FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2011

Town of Marion, Virginia Financial Report Fiscal Year Ended June 30, 2011

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TOWN COUNCIL

David P. Helms, Mayor

James Gates

Jane Hale

Bill Weaver

Tricia Spencer

Jim Barker

Jim Owens

Suzanne Jennings

OTHER OFFICIALS

John E. B. Clark, Jr	Town Manager
	Town Clerk/Director of Finance
	Deputy Clerk/Deputy Director of Finance
	Town Attorney
•	



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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, 2011, 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, 2011, 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.

As discussed in Note to the basic financial statements, the Town implemented Governmental Accounting Standards Board (GASB) Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, effective July 1, 2010.

In accordance with Government Auditing Standards, we have also issued a report dated December 19, 2011 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 discussion and analysis on pages 4 through 14 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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, including the schedule of expenditures of federal awards, and 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 accompanying schedule of expenditures of federal awards is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations.* The schedule of expenditures of federal awards, and 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, Lucker and Company PC

Lebanon, Virginia December 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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 2010 fiscal year, unreserved fund balance of the general fund was \$(52,282), reserved for debt service and prepaid expenses of \$187,375. For the current fiscal year, 2011, the unassigned fund balance of the general fund was \$297,778 and the fund balance was restricted for debt service of \$85,205 and nonspendable for prepaid expenses of \$108,273.

The total net assets of the Town of Marion's governmental activities were \$3,842,778 as of June 30, 2010. The total net assets for 2011 are \$4,627,648. An increase occurred due largely to purchase of capital assets.

The total net assets of the business-type activities were \$10,081,313 for fiscal year end 2010 and \$9,699,830 for the fiscal year end 2011 resulting in a decrease of \$381,483. 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 \$2,724,738. An increase in operating revenues of \$242,975 occurred from fiscal year 2011.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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 \$3,842,778 as of June 30, 2010. As of June 30, 2011, the Town of Marion assets exceeded liabilities by \$4,627,648.

The largest portion of the Town's net assets of \$4,349,974 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 \$222,444 represents resources that are subject to external restriction on how they may be used. The remaining balance of unreserved net assets is \$55,230.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

General revenues and transfers were \$4,628,675 for governmental activities. General revenues include property taxes, other local taxes, interest income, miscellaneous income, and transfers from other funds. Program revenues were \$2,676,534 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 \$6,520,339, 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 \$784,870.

Business-type activities

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

The total net assets for business-type activities was \$9,699,830 which includes invested in capital assets, net of related debt of \$8,047,842, reserved for debt service and bond covenants of \$385,220, and unreserved net assets of \$1,266,768.

Program revenues for business-type activities for the Town were \$2,724,738 for charges for services and \$49,000 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 \$1,965,327. General revenues and transfers include interest income of \$8,013, recovered costs of \$44,231, and a transfer to other funds of \$(1,242,138). The change in net assets for business-type activities resulted in a decrease to net assets of \$381,483.

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The table below focuses on the net assets of the Town's governmental and business-type activities as of the years ended June 30, 2011 and 2010.

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	Governme	ental	Busines	s-type	Total Primary				
	Activiti	es	Activi	ties	Government				
	2010	2011	2010	2011	2010	2011			
Current Assets	1,780,959	2,428,252	2,178,640	2,010,731	3,959,599	4,438,983			
Capital Assets	5,446,947	5,685,572	12,995,370	12,587,162	18,442,317	18,272,734			
Total Assets	7,227,906	8,113,824	15,174,010	14,597,893	22,401,916	22,711,717			
Current Liabilities	1,917,432	2,221,837	507,254	570,865	2,424,686	2,792,702			
Long-Term Liabilities	1,467,696	1,264,339	4,585,443	4,327,198	6,053,139	5,591,537			
Total Liabilities	3,385,128	3,486,176	5,092,697	4,898,063	8,477,825	8,384,239			
Net Assets:									
Invested in Capital Assets,									
Net of Related Debt	3,824,940	4,349,974	8,174,417	8,047,842	11,999,357	12,397,816			
Restricted	234,526	222,444	342,085	385,220	576,611	607,664			
Unrestricted	(216,688)	55,230	1,564,811	1,266,768	1,348,123	1,321,998			
Total Net Assets	3,842,778	4,627,648	10,081,313	9,699,830	13,924,091	14,327,478			

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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

