TOWN OF MARION, VIRGINIA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2010

TOWN OF MARION, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2010

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COMPLIANCE SECTION

TOWN OF MARION, VIRGINIA

TOWN COUNCIL

David P. Helms, Mayor

James Gates

Jane Hale

Bill Weaver

Mel Leaman

Jim Barker

Jim Owens

Suzanne Jennings

OTHER OFFICIALS

John E. B. Clark, Jr. .... Town Manager
Susan Clark .... Town Clerk/Director of Finance
Cindy Stanley .... Deputy Clerk/Deputy Director of Finance
Mark Fenyk .... Town Attorney
Mike Roberts .... Chief of Police

BOSTIC, TUCKER
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INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the
Town Council
Town of Marion, Virginia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2010 on our consideration of the internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3-14 and 54-57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Marion's basic financial statements. The accompanying financial information listed as supplementary schedules in the Table of Contents, the combining and individual non-major fund financial statements, and statistical schedules are presented for purposes of additional analysis and are not a required part of the financial statements of the Town. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The statistical schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Bostic, Tucker and Company PC

Lebanon, Virginia
November 17, 2010

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, 2010. 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 2009 fiscal year, unreserved fund balance of the general fund was $265,491, reserved for debt service and prepaid expenses of $184,108. For the current fiscal year, 2010, the unreserved fund balance of the general fund was $(52,282) and reserved for debt service and prepaid expenses of $187,375.

The total net assets of the Town of Marion's governmental activities were $3,484,793 as of June 30, 2009. The total net assets for 2010 are $3,842,778. An increase occurred due largely to purchase of capital assets.

The total net assets of the business-type activities were $10,100,350 for fiscal year end 2009 and $10,081,313 for the fiscal year end 2010 resulting in a decrease of $19,037. This decrease is largely due to the economic times in which the country is faced with. The water, sewer and swimming pool funds reported operating revenues of $2,481,763. A decrease in operating revenues of $171,237 occurred from fiscal year 2009.

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 consists of 1) Government-wide Financial Statements; 2) Fund Financial Statements; and 3) Notes to the Financial Statement.

The government-wide financial statement includes the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets 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. This approach has been modified accrual basis in the basic financial statements presented. This year the report also presents the full accrual method.

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its 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 of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. You can think of the Town's net assets—the difference between assets and liabilities—as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town 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 public safety, public works, parks and recreation, cultural, community development, garbage and general government. Property and other local taxes, state and federal funding, and transfers from the Water and Sewer Fund finance these activities.

The business-type financial statement is represented by the Water, Sewer and Swimming Pool Funds. These funds charge a fee to 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 and 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 money. The Town's three kinds of funds are governmental, proprietary and fiduciary.

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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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

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 Assets and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities we report 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 Assets and Changes in Fiduciary Net Assets.

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

Net assets 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 $3,484,793 as of June 30, 2009. As of June 30, 2010, the Town of Marion assets exceeded liabilities by $3,842,778.

The largest portion of the Town's net assets of $3,824,940 reflects its investments in capital assets (e.g. land, buildings, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The town uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Town's investments 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 assets of $234,526 represents resources that are subject to external restriction on how they may be used. The remaining balance of unreserved net assets is $(216,688).

General revenues and transfers were $3,724,590 for governmental activities. General revenues include property taxes, other local taxes, interest income, miscellaneous income, and transfers from other funds. Program revenues were $2,640,330 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 $6,006,935, which included expense for general government, public safety, public works, culture and recreation, community development, and interest expense. The governmental activities exhibited a change in net assets of $357,985.

Business-type activities

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

The total net assets for business-type activities was $10,081,313 which includes invested in capital assets, net of related debt of $8,174,417, reserved for debt service and bond covenants of $342,085, and unreserved net assets of $1,564,811.

Program revenues for business-type activities for the Town were $2,481,763 for charges for services and $238,465 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 $1,878,749. General revenues and transfers include interest income of $11,698, loss on disposal of capital asset of $(714), and a transfer to other funds of $(871,500). The change in net assets for business-type activities resulted in a decrease to net assets of $19,037.

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The table below focuses on the net assets of the Town's governmental and business-type activities as of the years ended June 30, 2010 and 2009.

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2010	2009	2010	2009	2010
Current Assets	1,967,599	1,780,959	2,159,903	2,178,640	4,127,502	3,959,599
Capital Assets	4,961,854	5,446,947	13,290,820	12,995,370	18,252,674	18,442,317
Total Assets	6,929,453	7,227,906	15,450,723	15,174,010	22,380,176	22,401,916
Current Liabilities	1,779,707	1,917,432	517,795	507,254	2,297,502	2,424,686
Long-Term Liabilities	1,664,953	1,467,696	4,832,578	4,585,443	6,497,531	6,053,139
Total Liabilities	3,444,660	3,385,128	5,350,373	5,092,697	8,795,033	8,477,825
Net Assets:						
Invested in Capital Assets, Net of Related Debt	3,065,181	3,824,940	8,193,951	8,174,417	11,259,132	11,999,357
Restricted	229,430	234,526	275,057	342,085	504,487	576,611
Unrestricted	190,182	(216,688)	1,631,342	1,564,811	1,821,524	1,348,123
Total Net Assets	3,484,793	3,842,778	10,100,350	10,081,313	13,585,143	13,924,091

The revenues and expenses for governmental activities and business-type activities are shown in Table 2.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2010	2009	2010	2009	2010
Charges for Services	308,251	329,010	2,653,000	2,481,763	2,961,251	2,810,773
Operating Grants/Contributions	1,343,479	1,554,489	-	-	1,343,479	1,554,489
Capital Grants/Contributions	37,500	756,831	10,050	238,465	47,550	995,296
Program Revenues	1,689,230	2,640,330	2,663,050	2,720,228	4,352,280	5,360,558
Taxes	2,588,476	2,710,064	-	-	2,588,476	2,710,064
Interest Income	34,208	24,496	31,892	11,698	66,100	36,194
Miscellaneous	11,911	10,031	-	(714)	11,911	9,317
Fines, forfeitures, permits	25,008	38,676	-	-	25,008	38,676
Recovered costs	-	-	61,377	-	61,377	-
Grants not restricted to program	67,240	69,823	-	-	67,240	69,823
General Revenues	2,726,843	2,853,090	93,269	10,984	2,820,112	2,864,074
Total Revenues	4,416,073	5,493,420	2,756,319	2,731,212	7,172,392	8,224,632
General Government	1,214,519	1,195,607	-	-	1,214,519	1,195,607
Public Safety	1,521,445	1,569,854	-	-	1,521,445	1,569,854
Public Works	2,096,432	1,925,453	-	-	2,096,432	1,925,453
Parks, Recreation, Cultural	487,930	520,707	-	-	487,930	520,707
Community Development	346,523	719,609	-	-	346,523	719,609
Miscellaneous	-	-	-	-	-	-
Interest expense	67,536	75,705	-	-	67,536	75,705
Swimming pool	-	-	58,670	50,272	58,670	50,272
Water and Sewer	-	-	1,942,593	1,828,477	1,942,593	1,828,477
Total Expenses	5,734,385	6,006,935	2,001,263	1,878,749	7,735,648	7,885,684
Transfers	1,145,165	871,500	(1,145,165)	(871,500)	-	-
Change in Net Assets	(173,147)	357,985	(390,109)	(19,037)	(563,256)	338,948
Beginning Net Assets	3,657,940	3,484,793	10,490,459	10,100,350	14,148,399	13,585,143
Ending Net Assets	3,484,793	3,842,778	10,100,350	10,081,313	13,585,143	13,924,091

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. In particular, unreserved fund balance 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 combined ending fund balance of $259,456. Fund balance includes $81,833 reserved for debt services, $105,542 reserved for prepaid expenses, $124,363 designated funds, and $(52,282) unreserved.

Total revenues were $5,659,073 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 $6,930,646. These expenses are for general government, public safety, public works, culture and recreation, community development, debt service principal retirements and interest expense. This resulted in a deficiency before other financing sources of $1,271,573 in the governmental funds. The governmental funds obtained other financing sources of $961,285, which included operating transfer from the Water and Sewer Fund of $871,500 and proceeds from a note payable of $89,785. After the other financing sources were received by the governmental funds, there was a change in fund balance of $(310,288) at June 30, 2010.

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 assets for the water and sewer fund decreased from $9,877,060 to $9,863,866. The balance is made up of $7,953,894 in invested in capital assets, net of related debt, $342,085 restricted for debt service and bond covenants, and $1,567,887 unreserved.

Swimming pool fund net assets in the amount of $217,447 are down from 2009. Operating expenses were $58,670 for fiscal year 2009 and $50,272 in fiscal year 2010. The net asset balance includes $220,523 invested in capital assets, net of related debt, and deficit unreserved net assets balance of $3,076.

Proprietary funds total operating revenues were $2,481,763. Operating expenses for the proprietary funds was $1,704,608. This resulted in an operating income of $777,155. The proprietary funds had total non-operating expense of $163,157, capital contribution of $238,465, and net operating transfer out of $871,500. This resulted in a change in net assets of $(19,037).

