position - Governmental and Business-type Activities
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-type Activities		
	Net Investment in Capital Assets	Restricted	Unrestricted	Net Investment in Capital Assets	Restricted	Unrestricted
2007-08	\$ 2,985,101	\$ 199,114	\$ 473,725	\$ 8,488,274	\$ 163,931	\$ 1,838,254
2008-09	3,065,181	229,430	190,182	8,193,951	275,057	1,631,342
2009-10	3,824,940	234,526	(216,688)	8,174,417	342,085	1,564,811
2010-11	4,349,974	222,444	55,230	8,047,842	385,220	1,266,768
2011-12	6,267,452	226,631	1,632	8,061,600	429,406	1,249,735
2012-13	6,437,280	271,478	(614,117)	8,037,542	480,695	1,250,662
2013-14	6,634,300	208,814	(540,716)	7,991,802	378,873	1,288,218
2014-15	7,969,363	219,941	(4,751,409)	7,828,856	281,408	441,535
2015-16	7,919,083	219,941	(3,848,874)	7,626,911	287,799	758,156
2016-17	8,225,246	219,941	(3,930,253)	7,936,517	403,974	290,518

Table 3

Town of Marion, Virginia
Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years

Fiscal Year	General Government Revenue	General Government Expenditures	Capital Outlay	Excess of Revenues over (under) Expenditures	Debt issued	Grant Proceeds/ Contributions	Transfers In	Transfers Out	Total Other Financing Sources (Uses)	Net Change In Fund Balance
2007-08	\$ 4,713,209	\$ 5,865,689	\$ 504,300	\$ (1,656,780)	\$ -	\$ -	\$ 1,743,643	\$ (315,000)	\$ 1,428,643	\$ (228,137)
2008-09	4,470,393	5,632,006	401,721	(1,563,334)	146,660	-	1,145,165	-	1,291,825	(271,509)
2009-10	5,659,073	6,048,558	882,088	(1,271,573)	89,785	-	871,500	-	961,285	(310,288)
2010-11	6,127,734	6,536,191	493,270	(901,727)	-	-	1,301,613	(59,475)	1,242,138	340,411
2011-12	5,880,811	7,788,793	3,523,572	(5,431,554)	2,063,234	2,294,760	1,109,340	-	5,467,334	35,780
2012-13	5,857,494	6,998,746	263,278	(1,404,530)	-	-	884,494	-	884,494	(520,036)
2013-14	6,173,258	9,574,435	166,733	(3,567,910)	2,482,000	-	1,212,185	(5,401)	3,688,784	120,874
2014-15	7,269,565	14,037,831	1,371,408	(8,139,674)	6,429,052	-	1,302,097	-	7,731,149	(408,525)
2015-16	7,951,804	13,487,442	320,259	(5,855,897)	5,134,244	-	1,372,735	-	6,506,979	651,082
2016-17	6,991,146	13,178,868	406,044	(6,593,766)	5,302,760	-	1,082,367	-	6,385,127	(208,639)

Table 4

Town of Marion, Virginia
Changes in Net Position - Governmental and Business-type Activities
Last Ten Fiscal Years

Fiscal Year	Government Wide Expense	Government Wide Program Revenues	Net (Expense) Revenue	Government Wide General Revenues	Transfers	Change in Net Position
2007-08	\$ 8,153,835	\$ 4,458,306	\$ (3,695,529)	\$ 3,011,542	\$ -	\$ (683,987)
2008-09	7,735,648	4,352,280	(3,383,368)	2,820,112	-	(563,256)
2009-10	7,885,684	5,360,558	(2,525,126)	2,864,074	-	338,948
2010-11	8,485,666	5,450,272	(3,035,394)	3,438,781	-	403,387
2011-12	9,412,903	5,556,202	(3,856,701)	5,765,679	-	1,908,978
2012-13	9,204,664	5,530,338	(3,674,326)	3,301,410	-	(372,916)
2013-14	9,189,957	5,827,396	(3,362,561)	3,460,312	-	97,751
2014-15	9,961,916	6,745,613	(3,216,303)	3,432,361	-	216,058
2015-16	10,532,808	7,088,849	(3,443,959)	4,417,281	-	973,322
2016-17	10,006,005	6,554,713	(3,451,292)	3,634,219	-	182,927