Table 2

	Governmental Activities		Busines: Activi	• •	Total Primary Government			
-	2010	2011	2010	2011	2010	2011		
Charges for Services	329,010	327,667	2,481,763	2,724,738	2,810,773	3,052,405		
Operating Grants/Contributions	1,554,489	1,920,520	•	-	1,554,489	1,920,520		
Capital Grants/Contributions	756,831	428,347	238,465	49,000	995,296	477,347		
Program Revenues	2,640,330	2,676,534	2,720,228	2,773,738	5,360,558	5,450,272		
Taxes	2,710,064	3,211,579	-	•	2,710,064	3,211,579		
Interest Income	24,496	28,859	11,698	8,013	36,194	36,872		
Miscellaneous	10,031	48,293	(714)	-	9,317	48,293		
Fines, forfeitures, permits	38,676	24,474	-	-	38,676	24,474		
Recovered costs	-	•	-	44,231	•	44,231		
Grants not restricted to program	69,823	73,332	•	-	69,823	73,332		
General Revenues	2,853,090	3,386,537	10,984	52,244	2,864,074	3,438,781		
Total Revenues	5,493,420	6,063,071	2,731,212	2,825,982	8,224,632	8,889,053		
General Government	1,195,607	1,205,746	•	•	1,195,607	1,205,746		
Public Safety	1,569,854	1,572,373	-	-	1,569,854	1,572,373		
Public Works	1,925,453	2,091,079	•	-	1,925,453	2,091,079		
Parks, Recreation, Cultural	520,707	503,161	-	-	520,707	503,161		
Community Development	719,609	1,085,854	-	-	719,609	1,085,854		
Miscellaneous	-	•	-	•	-	•		
Interest expense	75,705	62,126	-	-	75,705	62,126		
Swimming pool	-	•	50,272	57,057	50,272	57,057		
Water and Sewer	•	•	1,828,477	1,908,270	1,828,477	1,908,270		
Total Expenses	6,006,935	6,520,339	1,878,749	1,965,327	7,885,684	8,485,666		
Transfers	871,500	1,242,138	(871,500)	(1,242,138)	-	-		
Change in Net Assets	357,985	784,870	(19,037)	(381,483)	338,948	403,387		
Beginning Net Assets	3,484,793	3,842,778	10,100,350	10,081,313	13,585,143	13,924,091		
Ending Net Assets	3,842,778	4,627,648	10,081,313	9,699,830	13,924,091	14,327,478		

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 or unassigned 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 \$599,867. Fund balance includes \$108,273 nonspendable for prepaid expenses, \$85,205 restricted for debt service, \$141,562 restricted for specific purposes, and \$264,827 unassigned.

Total revenues were \$6,127,734 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 \$7,029,461. 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 \$901,727 in the governmental funds. The governmental funds obtained other financing sources of \$1,242,138, which included operating transfer from the Water and Sewer Fund of \$1,264,199 and operating transfer to the Swimming Pool Fund of \$22,061. After the other financing sources were received by the governmental funds, there was a change in fund balance of \$340,411 at June 30, 2011.

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 \$9,863,866 to \$9,489,812. The balance is made up of \$7,831,976 in invested in capital assets, net of related debt, \$385,220 restricted for debt service and bond covenants, and \$1,272,616 unreserved.

Swimming pool fund net assets in the amount of \$210,018 are down from 2010. Operating expenses were \$50,272 for fiscal year 2010 and \$57,057 in fiscal year 2011. The net asset balance includes \$215,866 invested in capital assets, net of related debt, and deficit unreserved net assets balance of \$5,848.

Proprietary funds total operating revenues were \$2,724,738. Operating expenses for the proprietary funds was \$1,789,324. This resulted in an operating income of \$935,414. The proprietary funds had total non-operating expense of \$123,759, capital contribution of \$49,000, and net operating transfer out of \$1,242,138. This resulted in a change in net assets of \$(381,483).

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

General Fund Budgetary Highlights

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

Budgetary Highlights for 2010-2011

	GENERAL FUND BUDGET	GENERAL FUND ACTUAL	VARIANCE
Revenues	\$4,707,265	\$6,073,362	\$ 1,366,097
Expenditures	5,790,954	7,018,812	(1,227,858)

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, 2011 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 \$308,564 were made during the fiscal year ending June 30, 2011. The project was completed by the end of the fiscal year.

Farmers Market Improvements-The Town received a grant from Tobacco Indemnification and Community Revitalization and the Rural Business Enterprise to make improvements to the Farmers Market in the form of an awning and restroom facilities. Capital expenditures of \$48,152 were made during the fiscal year ending June 30, 2011 for the awning for the Farmers Market. The awning project was completed by the end of the fiscal year. Capital expenditures of \$63,781 were made during the fiscal year ending June 30, 2011 for the restroom facilities for the Farmers Market. This project was not completed by the end of the fiscal year and will be included in construction in progress at June 30, 2011.