General Fund Budgetary Highlights

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

Budgetary Highlights for 2009-2010

	GENERAL FUND BUDGET	GENERAL FUND ACTUAL	VARIANCE
Revenues	$4,659,724	$5,612,343	$ 952,619
Expenditures	5,890,617	6,888,134	(997,517)

Significant variances in the adopted budget and actual expenditures are reflected in the areas of community development, debt principal retirement, and capital outlays. 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, 2010 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:

Old School Building-The Town received a grant from the Department of Housing and Community Development to make improvements to the old school building. Capital expenditures of $695,930 were made during the fiscal year ending June 30, 2010. The project is included in construction in progress at June 30, 2010 since it was not completed by the end of the fiscal year.

South Main Street Waterline Replacement – The Town received federal grant revenue to make improvements to the South Main Street Waterline. Capital expenditures of $239,857 were made during the fiscal year ending June 30, 2010. The project was completed by the end of the fiscal year.

Long-term Debt

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

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
General obligation bonds	$ 5,096,869	$ -	$ (275,916)	$ 4,820,953
OPEB liability	-	32,924	-	32,924
Compensated absences	36,855	5,152	-	42,007
Total	$ 5,133,724	$ 38,076	$ (275,916)	$ 4,895,884

The outstanding debt for governmental activities at June 30, 2010 is as follows:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
General obligation bonds	$ 720,000	$ -	$ (80,000)	$ 640,000
Premium on bond	12,085	-	(1,295)	10,790
Loans payable	1,164,588	89,785	(283,156)	971,217
OPEB liability	-	90,522	-	90,522
Compensated absences	157,798	3,051	-	160,849
Total	$ 2,054,471	$ 183,358	$ (364,451)	$ 1,873,378

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

Scheduled Major Projects

1908 School House Project-Phase 1—The Town has received funding from Department of Housing and Community Development for a total of $1,000,000. The project includes the purchase of the 1908 School House, the demolition and safety clean-up necessary to determine blight severity, façade improvements to former high school, façade improvements to two structures on Main Street and one structure on Chestnut Street, streetscape improvements along Strother and Court Streets to create a pedestrian way linking the former historic building to downtown. Contracts on the project will be in four phases.

Sewer Treatment Plant Upgrade-Phase 1—The total project costs are estimated at $458,650 with funding from Smyth County and the Town. The Town expects to finance the project over a 10 year period. The most pressing needs are the influent pump station, disinfection system and lab roof. The project is separated into phases. There will be three phases to this project based upon need.

Parking Garage—The parking garage is a joint project with Smyth County.

E. Chilhowie Street Bridge—The bridge is in need of repair due to vehicle accident. The estimated engineering costs are $36,800 which will be recovered from the insurance company.

Downtown Streetscape—This project is connected with the 1908 School House project. This project includes Broad, N. Iron, and Main Street from Commerce to Pendleton Street. The total cost of the project is estimated to be $493,867. The funding for this project will be provided 80% from Virginia Department of Transportation and 20% by Town from a Department of Housing and Community Development grant.

Prater Lane/Closure of Railroad Crossing—Several years ago Virginia Department of Transportation and Norfolk Southern requested that the crossing be closed at their expense. Property was donated to the Town by W-L Construction to widen Prater Lane in the construction area. The total estimated cost is $213,000 with the Virginia Department of Transportation and Norfolk Southern sharing in the cost of the project.

Riverview Pump Station—The total cost of the project is estimated at $49,000 with funding from the Virginia Department of Health.

Signalization Upgrade—The project is funded by the Virginia Department of Transportation.

S. Church Street Drainage—The project consists of realigning drainage on S. Church Street. The project is to be funded by the Virginia Department of Transportation.

Chatham Hill Road Bridge—The project consists of upgrading the bridge with funding from Virginia Department of Transportation.

Housing Rehabilitation of Pearl Avenue and Buchanan Street—The project consists of rehabbing residences over a period of three years. The estimated cost of the project is $751,190 with funding from Community Development Block Grant of $715,190 and a contribution from Town of $36,000.

Farmer's Market Restrooms—Funding for the projects consists of a grant from Rural Development that would cover 55% of the costs of the project and funding from the Tobacco Commission.

Baughman Avenue Bridge—The project consists of upgrading the bridge. The estimated cost is $800,000 with funding from the Virginia Department of Transportation.

Water Leak Analysis Repairs—The project consists of identifying significant leaks in the Town water system. Funding for the project is to come from Virginia Department of Health.

Downtown Slum and Blight Project—This project is included in the 1908 School House project.

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

Exhibit 1

Town of Marion, Virginia
Statement of Net Assets
For the Year Ended June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 567,627	$ 963,642	$ 1,531,269
Receivables (net of allowance for uncollectibles):			
Taxes receivable	643,424	-	643,424
Accounts receivable	52,783	316,792	369,575
Other receivables	95,089	-	95,089
Due from other funds	33,951	556,121	590,072
Due from other governmental units	200,710	-	200,710
Prepaid expenses	105,542	-	105,542
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	-	157,882	157,882
Investments	81,833	184,203	266,036
Capital assets (net of accumulated depreciation):			
Land	990,579	578,704	1,569,283
Buildings and system	1,648,797	-	1,648,797
Improvements other than buildings	-	41,398	41,398
Machinery and equipment	337,024	486,630	823,654
Plant and lines in service	-	11,887,213	11,887,213
Infrastructure	1,652,026	-	1,652,026
Construction in progress	818,521	1,425	819,946
Total assets	$ 7,227,906	$ 15,174,010	$ 22,401,916
LIABILITIES			
Accounts payable	$ 215,239	$ 101,438	$ 316,677
Accrued liabilities	66,324	6,644	72,968
Bond bond liability	7,407	-	7,407
Customers' deposits	-	46,060	46,060
Accrued interest payable	5,402	42,671	48,073
Due to other funds	590,072	-	590,072
Deferred revenue	627,306	-	627,306
Long-term liabilities:			
Due within one year	405,682	310,441	716,123
Due in more than one year	1,467,696	4,585,443	6,053,139
Total liabilities	$ 3,385,128	$ 5,092,697	$ 8,477,825
NET ASSETS			
Invested in capital assets, net of related debt	$ 3,824,940	$ 8,174,417	$ 11,999,357
Restricted for:			
Debt service and bond covenants	81,833	342,085	423,918
Downtown housing project	152,693	-	152,693
Unrestricted (deficit)	(216,688)	1,564,811	1,348,123
Total net assets	$ 3,842,778	$ 10,081,313	$ 13,924,091

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

Exhibit 2

Town of Marion, Virginia
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	$ 1,195,607	$ -	$ -	$ -	$ (1,195,607)	$ -	$ (1,195,607)
Public safety	1,569,854	-	218,135	73,245	(1,278,474)	-	(1,278,474)
Public works	1,925,453	307,738	1,001,694		(616,021)	-	(616,021)
Parks, recreation, and cultural	520,707	19,237	-	-	(501,470)	-	(501,470)
Community development	719,609	2,035	334,660	683,586	300,672	-	300,672
Interest on long-term debt	75,705	-	-	-	(75,705)	-	(75,705)
Total government activities	$ 6,006,935	$ 329,010	$ 1,554,489	$ 756,831	$ (3,366,605)	$ -	$ (3,366,605)
Business-type activities:							
Water and Sewer	$ 1,828,477	$ 2,456,501	$ -	$ 238,465	$ -	$ 866,489	$ 866,489
Swimming Pool	50,272	25,262	-	-	-	(25,010)	(25,010)
Total business-type activities	$ 1,878,749	$ 2,481,763	$ -	$ 238,465	$ -	$ 841,479	$ 841,479
Total primary government	$ 7,885,684	$ 2,810,773	$ 1,554,489	$ 995,296	$ (3,366,605)	$ 841,479	$ (2,525,126)

	Governmental Activities	Business-type Activities	Total
General revenues:			
General property taxes	$ 527,199	$ -	$ 527,199
Other local taxes:			
Local sales and use taxes	152,560	-	152,560
Consumers' utility taxes	112,566	-	112,566
Business license taxes	565,736	-	565,736
Communication tax	136,417	-	136,417
Motor vehicle licenses	53,476	-	53,476
Bank stock tax	143,790	-	143,790
Meals taxes	767,296	-	767,296
Other local taxes	251,024	-	251,024
Permits, privilege fees, and regulatory licenses	165	-	165
Fines and forfeitures	38,511	-	38,511
Unrestricted revenues from use of money and property	24,496	11,698	36,194
Miscellaneous	10,576	-	10,576
Grants and contributions not restricted to specific programs	69,823	-	69,823
Gain (loss) on disposal of capital assets	(545)	(714)	(1,259)
Transfers	871,500	(871,500)	-
Total general revenues	$ 3,724,590	$ (860,516)	$ 2,864,074
Change in net assets	$ 357,985	$ (19,037)	$ 338,948
Net assets - beginning	3,484,793	10,100,350	13,585,143
Net assets - ending	$ 3,842,778	$ 10,081,313	$ 13,924,091