Table 5

Town of Marion, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non-departmental	Interest on Long-Term Debt	Swimming Pool	Water and Sewer	Total
2007-08	\$ 1,179,021	\$ 1,766,948	\$ 2,345,736	\$ 472,177	\$ 388,637	\$ -	\$ 104,548	\$ 65,565	\$ 1,831,203	\$ 8,153,835
2008-09	1,214,519	1,521,445	2,096,432	487,930	346,523	-	67,536	58,670	1,942,593	7,735,648
2009-10	1,195,607	1,569,854	1,925,453	520,707	719,609	-	75,705	50,272	1,828,477	7,885,684
2010-11	1,205,746	1,572,373	2,091,079	503,161	1,085,854	-	62,126	57,057	1,908,270	8,485,666
2011-12	1,213,894	1,576,032	2,189,344	901,040	1,392,000	-	104,691	55,388	1,980,514	9,412,903
2012-13	1,309,870	1,583,513	2,173,422	1,141,233	732,440	-	87,659	50,034	2,126,493	9,204,664
2013-14	1,327,851	1,524,561	2,003,788	1,315,327	830,257	-	81,742	39,708	2,066,723	9,189,957
2014-15	1,412,681	1,568,289	2,325,699	1,194,373	1,196,299	-	93,019	44,461	2,127,095	9,961,916
2015-16	1,326,908	1,875,229	2,871,732	1,062,583	1,002,968	-	116,184	44,010	2,233,194	10,532,808
2016-17	1,367,052	2,100,570	2,128,625	1,091,145	973,886	-	34,523	89,422	2,220,782	10,006,005

Table 6

Town of Marion, Virginia
Government-Wide Revenues
Last Ten Fiscal Years

PROGRAM REVENUES				GENERAL REVENUES											
Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Unrestricted Investment Earnings	Miscellaneous	Recovered Costs	Grants and Contributions Not Restricted to Specific Programs	Gain (Loss) on Disposal of Capital Assets	Contribution from Nonprofit	Total	
2007-08	\$ 2,981,905	\$ 1,354,904	\$ 121,497	\$ 479,784	\$ 2,223,859	\$ 180	\$ 25,138	\$ 112,312	\$ 62,301	\$ 40,370	\$ 67,598	\$ -	\$ -	\$ 7,469,848	
2008-09	2,961,251	1,343,479	47,550	522,114	2,066,362	75	24,933	66,100	11,911	61,377	67,240	-	-	7,172,392	
2009-10	2,810,773	1,554,489	995,296	527,199	2,182,865	165	38,511	36,194	10,576	-	69,823	(1,259)	-	8,224,632	
2010-11	3,052,405	1,920,520	477,347	603,623	2,607,956	165	24,309	36,872	48,293	44,231	73,332	-	-	8,889,053	
2011-12	3,351,463	1,689,299	515,440	593,748	2,592,961	225	31,812	26,077	32,279	130,179	63,638	-	2,294,760	11,321,881	
2012-13	3,668,212	1,511,125	351,001	614,219	2,521,376	280	26,140	26,317	92,347	4,458	75,878	(59,605)	-	8,831,748	
2013-14	3,948,424	1,440,293	438,679	598,997	2,667,267	150	17,174	19,667	78,538	8,916	69,603	-	-	9,287,708	
2014-15	4,192,231	1,721,986	831,396	593,460	2,676,220	105	17,027	18,243	54,199	4,459	68,648	-	-	10,177,974	
2015-16	4,802,192	1,942,168	344,489	603,510	2,839,312	370	17,007	14,117	51,429	819,333	72,203	-	-	11,506,130	
2016-17	4,473,292	1,880,265	201,156	553,350	2,728,276	655	19,589	13,728	154,184	98,263	66,174	-	-	10,188,932	