Shugart Bridge Deck Renovations—The Town made improvements to the Shugart Bridge Deck during the fiscal year ending June 30, 2011. Capital expenditures of \$55,952 were made during the fiscal year ending June 30, 2011. The project was completed by the end of the fiscal year.

Management's Discussion and Analysis For The Year Ended June 30, 2011

STP Digester upgrade—Capital expenditures for the STP Digester upgrade were \$121,616 for the fiscal year ending June 30, 2011. The project was not completed by the end of the fiscal year and will be included in construction in progress at June 30, 2011.

Riverview Pump Station Renovation—Capital expenditures for the project were \$48,400 for the fiscal year ending June 30, 2011. 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, 2010 Issuances Retirements					Balance June 30, 2011		
General obligation bonds OPEB liability	\$ 4,820,953 32,924	\$	- 33,860	\$	(281,633)	\$	4,539,320 66,784	
Compensated absences	 42,007		-		(91)		41,916	
Total	\$ 4,895,884	\$	33,860	\$	(281,724)	\$	4,648,020	

The outstanding debt for governmental activities at June 30, 2011 is as follows:

	Balance			Balance
	July 1, 2010) Issuances	Retirements	June 30, 2011
General obligation bonds	\$ 640,00	\$ -	\$ (85,000)	\$ 555,000
Premium on bond	10,79	0 -	(1,295)	9,495
Loans payable	971,21	7 -	(200,114)	771,103
OPEB liability	90,52	2 94,524	•	185,046
Compensated absences	160,84	9 -	(9,804)	151,045
Total	\$ 1,873,37	8 \$ 94,524	\$ (296,213)	\$ 1,671,689

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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

Scheduled Major Projects

Sewer Treatment Plant Upgrade—The total project costs are estimated at \$704,055 with funding from Smyth County and the Town. The Town expects to receive a loan from Rural Development in the amount of \$606,000. 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.

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.

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.

Holston Hills Country Club—The Town is in the process of purchasing the Holston Hills Country Club. The Town will obtain a loan from the Smyth County Community Foundation to finance the purchase.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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

Town of Marion, Virginia Statement of Net Assets For the Year Ended June 30, 2011

	Primary Government Governmental Business-type					
	<u> </u>	<u>Activities</u>		<u>Activities</u>		<u>Total</u>
ASSETS						
Cash and cash equivalents	\$	938,986	\$	688,442	\$	1,627,428
Receivables (net of allowance for uncollectibles):						
Taxes receivable		724,438		-		724,438
Accounts receivable		51,849		380,948		432,797
Other receivables		131,932		-		131,932
Due from other funds		33,951		556,121		590,072
Due from other governmental units		353,618		-		353,618
Prepaid expenses		108,273		-		108,273
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents		-		207,366		207,366
Investments		85,205		177,854		263,059
Capital assets (net of accumulated depreciation):						
Land		990,579		578,704		1,569,283
Buildings and system		2,642,505		-		2,642,505
Improvements other than buildings		-		36,741		36,741
Machinery and equipment		247,242		415,886		663,128
Plant and lines in service		-		11,427,165		11,427,165
Infrastructure		1,653,992		-		1,653,992
Construction in progress		151,254		128,666		279,920
Total assets	\$	8,113,824	\$	14,597,893	\$	22,711,717
LIABILITIES						
Accounts payable	\$	393,171	\$	146,508	\$	539,679
Accrued liabilities		124,364		19,577		143,941
Customers' deposits		-		47,300		47,300
Accrued interest payable		4,018		36,658		40,676
Due to other funds		590,072		-		590,072
Deferred revenue		702,862		-		702,862
Long-term liabilities:						
Due within one year		407,350		320,822		728,172
Due in more than one year		1,264,339		4,327,198		5,591,537
Total liabilities	\$	3,486,176	\$	4,898,063	\$	8,384,239
NET ASSETS						
Invested in capital assets, net of related debt	\$	4,349,974	\$	8,047,842	\$	12,397,816
Restricted for:						
Debt service and bond covenants		85,205		385,220		470,425
Downtown housing project		137,239		•		137,239
Unrestricted (deficit)		55,230		1,266,768		1,321,998
Total net assets	\$	4,627,648	\$	9,699,830	\$	14,327,478