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

Exhibit 3

Town of Marion, Virginia
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 434,502	$ 133,125	$ 567,627
Receivables (net of allowance for uncollectibles):			
Taxes receivable	643,424	-	643,424
Accounts receivable	52,783	-	52,783
Other receivables	95,089		95,089
Due from other funds	33,951	-	33,951
Due from other governmental units	175,521	25,189	200,710
Prepaid expenses	105,542	-	105,542
Restricted assets:			
Investments	81,833	-	81,833
Total assets	$ 1,622,645	$ 158,314	$ 1,780,959
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 215,239	$ -	$ 215,239
Accrued liabilities	66,324	-	66,324
Bid bond liability	7,407		7,407
Due to other funds	556,121	33,951	590,072
Deferred revenue	642,461	-	642,461
Total liabilities	$ 1,487,552	$ 33,951	$ 1,521,503
Fund balances:			
Reserved for:			
Debt service	$ 81,833	$ -	$ 81,833
Prepaid expense	105,542	-	105,542
Unreserved, reported in:			
General fund	(52,282)	-	(52,282)
Designated funds	-	124,363	124,363
Total fund balances	$ 135,093	$ 124,363	$ 259,456
Total liabilities and fund balances	$ 1,622,645	$ 158,314	$ 1,780,959

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

Exhibit 4

Town of Marion, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
For the Year Ended June 30, 2010

Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	$	259,456
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		5,446,947
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		15,155
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(1,878,780)
Net assets of governmental activities	$	3,842,778

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

Exhibit 5

Town of Marion, Virginia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
General property taxes	$ 525,667	$ -	$ 525,667
Other local taxes	2,182,865	-	2,182,865
Permits, privilege fees, and regulatory licenses	165	-	165
Fines and forfeitures	38,511	-	38,511
Revenue from the use of money and property	24,496	-	24,496
Charges for services	329,010	-	329,010
Miscellaneous	10,576	-	10,576
Recovered costs	153,750	12,890	166,640
Intergovernmental revenues:			
Commonwealth	1,464,624	25,189	1,489,813
Federal	882,679	8,651	891,330
Total revenues	$ 5,612,343	$ 46,730	$ 5,659,073
EXPENDITURES			
Current:			
General government administration	$ 1,145,845	$ -	$ 1,145,845
Public safety	1,359,099	-	1,359,099
Public works	1,846,756	-	1,846,756
Parks, recreation, and cultural	521,547	-	521,547
Community development	692,088	42,512	734,600
Capital projects	882,088	-	882,088
Debt service:			
Principal retirement	363,156	-	363,156
Interest and other fiscal charges	77,555	-	77,555
Total expenditures	$ 6,888,134	$ 42,512	$ 6,930,646
Excess (deficiency) of revenues over (under) expenditures	$ (1,275,791)	$ 4,218	$ (1,271,573)
OTHER FINANCING SOURCES (USES)			
Transfers in	$ 871,500	$ -	871,500
Proceeds of note payable	89,785	-	89,785
Total other financing sources (uses)	$ 961,285	$ -	$ 961,285
Net change in fund balances	$ (314,506)	$ 4,218	$ (310,288)
Fund balances - beginning	449,599	120,145	569,744
Fund balances - ending	$ 135,093	$ 124,363	$ 259,456

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

Exhibit 6

Town of Marion, Virginia
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds To the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds	$ (310,288)
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.	485,637
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase (decrease) net assets.	(545)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,532
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 assets. 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.	274,666
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.	(93,017)
Change in net assets of governmental activities	$ 357,985

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

Exhibit 7

Town of Marion, Virginia
Statement of Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds		
	Water and Sewer Fund	Swimming Pool Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 963,442	$ 200	$ 963,642
Accounts receivables, net of allowances for uncollectibles	316,792	-	316,792
Due from other funds	556,121	-	556,121
Total current assets	$ 1,836,355	$ 200	$ 1,836,555
Noncurrent assets:			
Restricted current assets:			
Cash and cash equivalents	$ 157,882	$ -	$ 157,882
Investments	184,203	-	184,203
Total restricted current assets	$ 342,085	$ -	$ 342,085
Capital assets:			
Utility plant in service	19,393,195	-	19,393,195
Machinery and equipment	2,592,217	29,151	2,621,368
Land	399,579	179,125	578,704
Pool	-	974,651	974,651
Less accumulated depreciation	(9,611,569)	(962,404)	(10,573,973)
Construction in progress	1,425	-	1,425
Total capital assets	$ 12,774,847	$ 220,523	$ 12,995,370
Total noncurrent assets	$ 13,116,932	$ 220,523	$ 13,337,455
Total assets	$ 14,953,287	$ 220,723	$ 15,174,010
LIABILITIES			
Current liabilities:			
Accounts payable	$ 99,641	$ 1,797	$ 101,438
Accrued liabilities	5,165	1,479	6,644
Customers' deposits	46,060	-	46,060
Accrued interest payable	42,671	-	42,671
Compensated absences	31,506	-	31,506
General obligation bonds payable - current portion	278,935	-	278,935
Total current liabilities	$ 503,978	$ 3,276	$ 507,254
Noncurrent liabilities:			
General obligation bonds payable - net of current portion	$ 4,542,018	$ -	$ 4,542,018
Compensated absences	10,501	-	10,501
OPEB liability	32,924		32,924
Total noncurrent liabilities	$ 4,585,443	$ -	$ 4,585,443
Total liabilities	$ 5,089,421	$ 3,276	$ 5,092,697
NET ASSETS			
Invested in capital assets, net of related debt	$ 7,953,894	$ 220,523	$ 8,174,417
Restricted for debt service and bond covenants	342,085	-	342,085
Unrestricted	1,567,887	(3,076)	1,564,811
Total net assets	$ 9,863,866	$ 217,447	$ 10,081,313

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

Exhibit 8

Town of Marion, Virginia
Statement of Revenues, Expenditures and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Fund Water and Sewer Fund	Enterprise Fund Swimming Pool Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services	$ 2,456,501	$ 21,560	$ 2,478,061
Other revenues	-	3,702	3,702
Total operating revenues	$ 2,456,501	$ 25,262	$ 2,481,763
OPERATING EXPENSES			
Personal services	$ 458,510	$ 23,154	$ 481,664
Fringe benefits	183,722	7,768	191,490
Contractual services	71,276	30	71,306
Materials and supplies	85,035	4,998	90,033
Other charges	261,160	9,665	270,825
Depreciation	594,633	4,657	599,290
Total operating expenses	$ 1,654,336	$ 50,272	$ 1,704,608
Operating income (loss)	$ 802,165	$ (25,010)	$ 777,155
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	$ -	$ -	$ -
Investment earnings	11,698	-	11,698
Loss on disposal	(714)	-	(714)
Interest expense	(174,141)	-	(174,141)
Total nonoperating revenues (expenses)	$ (163,157)	$ -	$ (163,157)
Income before contributions and transfers	$ 639,008	$ (25,010)	$ 613,998
Capital contributions	$ 238,465	$ -	$ 238,465
Transfers in	-	19,167	19,167
Transfers out	(890,667)	-	(890,667)
Change in net assets	$ (13,194)	$ (5,843)	$ (19,037)
Total net assets - beginning	$ 9,877,060	$ 223,290	$ 10,100,350
Total net assets - ending	$ 9,863,866	$ 217,447	$ 10,081,313

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

Exhibit 9

Town of Marion, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Fund Water and Sewer Fund	Enterprise Fund Swimming Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 2,466,021	$ 25,262	$ 2,491,283
Payments to suppliers	(606,774)	(21,888)	(628,662)
Payments to and for employees	(418,818)	(22,541)	(441,359)
Net cash provided (used by) operating activities	$ 1,440,429	$ (19,167)	$ 1,421,262
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	$ (890,667)	$ -	$ (890,667)
Transfers from other funds	-	19,167	19,167
Net cash provided (used) by noncapital financing activities	$ (890,667)	$ 19,167	$ (871,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	$ (304,554)	$ -	$ (304,554)
Principal payments on bonds	(275,916)	-	(275,916)
Capital contributions	238,465	-	238,465
Interest payments	(190,268)	-	(190,268)
Net cash provided (used) by capital and related financing activities	$ (532,273)	$ -	$ (532,273)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	$ 11,698	$ -	$ 11,698
Net cash provided (used) by investing activities	$ 11,698	$ -	$ 11,698
Net increase (decrease) in cash and cash equivalents	$ 29,187	$ -	$ 29,187
Cash and cash equivalents - beginning	$ 1,276,340	$ 200	$ 1,276,540
Cash and cash equivalents - ending	$ 1,305,527	$ 200	$ 1,305,727
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 802,165	$ (25,010)	$ 777,155
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	$ 594,633	$ 4,657	$ 599,290
(Increase) decrease in accounts receivable	10,450	-	10,450
Increase (decrease) in customer deposits	(930)	-	(930)
Increase (decrease) in operating accounts payable	(3,965)	1,186	(2,779)
Increase (decrease) in OPEB liability	32,924	-	32,924
Increase (decrease) in compensated absences	5,152	-	5,152
Total adjustments	$ 638,264	$ 5,843	$ 644,107
Net cash provided (used) by operating activities	$ 1,440,429	$ (19,167)	$ 1,421,262

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

Exhibit 10

Town of Marion, Virginia
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010

	Cemetery Fund
ASSETS	
Cash and cash equivalents	$ 4,128
Investments, at fair value	95,645
Total assets	$ 99,773
NET ASSETS	
Amounts held for cemetery maintenance	99,773
Total liabilities	$ 99,773

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

Exhibit 11

Town of Marion, Virginia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010

		Cemetery Fund
ADDITIONS		
Investment earnings:		
Interest and dividends	$	3,239
Unrealized gain on investment		9,868
Total additions	$	13,107
DEDUCTIONS		
Distribution	$	2,811
Fiduciary fees		890
Realized loss on investment		1,867
Total deductions	$	5,568
Change in net assets	$	7,539
Net assets - beginning		92,234
Net assets - ending	$	99,773

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

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 - None

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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*.