Table 7

Town of Marion, Virginia
General Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total (1)
2007-08	\$ 1,098,443	\$ 1,376,190	\$ 2,210,059	\$ 473,022	\$ 399,521	\$ 308,454	\$ 5,865,689
2008-09	1,112,726	1,382,225	1,966,409	491,837	366,508	312,301	5,632,006
2009-10	1,145,845	1,359,099	1,846,756	521,547	734,600	440,711	6,048,558
2010-11	1,110,440	1,444,987	1,998,486	500,548	1,131,811	349,919	6,536,191
2011-12	1,178,902	1,511,479	2,018,829	891,010	1,754,238	434,335	7,788,793
2012-13	1,225,012	1,538,451	2,014,875	1,114,091	697,402	408,915	6,998,746
2013-14	1,247,119	1,450,222	2,043,903	1,243,183	847,182	2,742,826	9,574,435
2014-15	1,331,669	1,620,227	2,241,570	1,233,400	1,128,235	6,482,730	14,037,831
2015-16	1,311,957	1,917,880	2,839,192	967,524	1,018,176	5,432,713	13,487,442
2016-17	1,290,385	2,112,993	2,213,453	1,062,512	953,939	5,545,586	13,178,868

(1) Excludes capital projects

Table 8

Town of Marion, Virginia
General Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2007-08	\$ 485,251	\$ 2,258,281	\$ 180	\$ 25,138	\$ 26,642	\$ 308,018	\$ 62,474	\$ 50,634	\$ 1,496,591	\$ 4,713,209
2008-09	514,629	2,066,362	75	24,933	34,208	308,251	11,910	61,806	1,448,219	4,470,393
2009-10	525,667	2,182,865	165	38,511	24,496	329,010	10,576	166,640	2,381,143	5,659,073
2010-11	600,862	2,607,956	165	24,309	28,859	327,667	48,293	67,424	2,422,199	6,127,734
2011-12	568,140	2,592,961	225	31,812	22,459	525,359	32,279	65,451	2,042,125	5,880,811
2012-13	587,353	2,521,376	280	26,140	23,893	792,501	92,347	82,186	1,731,418	5,857,494
2013-14	584,811	2,667,267	150	17,174	16,557	889,334	78,538	102,945	1,816,482	6,173,258
2014-15	590,482	2,676,220	105	17,027	13,604	1,171,451	54,199	190,192	2,556,285	7,269,565
2015-16	592,351	2,839,312	370	17,007	14,057	1,230,480	51,429	919,872	2,286,926	7,269,565
2016-17	640,192	2,728,276	655	19,589	13,520	1,323,523	145,603	173,349	1,946,439	6,991,146

Table 9

Town of Marion, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
2007-08	\$ 542,246	\$ 520,156	95.93%	\$ 6,145	\$ 526,301	97.06%	\$ 18,717	3.45%
2008-09	558,935	544,770	97.47%	8,407	553,177	98.97%	39,505	7.07%
2009-10	586,857	545,797	93.00%	10,709	556,506	94.83%	46,734	7.96%
2010-11	665,404	628,847	94.51%	10,362	639,209	96.06%	66,206	9.95%
2011-12	697,358	641,482	91.99%	9,653	651,135	93.37%	109,302	15.67%
2012-13	726,614	599,405	82.49%	6,611	606,016	83.40%	141,343	19.45%
2013-14	711,022	613,045	86.22%	10,104	623,149	87.64%	160,495	22.57%
2014-15	697,201	609,855	87.47%	13,089	622,944	89.35%	167,485	24.02%
2015-16	744,991	605,140	81.23%	21,192	626,332	84.07%	211,002	28.32%
2016-17	840,980	629,306	74.83%	33,926	663,232	78.86%	177,608	21.12%

(1) Exclusive of penalties and interest. Includes amounts remitted under the State's personal property tax relief program.