Town of Marion, Virginia Statement of Activities For the Year Ended June 30, 2011

			Program Revenues						Net (Expense) Revenue and Changes in Net Assets						
			_			Operating		Capital				nary Government			
Functions/Programs	<u> </u>	xpenses		charges for Services		Grants and Contributions		Grants and Contributions	G	overnmental Activities	ı	Business-type Activities		Total	
PRIMARY GOVERNMENT:															
Governmental activities:															
General government administration	\$	1,205,746	\$	-	\$	•	\$	•	\$	(1,205,746)		-	\$	(1,205,746)	
Public safety		1,572,373		•		178,890		•		(1,393,483)		-		(1,393,483)	
Public works		2,091,079		304,223		1,038,517				(748,339)		•		(748,339)	
Parks, recreation, and cultural		503,161		16,899		•		•		(486,262)		•		(486,262)	
Community development		1,085,854		6,545		703,113		428,347		52,151		-		52,151	
Interest on long-term debt		62,126	_	-	_	4 000 500	_		_	(62,126)		•		(62,126)	
Total government activities	\$	6,520,339	\$	327,667	\$	1,920,520	\$_	428,347	\$	(3,843,805)	_\$_	<u> </u>	\$	(3,843,805)	
Business-type activities:															
Water and Sewer	\$	1,908,270	\$	2,697,171	\$	•	\$	49,000	\$	•	\$	837,901	\$	837,901	
Swimming Pool		57,057		27,567		•		-		•		(29,490)		(29,490)	
Total business-type activities	\$	1,965,327		2,724,738		•	\$	49,000	\$	•	\$	808,411	\$	808,411	
Total primary government	\$	8,485,666	\$	3,052,405	\$	1,920,520	\$	477,347	<u>\$</u>	(3,843,805)	\$	808,411	\$	(3,035,394)	
	Gener	al revenues:													
		eral property ta	xes						\$	603,623	\$		\$	603,623	
		r local taxes:							•	000,020	•		•	000,020	
	· Loc	al sales and us	se tax	es						150,549				150,549	
	Cor	sumers' utility	taxes	3						108,605		_		108,605	
		iness license t								539,058				539,058	
	Cor	nmunication ta	х							135,743		-		135,743	
	Mot	or vehicle licer	ises							34,242		•		34,242	
	Bar	k stock tax								255,718		-		255,718	
	Mea	als taxes								1,091,809		•		1,091,809	
	Oth	er local taxes								292,232		•		292,232	
	Perm	nits, privilege fe	es, a	ind regulatory l	icen	ses				165		-		165	
	Fines	s and forfeiture	s							24,309		•		24,309	
	Unre	stricted revenu	ies fr	om use of mon	ey a	nd property				28,859		8,013		36,872	
	Misc	ellaneous								48,293		•		48,293	
	Reco	vered costs								•		44,231		44,231	
			ıtions	not restricted	to sp	ecific programs				73,332		•		73,332	
	Trans	fers								1,242,138		(1,242,138)			
		genera! reven							\$	4,628,675		(1,189,894)		3,438,781	
		ge in net assets							\$	784,870	\$	(381,483)	\$	403,387	
		sets - beginnin	ng							3,842,778		10,081,313		13,924,091	
	Net as	ssets - ending							\$	4,627,648	\$	9,699,830	\$	14,327,478	

Town of Marion, Virginia Balance Sheet Governmental Funds For the Year Ended June 30, 2011

		<u>General</u>		Other Governmental <u>Funds</u>	G	Total overnmental <u>Funds</u>
ASSETS						
Cash and cash equivalents	\$	796,424	\$	142,562	\$	938,986
Receivables (net of allowance for uncollectibles):						
Taxes receivable		724,438		-		724,438
Accounts receivable		51,849		•		51,849
Other receivables		131,932				131,932
Due from other funds		33,951		•		33,951
Due from other governmental units		353,618		-		353,618
Prepaid expenses		108,273		•		108,273
Restricted assets:						
Investments		85,205		•		85,205
Total assets	\$	2,285,690	\$	142,562	\$	2,428,252
LIABILITIES AND FUND BALANCES Liabilities:						
Accounts payable	\$	393,171	\$	-	\$	393,17 1
Accrued liabilities		124,364		-		124,364
Due to other funds		556,121		33,951		590,072
Deferred revenue		720,778		-		720,778
Total liabilities	\$	1,794,434	\$	33,951	\$_	1,828,385
Fund balances:						
Nonspendable	•	400.070	•		•	100.070
Prepaid expense	\$	108,273	\$	•	\$	108,273
Restricted for:		05.005				0E 00E
Debt service and bond covenants		85,205		-		85,205 1,311
DARE		-		1,311 512		512
Streetscape		-				
Downtown housing		-		137,239		137,239
Master redevelopment		•		2,500		2,500
Committed to:		-		-		-
Assigned to:		-		(00.054)		064 007
Unassigned	_	297,778	_	(32,951)		264,827
Total fund balances	\$	491,256	\$	108,611		599,867
Total liabilities and fund balances	\$	2,285,690	\$	142,562	\$	2,428,252