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

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

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

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 un-collectible 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.

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.

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are 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 assets 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.

3. Allowance for Un-collectible Accounts

The Town calculates its allowance for un-collectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for governmental activities amounted to approximately $54,951 for property taxes and $6,933 for garbage billings at June 30, 2010. The allowance for business-type activities amounted to approximately $84,977 for water and sewer billings at June 30, 2010.

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

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

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 or previous year.

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

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

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.

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

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

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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 Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

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.

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 assets:

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. 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 $(1,878,780) difference for the primary government is as follows:

	Primary Government
General obligation bonds and loans payable	$ (1,622,007)
Accrued interest	(5,402)
OPEB liability	(90,522)
Compensated absences	(160,849)
Net adjustment to reduce *fund balance-total governmental funds* to arrive at *net assets-governmental activities*	$ (1,878,780)

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 assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "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 $485,637 difference for the primary government is as follows:

	Primary Government
Capital outlays	$ 796,836
Depreciation expense	(311,199)
Net adjustment to increase (decrease) *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 485,637

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: (continued)

Another element of that reconciliation states, "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 $(93,017) difference for the primary government is as follows:

	Primary Government
(Increase) Decrease in Compensated absences	$ (3,050)
(Increase) Decrease in OPEB liability	(90,522)
(Increase) Decrease in Accrued interest	555
Net adjustment to increase (decrease) *net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (93,017)

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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, 2010, the CDBG Gilman Street Fund had a deficit fund equity of $(32,951). This fund is 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.

Note 4-Deposits and Investments: (continued)

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. The Town escrows the amounts monthly that are paid to the lender on a yearly basis.

Note 5-Due from Other Governmental Units:

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

Commonwealth of Virginia:		
Local sales tax	$	26,580
Communication tax		23,026
Non-categorical aid		7,242
Community development block grant		114,407
Virginia department of transportation grant		25,189
Virginia water supply revolving fund grant		4,266
Total	$	200,710

Note 6-Interfund Transfers:

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Fund	Transfers In	Transfers Out
Primary Government:		
General Fund	$ 871,500	$ -
Water and Sewer Fund	-	(890,667)
Swimming Pool Fund	19,167	
Total	$ 890,667	$ (890,667)

Note 7-Long-Term Debt:

Primary Government - Governmental Activity Indebtedness:

Details of long-term indebtedness:

Year Ending	General Obligation Bonds		Loan Payable		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 85,000	$ 26,865	$ 200,046	$ 38,999	$ 285,046	$ 65,864
2012	85,000	23,830	209,066	29,979	294,066	53,809
2013	65,000	20,870	221,080	22,566	286,080	43,436
2014	70,000	18,543	75,714	22,202	145,714	40,745
2015	70,000	16,023	6,161	13,680	76,161	29,703
2016-2020	265,000	27,324	36,091	63,117	301,091	90,441
2021-2025	-	-	46,781	52,426	46,781	52,426
2026-2030	-	-	60,638	38,570	60,638	38,570
2031-2035	-	-	78,599	20,609	78,599	20,609
2036-2040	-	-	37,041	2,641	37,041	2,641
Totals	$ 640,000	$ 133,455	$ 971,217	$ 304,789	$ 1,611,217	$ 438,244

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2010.

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
General obligation bonds	$ 720,000	$ -	$ (80,000)	$ 640,000
Premium on bond	12,085	-	(1,295)	10,790
Loans payable	1,164,588	89,785	(283,156)	971,217
OPEB liability	-	90,522	-	90,522
Compensated absences	157,798	3,051	-	160,849
Total	$ 2,054,471	$ 183,358	$ (364,451)	$ 1,873,378

Note 7-Long-Term Debt: (continued)

Primary Government - Governmental Activity Indebtedness (Continued):

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
General Obligation Bonds		
Virginia Resource Authority bond, issued May 8, 2005, variable semi-annual installments of principal and interest. Interest computed at a variable rate of 3.28% to 4.85%, unsecured.	$ 640,000	$ 85,000
Total General Obligation Bonds	$ 640,000	$ 85,000
Loan Payable		
Bank of Tazewell County, issued June 15, 2004, monthly installments of principal and interest in the amount of $3,775. Interest computed at a rate of 3.45%, secured by equipment.	$ 165,061	$ 40,108
Bank of Marion, issued August 26, 2002, monthly installments of principal and interest in the amount of $11,663. Interest computed at a rate of 4.74%, secured by equipment.	$ 395,643	$ 123,862
National Bank of Blacksburg, issued June 1, 2009, monthly installments of principal and interest in the amount of $2,730. Interest computed at a rate of 4.37%, secured by equipment	$ 117,431	$ 28,076
Bank of Marion, issued June 26, 2007, total issuance price of $315,000. Interest computed at a rate of 4.5% for five years. For next 25 years, the interest rate is 5.2%.	$ 293,082	$ 8,000
Total Loans Payable	$ 971,217	$ 200,046
Other Obligations:		
Compensated absences	$ 160,849	$ 120,636
OPEB liability	90,522	-
Total Other Obligations	$ 251,371	$ 120,636

Note 7-Long-Term Debt: (continued)

Primary Government-Enterprise 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
2011	$ 278,935	$ 182,353
2012	289,385	173,516
2013	289,855	164,404
2014	273,598	155,041
2015	252,364	145,297
2016-2020	1,338,106	570,660
2021-2025	1,593,253	254,946
2026-2030	328,253	56,840
2031-2035	177,204	27,393
2036-2040	-	-
Totals	$ 4,820,953	$ 1,730,450

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2010.

	July 1, 2009	Issuances	Retirements	June 30, 2010
General obligation bonds	$ 5,096,869	$ -	$ (275,916)	$ 4,820,953
Compensated absences	36,855	5,152	-	42,007
OPEB liability	-	32,924	-	32,924
Total	$ 5,133,724	$ 38,076	$ (275,916)	$ 4,895,884

Note 7-Long-Term Debt: (continued)

Primary Government-Enterprise Activity Indebtedness: (continued)

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
General Obligation Bonds:		
Virginia Resource Authority, issued February 9, 1993, semi-annual principal reductions of $26,749. There is no interest rate on this note.	$ 187,241	$ 53,497
Virginia Resource Authority, issued on July 7, 1992, semi-annual principal and interest payments computed at a rate of 2.5%.	$ 3,080,000	$ 150,000
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%.	$ 1,490,216	$ 65,651
Rural Development, issued a $225,800 loan on June 9, 1997. Monthly payments of principal and interest of $1,037 at a rate of 4.5%.	$ 63,496	$ 9,787
Total General Obligation Bonds	$ 4,820,953	$ 278,935

	Total Amount	Amount Due Within One Year
Other Obligations:		
Compensated absences	$ 42,007	$ 31,506
OPEB liability	32,924	-
Total other obligations	$ 74,931	$ 31,506

Note 8-Employee Retirement System and Pension Plans:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500

B. Funding Policy

Primary Government:
Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2010 was 18.93% of annual covered payroll.

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Note 8-Employee Retirement System and Pension Plans: (continued)

C. Annual Pension Cost

Primary Government:
For fiscal year 2010, the Town's annual pension cost of $483,251 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) [1]	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
Town	6/30/2010	$ 483,251	100.00%	$ -
	6/30/2009	$ 473,225	100.00%	-
	6/30/2008	$ 480,998	100.00%	-

[1] Employer portion only

D. Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 71.99% funded. The actuarial accrued liability for benefits was $13,066,095 and the actuarial value of assets was $9,406,922, resulting in an unfunded actuarial accrued liability (UAAL) of $3,659,173. The covered payroll (annual payroll of active employees covered by the plan) was $2,557,395, and ratio of the UAAL to the covered payroll was 143.08%.