(2) Delinquent taxes are exclusive of penalties and interest and do not include amounts due under the State's personal property tax relief program.

Table 10

Town of Marion, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility		Total
				Real Estate	Personal Property	
2007-08	\$ 261,783,380	\$ 35,859,020	\$ 7,893,263	\$ 12,015,017	\$ -	\$ 317,550,680
2008-09	261,564,133	36,670,016	14,705,050	11,811,371	-	324,750,570
2009-10	261,863,888	34,387,058	13,770,663	11,811,371	-	321,832,980
2010-11	306,380,374	35,162,885	14,324,067	15,169,863	1,017,351	372,054,540
2011-12	308,609,739	35,407,906	14,350,698	14,616,120	944,230	373,928,693
2012-13	306,933,800	36,527,508	13,869,828	14,447,803	-	371,778,939
2013-14	318,076,000	38,286,103	12,132,811	13,973,609	1,189,143	383,657,666
2014-15	302,902,413	38,877,153	9,952,565	15,906,298	-	367,638,429
2015-16	302,063,200	39,192,439	9,554,009	16,278,252	-	367,087,900
2016-17	309,604,030	44,487,803	10,844,869	16,717,200	-	381,653,902

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2007-08	\$ 149,375,700	\$ 100,419,600	\$ 1,431,700	\$ -	\$ 251,227,000	0.40
2008-09	148,421,900	90,104,900	1,167,500	-	239,694,300	0.40
2009-10	179,585,000	110,217,500	1,790,700	-	291,593,200	0.40
2010-11	180,320,600	110,532,800	1,882,900	-	292,736,300	0.40
2011-12	181,077,900	110,532,800	1,125,600	-	292,736,300	0.40
2012-13	190,265,800	99,837,400	1,125,600	-	291,228,800	0.40
2013-14	189,967,600	111,501,600	1,010,600	-	302,479,800	0.40
2014-15	188,863,800	98,733,000	1,010,600	-	288,607,400	0.40
2015-16	188,972,400	96,026,000	1,010,600	-	286,009,000	0.40
2016-17	189,821,900	102,911,100	1,010,600	-	293,743,600	0.40

Table 11

Town of Marion, Virginia
Property Tax Rates
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
2007-08	0.15	0.29	0.29
2008-09	0.15	0.29	0.29
2009-10	0.15	0.35	0.35
2010-11	0.15	0.35	0.35
2011-12	0.15	0.35	0.35
2012-13	0.15	0.35	0.35
2013-14	0.15	0.35	0.35
2014-15	0.15	0.35	0.35
2015-16	0.15	0.35	0.35
2016-17	0.15	0.35	0.35

Table 12

Town of Marion, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2007-08	6,048	\$ 317,551	\$ 7,271,901	2.29%	\$ 1,202
2008-09	6,048	324,751	6,981,457	2.15%	1,154
2009-10	6,048	321,833	6,432,170	2.00%	1,064
2010-11	5,968	372,055	5,865,423	1.58%	983
2011-12	5,968	373,929	8,182,104	2.19%	1,371
2012-13	5,968	371,779	7,973,268	2.14%	1,336
2013-14	5,968	383,658	7,670,533	2.00%	1,285
2014-15	5,968	367,638	7,607,567	2.07%	1,275
2015-16	5,968	367,088	7,425,172	2.02%	1,244
2016-17	5,968	381,654	7,434,278	1.95%	1,246

(1) U.S. Census Bureau.

(2) Includes all long-term general obligation bonded debt and bonded anticipation notes.
Excludes capital leases, and compensated absences.