Town of Marion, Virginia Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Assets For the Year Ended June 30, 2011

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 599,867
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,685,572
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	17,916
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,675,707)
Net assets of governmental activities	\$ 4,627,648

Town of Marion, Virginia Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2011

		<u>General</u>		Other Governmental <u>Funds</u>	G	Total overnmental <u>Funds</u>
REVENUES	•	600 060	ø		φ	600 969
General property taxes	\$	600,862	Ф	-	\$	600,862
Other local taxes		2,607,956		•		2,607,956 165
Permits, privilege fees, and regulatory licenses		165		-		
Fines and forfeitures		24,309		-		24,309
Revenue from the use of money and property		28,859		•		28,859
Charges for services		327,667		-		327,667
Miscellaneous		46,868		1,425		48,293
Recovered costs		22,878		44,546		67,424
Intergovernmental revenues:		4 044 500		0.404		4 040 000
Commonwealth		1,811,588		8,401		1,819,989
Federal	_	602,210		- - -	•	602,210
Total revenues	_\$_	6,073,362	\$	54,372	<u>\$</u>	6,127,734
EXPENDITURES Current: General government administration Public safety	\$	1,110,440 1,444,987	\$		\$	1,110,440 1,444,987
Public works		1,998,486		-		1,998,486
Parks, recreation, and cultural		500,548				500,548
Community development		1,121,162		10,649		1,131,811
Capital projects		493,270		-		493,270
Debt service:						
Principal retirement		285,114		•		285,114
Interest and other fiscal charges		64,805				64,805
Total expenditures	\$	7,018,812	\$	10,649	\$	7,029,461
Excess (deficiency) of revenues over (under) expenditures	\$	(945,450)	\$	43,723	\$	(901,727)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$	1,301,613	\$	-		1,301,613
	Ψ	1,001,010	•	(59,475)		(59,475)
Transfers out	\$	1,301,613	\$	(59,475)	s	1,242,138
Total other financing sources (uses)	Ψ_	1,001,010	Ψ	(00,470)	-	.,,
Net change in fund balances	\$	356,163 135,093	\$	(15,752) 124,363	\$	340,411 259,456
Fund balances - beginning	•	491,256	2	108,611	\$	599,867
Fund balances - ending	<u>\$</u>	731,230	Ψ	100,011	<u> </u>	

Town of Marion, Virginia Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities For the Year Ended June 30, 2011

Amounts reported for governmental activities in the statement of activities are different because: Net change in fund balances - total governmental funds \$ 340,411 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 cutlays exceeded 238,625 depreciation in the current period. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 2,761 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 286,409 of these differences in the treatment of long-term debt and related items. Some expenses reported in the statement of activities do not require the use of current (83,336)financial resources and, therefore are not reported as expenditures in governmental funds. 784,870 Change in net assets of governmental activities

Town of Marion, Virginia Statement of Net Assets Proprietary Funds For the Year Ended June 30, 2011