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

Note 9-Capital Assets:

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 990,579	$ -	$ -	$ 990,579
Construction in progress	116,511	702,010	-	818,521
Total capital assets not being depreciated	$ 1,107,090	$ 702,010	$ -	$ 1,809,100
Capital assets, being depreciated:				
Buildings	$ 3,943,796	$ 32,604	$ -	$ 3,976,400
Improvements other than buildings	1,871,511	-	-	1,871,511
Machinery and equipment	4,784,475	62,222	(39,339)	4,807,358
Total capital assets being depreciated	$ 10,599,782	$ 94,826	$ (39,339)	$ 10,655,269
Less: accumulated depreciation for:				
Buildings	$ (2,236,588)	$ (91,015)	$ -	$ (2,327,603)
Improvements other than buildings	(166,197)	(53,288)	-	(219,485)
Machinery and equipment	(4,342,232)	(166,896)	38,794	(4,470,334)
Total accumulated depreciation	$ (6,745,017)	$ (311,199)	$ 38,794	$ (7,017,422)
Total capital assets being depreciated, net	$ 3,854,765	$ (216,373)	$ (545)	$ 3,637,847
Governmental activities capital assets, net	$ 4,961,855	$ 485,637	$ (545)	$ 5,446,947

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

Governmental activities:	
General government	$ 68,905
Public safety	80,305
Public works	150,253
Parks, recreation, and culture	11,736
Total depreciation expense - governmental activities	$ 311,199

Note 9-Capital Assets: (continued)

Business-type activities:

Water and Sewer Fund:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	$ 399,579	$ -	$ -	$ 399,579
Construction in progress	5,200	240,082	(243,857)	1,425
Total capital assets not being depreciated	$ 404,779	$ 240,082	(243,857)	$ 401,004
Capital assets, being depreciated:				
Utility plant and equipment	$ 19,099,867	$ 293,328	$ -	$ 19,393,195
Machinery and equipment	2,580,275	15,000	(3,058)	2,592,217
Total capital assets being depreciated	$ 21,680,142	$ 308,328	$ (3,058)	$ 21,985,412
Less: accumulated depreciation for:				
Utility plant and equipment	$ (7,000,674)	$ (505,308)	$ -	$ (7,505,982)
Machinery and equipment	(2,018,607)	(89,325)	2,345	(2,105,587)
Total accumulated depreciation	$ (9,019,281)	$ (594,633)	$ 2,345	$ (9,611,569)
Total capital assets being depreciated, net	$ 12,660,861	$ (286,305)	$ (713)	$ 12,373,843
Business-type acitivities capital assets, net	$ 13,065,640	$ (46,223)	$ (244,570)	$ 12,774,847

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Note 9-Capital Assets: (continued)

Business-type activities:

Swimming Pool Fund:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 179,125	$ -	$ -	$ 179,125
Total capital assets not being depreciated	$ 179,125	$ -	-	$ 179,125
Capital assets, being depreciated:				
Pool	$ 974,651	$ -	$ -	$ 974,651
Equipment	29,151	-	-	29,151
Total capital assets being depreciated	$ 1,003,802	$ -	$ -	$ 1,003,802
Less: accumulated depreciation for:				
Pool	$ (928,596)	$ (4,657)	$ -	$ (933,253)
Equipment	(29,151)	-	-	(29,151)
Total accumulated depreciation	$ (957,747)	$ (4,657)	$ -	$ (962,404)
Total capital assets being depreciated, net	$ 46,055	$ (4,657)	$ -	$ 41,398
Business-type acitivities capital assets, net	$ 225,180	$ (4,657)	$ -	$ 220,523

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

Business-type activities:	
Water and Sewer	$ 594,633
Swimming Pool	4,657
Total depreciation expense - business type activities	$ 599,290

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 $642,461 is comprised of the following:

Property Taxes - Property tax revenue representing uncollected tax billings 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:

Virginia Muncipal Liability Pool		
Public Employees Dishonesty Coverage	$	200,000

Note 13 – Restricted Net Assets:

Governmental Activities		*Balance*
Restricted for debt service and bond covenants	$	81,833
Restricted for downtown housing project		152,693
Total	$	234,526

Business-type Activities		*Balance*
Restricted for debt service and bond covenants	$	342,085
Total	$	342,085

Note 14 – Restricted Cash and Cash Equivalents

Restricted cash of $157,882 is reflected in the financial statements for the business-type activities. The $157,882 represents the amount set aside for debt service in the water and sewer fund.

Note 15 – Restricted Investments

Restricted investment of $81,833 is reflected in the financial statements for the governmental activities. The $81,833 represents the amount set aside to cover the requirements set forth by Virginia Resource Authority in connection with the general obligation bond. Restricted investment of $184,203 is reflected in the financial statements for the business-type activities. The $184,203 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 go 90 days and are accident free. 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, 2010 due to the difficulty in estimating the number of employees who may retire with 30 years of VRS service.

Note 18 – Designations of Fund Balance

Other Governmental Funds	*Balance*
Dare Fund	$ 361
Streetscape Fund	1,760
Downtown Housing Fund	152,693
CDBG Gilman Street Fund	(32,951)
Master Redevelopment	2,500
Total	$ 124,363

Note 19 – Interfund Balances

Interfund balances consisted of the following at June 30, 2010:

Fund	Due from	Due to
Primary Government:		
General Fund	$ 33,951	$ 556,121
Water and Sewer Fund	556,121	-
CDBG Gilman Street Fund	-	32,951
Master Redevelopment Fund	-	1,000
Total	$ 590,072	$ 590,072

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 Authority meets the requirements to use the alternative measurement method and elects to use the alternative measurement method.

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2010, the Town's annual OPEB costs of $90,522 for governmental activities and $32,924 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	Governmental Activities	Business-type Activities
Annual required contribution	$ 90,522	$ 32,924
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	90,522	32,924
Contributions made	-	-
Increase in net OPEB obligation	90,522	32,924
Net OPEB obligation-beginning of year	-	-
Net OPEB obligation-end of year	$ 90,522	$ 32,924

Note 20 – Other Post-Employment Benefits: (continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation (Continued)

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. The Town's first year for implementing GASB No. 45 was June 30, 2010.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	90,522	0%	90,522

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. The Town's first year for implementing GASB No. 45 was June 30, 2010.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	32,924	0%	32,924

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2010 was as follows:

	Governmental Activities	Business-type Activities
Actuarial Accrued Liability (AAL)	$ 917,989	$ 215,871
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	917,989	215,871
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	2,256,784	458,510
UAAL as a Percentage of Covered Payroll	40.68%	47.08%

Note 20 – Other Post-Employment Benefits: (continued)

Funding Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

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 3% and an investment rate of return of 4%. 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. The 2004 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, 2010 is 29 years.

Note 20 – Other Post-Employment Benefits: (continued)

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 2010, the Town had not designated any funding for the OPEB liability.

Note 21 – New Accounting Standards

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

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* provides new fund balance classifications and clarifies governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement will be effective for the year ending June 30, 2011.

Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect it to be material.

Town of Marion, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
General property taxes	$ 592,475	$ 592,475	$ 525,667	$ (66,808)
Other local taxes	2,237,253	2,237,253	2,182,865	(54,388)
Permits, privilege fees, and regulatory licenses	200	200	165	(35)
Fines and forfeitures	20,315	20,315	38,511	18,196
Revenue from the use of money and property	70,430	70,430	24,496	(45,934)
Charges for services	329,120	329,120	329,010	(110)
Miscellaneous	25,800	25,800	10,576	(15,224)
Recovered costs	42,750	42,750	153,750	111,000
Intergovernmental revenues:				
Commonwealth	1,253,781	1,253,781	1,464,624	210,843
Federal	87,600	87,600	882,679	795,079
Total revenues	$ 4,659,724	$ 4,659,724	$ 5,612,343	$ 952,619
EXPENDITURES				
Current:				
General government administration	$ 1,165,016	$ 1,165,016	$ 1,145,845	$ 19,171
Public safety	1,412,417	1,412,417	1,359,099	53,318
Public works	1,915,383	1,915,383	1,846,756	68,627
Parks, recreation, and cultural	503,655	503,655	521,547	(17,892)
Community development	441,012	441,012	692,088	(251,076)
Capital projects	119,390	119,390	882,088	(762,698)
Debt service:				
Principal retirement	256,189	256,189	363,156	(106,967)
Interest and other fiscal charges	77,555	77,555	77,555	-
Total expenditures	$ 5,890,617	$ 5,890,617	$ 6,888,134	$ (997,517)
Excess (deficiency) of revenues over (under) expenditures	$ (1,230,893)	$ (1,230,893)	$ (1,275,791)	$ (44,898)
OTHER FINANCING SOURCES (USES)				
Transfers in	$ 134,000	$ 134,000	$ 871,500	$ 737,500
Proceeds of note payable	-	-	89,785	89,785
Total other financing sources and uses	$ 134,000	$ 134,000	$ 961,285	$ 827,285
Net change in fund balances	$ (1,096,893)	$ (1,096,893)	$ (314,506)	$ 782,387
Fund balances - beginning	-	-	449,599	449,599
Fund balances - ending	$ (1,096,893)	$ (1,096,893)	$ 135,093	$ 1,231,986

Town of Marion, Virginia
General Fund
Schedule of Funding Progress
For the Year Ended June 30, 2010

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)
6/30/2009	$ 9,406,922	$ 13,066,095	$ 3,659,173	71.99%	$ 2,557,395	143.08%
6/30/2008	9,390,285	11,927,272	2,536,987	78.73%	2,400,130	105.70%
6/30/2007	8,530,097	11,285,559	2,755,462	75.58%	2,318,868	118.83%
6/30/2006	7,606,056	10,660,703	3,054,647	71.35%	2,245,495	136.03%

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)
7/1/2009	$ -	$ 917,989	$ 917,989	0.00%	2,256,784	40.68%