Table 13

Town of Marion, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2007-08	\$ 220,060	\$ 88,394	\$ 308,454	\$ 5,865,689	5.26%
2008-09	234,568	77,733	312,301	5,632,006	5.55%
2009-10	363,156	77,555	440,711	6,888,134	6.40%
2010-11	285,114	64,805	349,919	7,029,461	4.98%
2011-12	329,991	104,344	434,335	11,312,365	3.84%
2012-13	319,961	88,954	408,915	7,262,024	5.63%
2013-14	2,659,341	83,485	2,742,826	9,741,168	28.16%
2014-15	6,388,228	94,502	6,482,730	15,409,239	42.07%
2015-16	5,311,758	120,955	5,432,713	13,807,701	39.35%
2016-17	5,476,978	68,608	5,545,586	13,584,912	40.82%

Table 14

Town of Marion, Virginia
Principal Taxpayers (1)
For the Year Ended June 30, 2017

Company	2015-2016		2016-17	
	Assessed Value	Rank	Assessed Value	Rank
Marion Properties	\$ 11,814,900	1	\$ 12,067,400	1
Smyth County Foundation	6,712,800	3	6,712,800	2
Regency Marion/Walmart	5,800,000	4	5,800,000	3
Highland Development	4,525,600	5	4,525,600	4
Marion Plaza	-		3,974,300	5
AGNL Coffman	-		2,977,700	6
Mack Trammell	6,773,300	2	2,848,600	7
Jane Sheffey etal	2,769,500	6	2,769,500	8
JAI Gopal	2,123,100	7	2,123,100	9
Marion I Realty/Walgreens	-		1,993,400	10
Susan Keene/SCEA	1,966,500	8	1,966,500	
Ernie Sullins	1,774,400	10	1,854,600	
Smyth County Community Hospital	1,828,300	9	1,558,800	

(1) Information provided from the real estate tax book.

Table 15

Town of Marion, Virginia
Computation of Legal Debt Margin
Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assessed valuations:										
Assessed value	\$ 317,550,680	\$ 324,750,570	\$ 321,832,980	\$ 372,054,540	\$ 373,928,693	\$ 371,778,939	\$ 383,657,666	\$ 367,638,429	\$ 367,087,900	\$ 381,653,902
Legal debt margin										
Debt limitation - 10 percent of total assessed value	\$ 31,755,068	\$ 32,475,057	\$ 32,183,298	\$ 37,205,454	\$ 37,392,869	\$ 37,177,894	\$ 38,365,767	\$ 36,763,843	\$ 36,708,790	\$ 38,165,390
Debt applicable to limitation:										
General obligation bonds	7,285,280	6,993,542	6,442,960	5,874,919	8,190,305	7,980,174	7,676,145	7,611,885	7,430,784	7,434,278
Less: Amount set aside for repayment	231,834	358,387	423,918	470,425	497,807	555,385	378,873	344,559	352,828	403,974
Total debt applicable to limitation	7,053,446	6,635,155	6,019,042	5,404,494	7,692,498	7,424,789	7,297,272	7,267,326	7,077,956	7,030,304
Legal debt margin	\$ 24,701,622	\$ 25,839,902	\$ 26,164,256	\$ 31,800,960	\$ 29,700,371	\$ 29,753,105	\$ 31,068,495	\$ 29,496,517	\$ 29,630,834	\$ 31,135,086
Total net debt applicable to the limit as a percentage of debt limit	22.21%	20.43%	18.70%	14.53%	20.57%	19.97%	19.02%	19.77%	19.28%	18.42%

Table 16

Town of Marion, Virginia
Miscellaneous Statistics
For the Year Ended June 30, 2017

Date of incorporation	1832
Form of government	Council-Manager
Number of employees:	
General government administration	12
Public safety	22
Public works	23
Parks, recreation, and cultural	3
Community development	5
Water and sewer	17
Swimming pool	12
Golf course	36

COMPLIANCE
SECTION



RONALD C. BOSTIC, CPA
GREGORY D. TUCKER, CPA

P.O. Box 505, Lebanon, VA 24266
(276) 889-3103 Fax: (276) 889-0229
www.bthcpa.com

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*

To the Town Council
Town of Marion, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Marion, Virginia's basic financial statements, and have issued our report thereon dated January 5, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Marion, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Bostic, Tucker & Company, P.C.

Lebanon, Virginia
January 5, 2018