	Enterprise Funds					
		Water and	Swimming Pool Fund			Total
	2	ewer Fund		<u> 2001 Fund</u>		<u>Total</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$	688,242	\$	200	\$	688,442
Accounts receivables, net of allowances for uncollectibles		380,948		-		380,948
Due from other funds		556,121		•		556,121
Total current assets	\$	1,625,311	\$_	200	\$	1,625,511
Noncurrent assets:						
Restricted current assets:			_			
Cash and cash equivalents	\$	207,366	\$	•	\$	207,366
Investments		177,854		•		177,854
Total restricted current assets	\$	385,220	\$_	<u> </u>	\$	385,220
Capital assets:						10 110 000
Utility plant in service		19,443,020		-		19,443,020
Machinery and equipment		2,600,344		29,151		2,629,495
Land		399,579		179,125		578,704
Pool		•		974,651		974,651
Less accumulated depreciation		(10,200,313)		(967,061)		(11,167,374)
Construction in progress		128,666		•	_	128,666
Total capital assets	\$	12,371,296	\$	215,866	\$	12,587,162
Total noncurrent assets	\$	12,756,516	\$	215,866	\$_	12,972,382
Total assets	_\$_	14,381,827	\$	216,066	\$	14,597,893
LIABILITIES						
Current liabilities:			•	0.047	•	440 500
Accounts payable	\$	144,161	\$	2,347	\$	146,508
Accrued liabilities		15,876		3,701		19,577
Customers' deposits		47,300		•		47,300
Accrued interest payable		36,658		•		36,658
Compensated absences		31,437		•		31,437
General obligation bonds payable - current portion	_	289,385			_	289,385
Total current liabilities		564,817	\$	6,048	\$	570,865
Noncurrent liabilities:					•	4 0 40 005
General obligation bonds payable - net of current portion	\$	4,249,935	\$	•	\$	4,249,935
Compensated absences		10,479		•		10,479
OPEB liability		66,784				66,784
Total noncurrent liabilities	<u>\$</u>	4,327,198		•	\$	4,327,198
Total liabilities		4,892,015	\$	6,048	\$	4,898,063
NET ASSETS					_	0.045.040
Invested in capital assets, net of related debt	\$	7,831,976	\$	215,866	\$	8,047,842
Restricted for debt service and bond covenants		385,220				385,220
Unrestricted		1,272,616		(5,848)		1,266,768
Total net assets	<u>\$</u>	9,489,812	\$	210,018	\$	9,699,830

Town of Marion, Virginia Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2011

		Enterprise Fund Water and Sewer Fund	F Swii	erprise und mming I Fund		<u>Total</u>
OPERATING REVENUES						
Charges for services:						
Charges for services	\$	2,690,734	\$	23,573	\$	2,714,307
Other revenues		6,437		3,994		10,431
Total operating revenues	\$	2,697,171	\$	27,567	\$	2,724,738
OPERATING EXPENSES						
Personal services	\$	476,563	\$	26,686	\$	503,249
Fringe benefits		192,091		8,442		200,533
Contractual services		74,784		1,097		75,881
Materials and supplies		129,407		7,776		137,183
Other charges		264,678		8,399		273,077
Depreciation		594,744		4,657		599,401
Total operating expenses	\$	1,732,267	\$	57,057	\$	1,789,324
Operating income (loss)	\$	964,904	\$	(29,490)	\$	935,414
NONOPERATING REVENUES (EXPENSES)						
Intergovernmental revenue	\$	44,231	\$	-	\$	44,231
Investment earnings		8,013		•		8,013
Interest expense		(176,003)		•		(176,003)
Total nonoperating revenues (expenses)	\$	(123,759)	\$		\$	(123,759)
Income before contributions and transfers	\$	841,145	\$	(29,490)	\$	811,655
Capital contributions	\$	49,000	\$	-	\$	49,000
Transfers in		-		22,061		22,061
Transfers out		(1,264,199)		-		(1,264,199)
Change in net assets	\$	(374,054)	\$	(7,429)	\$	(381,483)
Total net assets - beginning	<u>\$</u>		\$		\$_	10,081,313
Total net assets - ending	\$	9,489,812	\$	210,018	\$	9,699,830