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)
7/1/2009	$ -	$ 215,871	$ 215,871	0.00%	458,510	47.08%

Exhibit 14

Town of Marion, Virginia
Combining Balance Sheet
Other Governmental Funds
For the Year Ended June 30, 2010

	Dare Program	Streetscape Program	Downtown Housing Project	CDBG Gilman Street	Master Redevelopment	Total
ASSETS						
Cash and cash equivalents	$ 361	$ 1,760	$ 127,504	$ -	$ 3,500	$ 133,125
Due from other governmental units	-	-	25,189	-	-	25,189
Total assets	$ 361	$ 1,760	$ 152,693	$ -	$ 3,500	$ 158,314
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	$ -	$ -	$ -	$ 32,951	$ 1,000	$ 33,951
Total liabilities	$ -	$ -	$ -	$ 32,951	$ 1,000	$ 33,951
Fund balances:						
Unreserved:						
Designated for subsequent expenditure	$ 361	$ 1,760	$ 152,693	$ (32,951)	$ 2,500	$ 124,363
Total fund balances	$ 361	$ 1,760	$ 152,693	$ (32,951)	$ 2,500	$ 124,363
Total liabilities and fund balances	$ 361	$ 1,760	$ 152,693	$ -	$ 3,500	$ 158,314

Exhibit 15

Town of Marion, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2010

	Dare Program	Streetscape Program	Downtown Housing Project	CDBG Gilman Street	Master Redevelopment	Total
REVENUES						
Miscellaneous	$ -	$ -	$ -	$ -	$ -	$ -
Recovered costs	-	-	12,890	-	-	12,890
Intergovernmental revenues:						
Commonwealth	-	-	25,189	-	-	25,189
Federal	-	-	-	6,151	2,500	8,651
Total revenues	$ -	$ -	$ 38,079	$ 6,151	$ 2,500	$ 46,730
EXPENDITURES						
Current:						
Public safety	$ -	$ -	$ -	$ -	$ -	$ -
Community development	-	-	31,486	11,026	-	42,512
Total expenditures	$ -	$ -	$ 31,486	$ 11,026	$ -	$ 42,512
Excess (deficiency) of revenues over (under) expenditures	$ -	$ -	$ 6,593	$ (4,875)	$ 2,500	$ 4,218
OTHER FINANCING SOURCES (USES)						
Transfers out	$ -	$ -	$ -	$ -	$ -	$ -
Total other financing sources and uses	$ -	$ -	$ -	$ -	$ -	$ -
Net change in fund balances	$ -	$ -	$ 6,593	$ (4,875)	$ 2,500	$ 4,218
Fund balances - beginning	361	1,760	146,100	(28,076)	-	120,145
Fund balances - ending	$ 361	$ 1,760	$ 152,693	$ (32,951)	$ 2,500	$ 124,363

Schedule 1

Town of Marion, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	$ 383,000	$ 383,000	$ 371,143	$ (11,857)
Real and personal public service corporation taxes	18,000	18,000	17,425	(575)
Personal property taxes	183,975	183,975	129,838	(54,137)
Penalties and Interest	7,500	7,500	7,261	(239)
Total general property taxes	$ 592,475	$ 592,475	$ 525,667	$ (66,808)
Other local taxes:				
Local sales and use taxes	$ 260,000	$ 260,000	$ 152,560	$ (107,440)
Consumers' utility taxes	104,000	104,000	112,566	8,566
Communications taxes	140,000	140,000	136,417	(3,583)
Lodging taxes	84,000	84,000	59,524	(24,476)
Business license taxes	486,653	486,653	565,736	79,083
Utility license taxes	29,000	29,000	28,509	(491)
Motor vehicle licenses	59,000	59,000	53,476	(5,524)
Bank stock taxes	150,000	150,000	143,790	(6,210)
Franchise taxes	-	-	100	100
Tobacco taxes	150,000	150,000	156,221	6,221
Meals taxes	762,000	762,000	767,296	5,296
Comcast PEG capital fees	12,600	12,600	6,670	(5,930)
Total other local taxes	$ 2,237,253	$ 2,237,253	$ 2,182,865	$ (54,388)
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	$ 200	$ 200	$ 165	$ (35)
Total permits, privilege fees, and regulatory licenses	$ 200	$ 200	$ 165	$ (35)
Fines and forfeitures:				
Court fines and forfeitures	$ 20,000	$ 20,000	$ 38,281	$ 18,281
Parking Fines	315	315	230	(85)
Total fines and forfeitures	$ 20,315	$ 20,315	$ 38,511	$ 18,196
Revenue from use of money and property:				
Revenue from use of money	$ 50,400	$ 50,400	$ 2,706	$ (47,694)
Revenue from use of property	20,030	20,030	21,790	1,760
Total revenue from use of money and property	$ 70,430	$ 70,430	$ 24,496	$ (45,934)
Charges for services:				
Parking lot charges	$ 700	$ 700	$ 720	$ 20
Charges for sanitation and waste removal	308,000	308,000	307,018	(982)
Charges for parks and recreation	8,500	8,500	15,911	7,411
Farmers market	5,920	5,920	2,035	(3,885)
Cemetery maintenance fees	6,000	6,000	3,326	(2,674)
Total charges for services	$ 329,120	$ 329,120	$ 329,010	$ (110)
Miscellaneous revenue:				
Miscellaneous	$ 15,800	$ 15,800	$ 7,625	$ (8,175)
Sale of property and equipment	10,000	10,000	-	(10,000)
Donations	-	-	2,951	2,951
Total miscellaneous revenue	$ 25,800	$ 25,800	$ 10,576	$ (15,224)

Town of Marion, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

General Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
County of Smyth - Fire department	$ 25,000	$ 25,000	$ 25,000	$ -
County of Smyth - Recreation facilities	15,250	15,250	19,250	4,000
Marion Downtown-County	-	-	8,000	8,000
County of Smyth -Senior citizens center	2,000	2,000	1,500	(500)
Other recovered costs	500	500	100,000	99,500
Total recovered costs	$ 42,750	$ 42,750	$ 153,750	$ 111,000
Total revenue from local sources	$ 3,318,343	$ 3,318,343	$ 3,265,040	$ (53,303)
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	$ 6,750	$ 6,750	$ -	$ (6,750)
Wine taxes	7,020	7,020	-	(7,020)
Rolling stock tax	4,500	4,500	5,229	729
Rental tax	-	-	5,074	5,074
Set off debt	4,500	4,500	13,735	9,235
Personal property tax relief funds	-	-	45,785	45,785
Total noncategorical aid	$ 22,770	$ 22,770	$ 69,823	$ 47,053
Categorical aid:				
Other categorical aid:				
Police block grant	$ 4,820	$ 4,820	$ -	$ (4,820)
Litter control grant	2,833	2,833	2,528	(305)
Fire programs	15,500	15,500	17,516	2,016
Street and highway maintenance	1,005,736	1,005,736	999,166	(6,570)
Law enforcement grant	162,442	162,442	154,019	(8,423)
Lincoln Theatre grant	-	-	5,000	5,000
Police Grant-DMV	10,000	10,000	16,232	6,232
Police Grant-Stimulus	29,680	29,680	29,680	-
Tobacco Region Opportunity Fund Grant	-	-	170,000	170,000
Asset forfeiture funds	-	-	660	660
Community Development Block Grant		-	250,000	250,000
Total other categorical aid	$ 1,231,011	$ 1,231,011	$ 1,644,801	$ 413,790
Total categorical aid	$ 1,231,011	$ 1,231,011	$ 1,644,801	$ 413,790
Total revenue from the Commonwealth	$ 1,253,781	$ 1,253,781	$ 1,714,624	$ 460,843
Revenue from the federal government:				
Categorical aid:				
Community Development Block Grant	$ -	$ -	$ 125,820	$ 125,820
DHCD Grant- Schoolhouse Project	-	-	433,586	$ 433,586
Ground transportation systems grant	12,156	12,156	-	(12,156)
Asset forfeiture funds	-	-	28	28
Rural Development- Police Grant	45,155	45,155	42,955	(2,200)
Community Facilities Grant	30,289	30,289	30,290	1
Total categorical aid	$ 87,600	$ 87,600	$ 632,679	$ 545,079
Total revenue from the federal government	$ 87,600	$ 87,600	$ 632,679	$ 545,079
Total General Fund	$ 4,659,724	$ 4,659,724	$ 5,612,343	$ 952,619
Total Primary Government	$ 4,659,724	$ 4,659,724	$ 5,612,343	$ 952,619

Schedule 2

Town of Marion, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Fund, Function and Department Expenditures	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town council	$ 104,321	$ 104,321	$ 119,787	$ (15,466)
Town clerk	193,898	193,898	192,454	1,444
Legislative	$ 298,219	$ 298,219	$ 312,241	$ (14,022)
General and financial administration:				
Town manager	$ 151,947	$ 151,947	$ 154,906	$ (2,959)
Legal services	34,785	34,785	24,807	9,978
Independent auditor	24,000	24,000	28,250	(4,250)
Finance	219,893	219,893	218,845	1,048
Information technology	90,794	90,794	99,725	(8,931)
Risk management	96,425	96,425	95,650	775
Motor pool	112,234	112,234	104,593	7,641
Central purchasing	136,719	136,719	106,828	29,891
Total general and financial administration	$ 866,797	$ 866,797	$ 833,604	$ 33,193
Total general government administration	$ 1,165,016	$ 1,165,016	$ 1,145,845	$ 19,171
Public safety:				
Law enforcement and traffic control:				
Police	$ 1,323,062	$ 1,323,062	$ 1,295,752	$ 27,310
Fire and rescue services:				
Fire department	$ 60,955	$ 60,955	$ 36,195	$ 24,760
Rescue service	28,400	28,400	27,152	1,248
Total fire and rescue services	$ 89,355	$ 89,355	$ 63,347	$ 26,008
Total public safety	$ 1,412,417	$ 1,412,417	$ 1,359,099	$ 53,318
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	$ 1,583,310	$ 1,583,310	$ 1,511,372	$ 71,938
General engineering and administration	144,017	144,017	149,824	(5,807)
Total maintenance of highways, streets, bridges & sidewalks	$ 1,727,327	$ 1,727,327	$ 1,661,196	$ 66,131
Sanitation and waste removal:				
Refuse collection and disposal	$ 188,056	$ 188,056	$ 185,560	$ 2,496
Total sanitation and waste removal	$ 188,056	$ 188,056	$ 185,560	$ 2,496
Total public works	$ 1,915,383	$ 1,915,383	$ 1,846,756	$ 68,627
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation	$ 346,356	$ 346,356	$ 355,251	$ (8,895)
Senior Citizens Center	157,299	157,299	166,296	(8,997)
Total parks, recreation, and cultural	$ 503,655	$ 503,655	$ 521,547	$ (17,892)

Schedule 2

Town of Marion, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning	$ 5,000	$ 5,000	$ 4,200	$ 800
Community development	328,024	328,024	582,551	(254,527)
Cable TV	106,988	106,988	103,867	3,121
Transport services	1,000	1,000	1,470	(470)
Total planning and community development	$ 441,012	$ 441,012	$ 692,088	$ (251,076)
Total community development	$ 441,012	$ 441,012	$ 692,088	$ (251,076)
Capital projects:				
Capital outlays	$ 119,390	$ 119,390	$ 882,088	$ (762,698)
Total capital projects	$ 119,390	$ 119,390	$ 882,088	$ (762,698)
Debt service:				
Principal retirement	$ 256,189	$ 256,189	$ 363,156	$ (106,967)
Interest and other fiscal charges	77,555	77,555	77,555	-
Total debt service	$ 333,744	$ 333,744	$ 440,711	$ (106,967)
Total General Fund	$ 5,890,617	$ 5,890,617	$ 6,888,134	$ (997,517)
Total Primary Government	$ 5,890,617	$ 5,890,617	$ 6,888,134	$ (997,517)

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
2000-01	-	1,998,128	1,998,128	8,425	-	8,425
2001-02	-	1,462,133	1,462,133	36,399	-	36,399
2002-03	-	727,489	727,489	51,706	-	51,706
2003-04	-	668,008	668,008	54,700	-	54,700
2004-05	-	506,596	506,596	91,236	3,879	95,115
2005-06	-	688,423	688,423	107,867	3,786	111,653
2006-07	-	642,694	642,694	120,327	621,369	741,696
2007-08	67,903	654,193	722,096	-	119,157	119,157
2008-09	184,108	265,491	449,599	-	120,145	120,145
2009-10	187,375	(52,282)	135,093	-	124,363	124,363

Table 2

Town of Marion, Virginia
Net Assets - Governmental and Business-type Activities
Last Ten Fiscal Years (1)

	Governmental Activities			Business-type Activities		
Fiscal Year	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted
2004-05	$ 4,029,462	$ 87,357	$ (773,781)	$ 7,577,144	$ -	$ 2,681,785
2005-06	3,130,941	107,867	526,705	8,697,111	-	2,358,346
2006-07	2,900,510	120,327	823,938	8,622,377	-	2,272,068
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

(1) = Information available for 6 years only.

Table 3

Town of Marion, Virginia
Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years (1)

Fiscal Year	General Government Revenue	General Government Expenditures	Capital Outlay	Excess of Revenues over (under) Expenditures	Debt issued	Grant Proceeds	Transfers In	Transfers Out	Total Other Financing Sources (Uses)	Net Change In Fund Balance
2000-01	3,578,984	4,021,923	187,249	(630,188)	118,391	-	313,442	(38,931)	392,902	(237,286)
2001-02	3,639,319	4,958,661	227,331	(1,546,673)	-	-	1,040,127	(1,475)	1,038,652	(508,021)
2002-03	3,621,014	4,748,694	1,747,304	(2,874,984)	1,500,000	-	689,619	(33,975)	2,155,644	(719,340)
2003-04	3,968,506	5,146,086	546,002	(1,723,582)	382,755	-	1,301,296	(16,953)	1,667,098	(56,484)
2004-05	4,593,306	6,714,983	179,029	(2,300,706)	1,022,264	100,000	1,053,564	-	2,175,828	(124,878)
2005-06	4,614,866	4,762,754	867,117	(1,015,005)	-	-	1,244,747	(27,500)	1,217,247	202,242
2006-07	4,886,010	5,370,581	537,259	(1,021,830)	-	-	1,291,146	-	1,291,146	269,316
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)

Table 4

Town of Marion, Virginia
Changes in Net Assets - Governmental and Business-type Activities
Last Ten Fiscal Years (1)

Fiscal Year	Government Wide Expense	Government Wide Program Revenues	Net (Expense) Revenue	Government Wide General Revenues	Transfers	Change in Net Assets
2004-05	$ 6,959,790	$ 5,149,318	$ (1,810,472)	$ 2,484,177	$ (2,268)	$ 671,437
2005-06	6,861,005	5,365,644	(1,495,361)	2,711,270	3,093	1,219,002
2006-07	7,589,145	4,603,722	(2,985,423)	2,908,740	(5,068)	(81,751)
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

(1) Information has only be available for 6 years.

Table 5

Town of Marion, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years (1)

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
2004-05	$	989,675	$	1,588,599	$	1,991,935	$	419,388	$	215,459	$	-	$	111,643	$	109,130	$	1,533,961	$	6,959,790
2005-06		1,029,902		1,617,197		1,728,400		451,456		245,360		69,579		86,260		58,438		1,574,413		6,861,005
2006-07		2,456,617		530,880		2,041,691		465,949		248,302		25,038		72,055		60,030		1,688,583		7,589,145
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

(1) Information has only been available for 6 years.

Table 6

Town of Marion, Virginia
Government-Wide Revenues
Last Ten Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES: Charges for Services	PROGRAM REVENUES: Operating Grants and Contributions	PROGRAM REVENUES: Capital Grants and Contributions	GENERAL REVENUES: General Property Taxes	GENERAL REVENUES: Other Local Taxes	GENERAL REVENUES: Permits, Privilege Fees, Regulatory Licenses	GENERAL REVENUES: Fines and Forfeitures	GENERAL REVENUES: Unrestricted Investment Earnings	GENERAL REVENUES: Miscellaneous	GENERAL REVENUES: Recovered Costs	GENERAL REVENUES: Grants and Contributions Not Restricted to Specific Programs	GENERAL REVENUES: Gain (Loss) on Disposal of Capital Assets	Total
2004-05	$ 2,993,669	$ 1,080,218	$ 1,075,431	$ 462,099	$ 1,908,646	$ -	$ -	$ 59,249	$ 54,183	$ -	$ -	$ -	$ 7,633,495
2005-06	3,237,203	1,355,338	773,103	436,669	2,041,365	-	-	78,015	155,221	-	-	-	8,076,914
2006-07	3,257,417	1,346,305	-	542,400	2,229,086	-	-	93,123	44,131	-	-	-	7,512,462
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

(1) Information has only been available for 5 years.

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	Non-departmental	Debt Service	Total (1)
2000-01	648,329	838,433	1,946,143	298,434	190,538	-	100,046	4,021,923
2001-02	762,552	957,210	2,160,762	340,119	646,986	-	91,032	4,958,661
2002-03	748,718	940,283	1,936,612	339,784	260,778	-	522,519	4,748,694
2003-04	942,684	1,070,852	2,190,192	393,852	317,522	-	230,984	5,146,086
2004-05	921,986	1,156,908	2,837,325	409,662	215,459	-	1,173,643	6,714,983
2005-06	959,534	1,177,188	1,589,421	432,505	245,360	69,579	289,167	4,762,754
2006-07	827,517	1,277,511	2,015,502	302,772	643,473	12,683	291,123	5,370,581
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

(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
2000-01	366,873	1,697,581	165	34,653	148,957	176,686	10,673	63,863	1,079,533	3,578,984
2001-02	374,315	1,660,329	425	32,519	176,341	176,001	18,784	68,421	1,132,184	3,639,319
2002-03	393,993	1,694,467	230	35,803	160,131	178,316	8,214	82,769	1,067,091	3,621,014
2003-04	406,563	1,872,537	215	43,739	79,323	189,779	33,491	59,209	1,283,650	3,968,506
2004-05	430,421	1,900,883	185	35,481	32,664	246,848	15,000	48,149	1,883,675	4,593,306
2005-06	464,984	2,032,056	195	24,992	26,916	251,383	147,065	55,010	1,612,265	4,614,866
2006-07	538,460	2,210,211	210	25,774	32,669	234,918	32,988	29,710	1,781,070	4,886,010
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

Table 9

Town of Marion, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years (3)

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
2000-01	347,303	342,591	98.64%	5,395	347,986	100.20%	24,229	6.98%
2001-02	353,799	346,157	97.84%	2,595	348,752	98.57%	23,789	6.72%
2002-03	365,219	352,406	96.49%	2,632	355,038	97.21%	27,516	7.53%
2003-04	369,067	355,741	96.39%	3,964	359,705	97.46%	10,137	2.75%
2004-05	455,075	441,043	96.92%	7,301	448,344	98.52%	10,039	2.21%
2005-06	424,351	405,851	95.64%	23,177	429,028	101.10%	18,500	4.36%
2006-07	503,090	486,666	96.74%	43,252	529,918	105.33%	16,424	3.26%
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%

(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 Real Estate	Public Utility Personal Property	Total
2000-01	193,028,775	34,745,167	7,204,450	12,077,458	160,058	247,215,908
2001-02	198,258,687	36,128,847	6,267,300	11,529,680	123,547	252,308,061
2002-03	208,103,625	35,417,916	6,694,100	12,695,905	157,924	263,069,470
2003-04	209,454,559	35,340,158	7,054,336	13,478,041	390,775	265,717,869
2004-05	250,859,573	33,917,951	9,971,430	15,220,925	90,227	310,060,106
2005-06	255,641,963	33,684,964	9,958,650	14,972,639	37,344	314,295,560
2006-07	260,381,223	24,067,490	8,329,703	12,308,782	35,735	305,122,933
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

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2000-01	129,052,750	62,839,400	1,136,600	-	193,028,750	0.40
2001-02	129,370,900	66,894,000	1,136,600	-	197,401,500	0.40
2002-03	129,769,200	68,318,200	1,125,000	-	199,212,400	0.40
2003-04	130,185,200	68,296,200	1,111,700	-	199,593,100	0.40
2004-05	154,129,400	85,134,700	1,431,700	-	240,695,800	0.40
2005-06	156,279,800	86,745,600	1,167,500	-	244,192,900	0.40
2006-07	147,680,200	91,382,100	9,795,125	-	248,857,425	0.40
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

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
2000-01	0.11	0.29	0.29
2001-02	0.11	0.29	0.29
2002-03	0.11	0.29	0.29
2003-04	0.11	0.29	0.29
2004-05	0.11	0.29	0.29
2005-06	0.11	0.29	0.29
2006-07	0.15	0.29	0.29
2007-08	0.15	0.29	0.29
2008-09	0.15	0.29	0.29
2009-10	0.15	0.35	0.35

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
2000-01	6,349	247,216	7,776,412	3.15%	1,225
2001-02	6,349	252,308	7,292,845	2.89%	1,149
2002-03	6,349	263,069	7,905,761	3.01%	1,245
2003-04	6,349	265,718	7,684,043	2.89%	1,210
2004-05	6,349	310,060	7,145,887	2.30%	1,126
2005-06	6,349	314,296	6,479,289	2.06%	1,021
2006-07	6,048	305,123	7,443,990	2.44%	1,231
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

(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
2000-01	37,930	62,116	100,046	4,021,923	2.49%
2001-02	34,259	56,773	91,032	4,958,661	1.84%
2002-03	418,130	104,389	522,519	4,748,694	11.00%
2003-04	133,957	97,027	230,984	5,146,086	4.49%
2004-05	1,062,000	111,643	1,173,643	6,714,983	17.48%
2005-06	202,908	86,259	289,167	4,762,754	6.07%
2006-07	219,068	72,055	291,123	5,370,581	5.42%
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%

Table 14

Town of Marion, Virginia
Principal Taxpayers (1)
For Fiscal Year Ended June 30, 2010

Company	2008-2009 Assessed Value	Rank	2009-2010 Assessed Value	Rank
Marion Properties	11,075,400	1	11,814,900	1
IRT/Walmart	7,434,800	2	8,502,700	2
Smyth County Foundation	5,754,600	3	6,944,400	3
Highland Development	4,110,900	4	4,432,600	4
Marion Plaza	2,772,900	5	3,529,300	5
Mack Trammell	2,290,300	9	3,048,000	6
81-Motel	2,593,300	7	2,791,100	7
Bank of Marion	2,370,000	8	2,790,400	8
Grey Rock S/C	2,720,200	6	2,766,500	9
Susan Keene	2,008,400	10	1,991,500	10

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

Table 15

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assessed valuations:										
Assessed value	$ 247,215,908	$ 252,308,061	$ 263,069,470	$ 265,717,869	$ 310,060,106	$ 314,413,110	$ 314,881,507	$ 317,550,680	$ 324,750,570	$ 321,832,980
Legal debt margin										
Debt limitation - 10 percent of total assessed value	24,721,591	25,230,806	26,306,947	26,571,787	31,006,011	31,441,311	31,488,151	31,755,068	32,475,057	32,183,298
Debt applicable to limitation:										
General obligation bonds	6,712,878	6,263,570	5,803,425	5,332,908	7,145,887	6,479,289	7,443,900	7,285,280	6,993,542	6,442,960
Less: Amount set aside for repayment	-	6,222	7,464	8,708	9,952	11,196	11,662	231,834	358,387	423,918
Total debt applicable to limitation	6,712,878	6,257,348	5,795,961	5,324,200	7,135,935	6,468,093	7,432,238	7,053,446	6,635,155	6,019,042
Legal debt margin	18,008,713	18,973,458	20,510,986	21,247,587	23,870,076	24,973,218	24,055,913	24,701,622	25,839,902	26,164,256
Total net debt applicable to the limit as a percentage of debt limit	27.15%	24.80%	22.03%	20.04%	23.01%	20.57%	23.60%	22.21%	20.43%	18.70%

Town of Marion, Virginia
Miscellaneous Statistics
For the Year Ended June 30, 2010

Date of incorporation	1832
Form of government	Council-Manager
Number of employees:	
General government administration	11
Public safety	20
Public works	28
Parks, recreation, and cultural	16
Community development	1
Water and sewer	11
Swimming pool	15

COMPLIANCE SECTION

BOSTIC, TUCKER
& COMPANY, P.C.
Certified Public Accountants

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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 the financial statements of the Town of Marion as of and for the year ended June 30, 2010, and have issued our report thereon dated November 17, 2010. 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 Audit of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Bostic, Tucker and Company PC

Lebanon, Virginia
November 17, 2010

BOSTIC, TUCKER
& COMPANY, P.C.
Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Town of Marion

Compliance

We have audited the Town of Marion's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each the Town of Marion's major federal programs for the year ended June 30, 2010. Town of Marion's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Town of Marion's management. Our responsibility is to express an opinion on Town of Marion's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Marion's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Town of Marion's compliance with those requirements.

In our opinion, Town of Marion complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Town of Marion is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Town of Marion's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Marion's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Bostic, Tucker and Company PC

Lebanon, Virginia
November 17, 2010

SCHEDULE OF
EXPENDITURES OF
FEDERAL AWARDS

TOWN OF MARION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	**Federal Catalog Number**		**Expenditures**
Department of Agriculture:			
Direct Payments:			
Community Facilities Loan and Grant Program	10.766		73,245
Total Department of Agriculture			73,245
Department of Housing and Urban Development:			
Direct Payments:			
Community Development Block Grants/Entitlement Grants	14.218	**(1)**	88,957
ARRA Community Development Block Grants/Entitlement Grants (CDBG-R)	14.253	**(1)**	470,449
Total Department of Housing and Urban Development			$ 559,406
Environmental Protection Agency:			
Pass Through Payments:			
Department of Health:			
ARRA-Capitalization Grant for Drinking Sater State Revolving Fund	66.468		204,776
Total Federal Assistance			$ 837,427

(1) Denotes major federal program and cluster program

(2) The accompanying schedule of expenditures of federal awards includes the federal grant activity of the the Town of Marion and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TOWN O F MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section I - Summary of Auditor Results

Financial Statements

Type of auditor's opinion issued:	**Unqualified**
Internal control over financial reporting:	
Material weakness(es) identified?	**No**
Significant deficiencies in internal control were disclosed by the audit of the financial statements:	**No**
Noncompliance material to financial statements noted?	**No**

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	**No**
Significant deficiencies in internal control were disclosed by the audit of the financial statements:	**No**
Type of auditor's opinion issued on compliance for major programs:	**Unqualified**
Any findings disclosed that are required to be reported in accordance with secoin 510(a) of Circular A-133?	**No**

Major programs identified:

	CFDA
ARRA - CDBG	14.253

Dollar threshold used to distinguish between Type A and Type B Programs:	$300,000
Auditee qualified as low risk?	**No**

Section II - Financial Statements Findings:

None Noted

Section III - Federal Award Findings and Questioned Costs

None Noted

Prior year findings:

None