Town of Marion, Virginia Statement of Cash Flows Proprietary Funds

For the	Year	Ended	June	30	2011
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Por the real Ended dulle	Enterprise Fund Water and Sewer Fund			Enterprise Fund Swimming Pool Fund		Total
	2	CHCI I UIIU		<u>r oor r aria</u>		Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$	2,634,255	\$	27,567	\$	2,661,822
Payments to suppliers		(616,439)		(25,164)		(641,603)
Payments to and for employees		(432,084)		(24,464)		(456,548)
Net cash provided (used by) operating activities	\$	1,585,732	\$	(22,061)	\$	1,563,671
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to other funds	\$	(1,264,199)	\$	-	\$	(1,264,199)
Transfers from other funds		-		22,061		22,061
Net cash provided (used) by noncapital financing						
activities	_\$	(1,264,199)	\$	22,061	\$	(1,242,138)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Additions to utility plant	\$	(191,193)	\$	•	\$	(191,193)
Principal payments on bonds		(281,633)		-		(281,633)
Capital contributions		49,000		•		49,000
Intergovernmental contributions		44,231		-		44,231
Interest payments		(182,016)		_		(182,016)
Net cash provided (used) by capital and related financing activities	\$	(561,611)	\$	•	\$	(561,611)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	\$	8,013	\$	-	\$	8,013
Net cash provided (used) by investing activities	\$	8,013	\$	•	\$	8,013
Net increase (decrease) in cash and cash equivalents	\$	(232,065)	\$	-	\$	(232,065)
Cash and cash equivalents - beginning	\$	1,305,527	\$	200	\$	1,305,727
Cash and cash equivalents - ending	\$	1,073,462	\$	200	\$_	1,073,662
Reconciliation of operating income (loss) to net cash provided by operating activities:						
	\$	964,904	\$	(29,490)	\$	935,414
Operating income (loss) Adjustments to reconcile operating income to net cash		001,001	Ψ	(20):00)	<u> </u>	555,
provided (used) by operating activities:						
Depreciation expense	\$	594,744	\$	4,657	\$	599,401
(Increase) decrease in accounts receivable	•	(64,156)		•	*	(64,156)
Increase (decrease) in customer deposits		1,240		-		1,240
Increase (decrease) in operating accounts payable		55,231		2,772		58,003
Increase (decrease) in OPEB liability		33,860		•		33,860
Increase (decrease) in compensated absences		(91)		-		(91)
Total adjustments	\$	620,828		7,429	\$	628,257
Net cash provided (used) by operating activities	<u>\$</u> \$	1,585,732			\$	1,563,671

Town of Marion, Virginia Statement of Fiduciary Net Assets Fiduciary Funds For the Year Ended June 30, 2011

	C	emetery Fund
ASSETS		
Cash and cash equivalents	\$	4,476
Investments, at fair value		110,039
Total assets	\$	114,515
NET ASSETS		
Amounts held for cemetery maintenance		114,515
Total liabilities	\$	114,515

Town of Marion, Virginia Statement of Changes in Fiduciary Net Assets Fiduciary Funds For the Year Ended June 30, 2011

ADDITIONS	Cemete <u>Fund</u>	
ADDITIONS		
Investment earnings: Interest and dividends	ø	0 4 4 4
Unrealized gain on investment	\$	3,144
Oneauzeu gani on invesiment		15,512
Total additions	\$	18,656
DEDUCTIONS		
Distribution	\$	2,410
Fiduciary fees		426
Realized loss on investment		1,078
Total deductions	\$	3,914
Change in net assets	\$	14,742
Net assets - beginning		99,773
Net assets - ending	\$	114,515

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

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 uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues.

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

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

The government reports the following major governmental funds:

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

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

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 \$74,461 for property taxes and \$4,181 for garbage billings at June 30, 2011. The allowance for business-type activities amounted to approximately \$67,242 for water and sewer billings at June 30, 2011.

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 \$(1,675,707) difference for the primary government is as follows:

		Primary				
	Government					
General obligation bonds and loans payable	\$	(1,335,598)				
Accrued interest		(4,018)				
OPEB liability		(185,046)				
Compensated absences		(151,045)				
Net adjustment to reduce fund balance-total governmental funds						
to arrive at net assets-governmental activities	\$	(1,675,707)				

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 \$238,625 difference for the primary government is as follows:

	Primary Government			
Capital outlays Depreciation expense	\$	532,936 (294,311)		
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$	238,625		

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

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 \$(83,336) difference for the primary government is as follows:

	_	Primary vernment
(Increase) Decrease in Compensated absences (Increase) Decrease in OPEB liability (Increase) Decrease in Accrued interest	\$	9,803 (94,523) 1,384
Net adjustment to increase (decrease) net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	\$	(83,336)

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NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

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:

- 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, 2011, 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	\$ 27,313
Communication tax	20,671
Non-categorical aid	7,286
Community development block grant	49,674
Virginia department of transportation grant	227,485
Rural business enterprise grant	 21,189
Total	\$ 353,618

Note 6-Interfund Transfers:

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Fund	T	ransfers In	Tr	Transfers Out		
Primary Government:						
General Fund	\$	1,301,613	\$	-		
Other Governmental Funds		-		(59,475)		
Water and Sewer Fund		-		(1,264,199)		
Swimming Pool Fund		22,061		·		
Total	\$	1,323,674	\$	(1,323,674)		

Note 7-Long-Term Debt:

<u>Primary Government - Governmental Activity Indebtedness:</u>

Details of long-term indebtedness:

Year Ending	(General Obli		Bonds		Loan Payable		Tot	al		
June 30,	F	Principal		nterest	F	rincipal		nterest	Principal		nterest
2012	\$	85,000	\$	23,830	\$	209,066	\$	29,979	\$ 294,066	\$	53,809
2013		65,000		20,870		221,194		22,566	286,194		43,436
2014		70,000		18,543		75,449		22,202	145,449		40,745
2015		70,000		16,023		6,161		13,680	76,161		29,703
2016		80,000		12,603		6,489		13,352	86,489		25,955
2017-2021		185,000		14,721		38,013		61,195	223,013		75,916
2022-2026		-		•		49,273		49,935	49,273		49,935
2027-2031		-		-		63,867		35,340	63,867		35,340
2032-2036		-		-		82,785		16,423	82,785		16,423
2037-2041		-		<u> </u>		18,806		1,118	18,806		1,118
Totals	\$	555,000	\$	106,590	\$	771,103	\$	265,790	\$ 1,326,103	\$	372,380

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2011.

	Balance			Balance		
	July 1, 2010	Issuances	Retirements	June 30, 2011		
General obligation bonds	\$ 640,000	\$ -	\$ (85,000)	\$ 555,000		
Premium on bond	10,790	-	(1,295)	9,495		
Loans payable	971,217	•	(200,114)	771,103		
OPEB liability	90,522	94,524	-	185,046		
Compensated absences	160,849	•	(9,804)	151,045		
Total	\$ 1,873,378	\$ 94,524	\$ (296,213)	\$ 1,671,689		

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

Note 7-Long-Term Debt: (continued)

Primary Government - Governmental Activity Indebtedness (Continued):

Details of long-term indebtedness:

	Total Amount		nount Due in 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.			
	\$	555,000	\$ 85,000
Total General Obligation Bonds	\$	555,000	\$ 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.	\$	124,808	\$ 41,508
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.	\$	271,895	\$ 129,862
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	\$	89,235	\$ 29,328
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%.	\$	285,165	\$ 8,368
Total Loans Payable	\$	771,103	\$ 209,066
Other Obligations:			
Compensated absences OPEB liability	\$	151,045 185,046	\$ 113,284 -
Total Other Obligations	\$	336,091	\$ 113,284
Total Long-Term Obligations	\$	1,662,194	\$ 407,350

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

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	General Obligation Bonds				
June 30,	Principal			Interest	
2012	\$	289,385	\$	173,516	
2013		289,855		164,404	
2014		273,598		155,041	
2015		252,364 1			
2016		260,505		137,570	
2017-2021		1,373,253		511,369	
2022-2026		1,363,253		191,999	
2027-2031		328,253		46,930	
2032-2036		108,854		21,971	
2037-2041		•		•	
		- ,			
Totals	\$	4,539,320	\$	1,548,097	

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2011.

	July 1, 2010 Issuances			Issuances		etirements	June 30, 2011		
General obligation bonds	\$	4,820,953	\$	-	\$	(281,633)	\$	4,539,320	
Compensated absences		42,007		-		(91)		41,916	
OPEB liability		32,924		33,860				66,784	
Total	\$	4,895,884	\$	33,860	\$	(281,724)	\$	4,648,020	

Notes to Financial Statements (Continued) For The Year Ended June 30, 2011

Note 7-Long-Term Debt: (continued)

Primary Government-Enterprise Activity Indebtedness: (continued)

Details of long-term indebtedness:

	Total Amount		nount Due in 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.	\$ 133,744	\$	53,497
Virginia Resource Authority, issued on July 7, 1992, semi-annual principal and interest payments computed at a rate of 2.5%.	\$ 2,930,000	\$	160,000
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%.	\$ 1,421,867	\$	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%.			
	\$ 53,709	\$	10,237
Total General Obligation Bonds	\$ 4,539,320	<u>\$</u>	289,385
	Total Amount		nount Due in One Year
Other Obligations:			
Compensated absences	\$ 41,916	\$	31,437
OPEB liability	66,784		
Total other obligations	\$ 108,700	\$	31,437

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 are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

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

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

Notes to Financial Statements (Continued) For The Year Ended June 30, 2011

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

A. Plan Description (continued)

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

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

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the <u>Code of Virginia</u> (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 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 <u>Code of Virginia</u> and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2011 was 20.49% 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 2011, the Town's annual pension cost of \$510,639 was equal to the Town's required and actual contributions. The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 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. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Three-Year Trend Information

	Fiscal	Annual		Percentage		Vet
	Year	ı	Pension	of APC	Per	nsion
	Ending	Co	est (APC) 1	Contributed	Obli	gation
Primary Government:						
Town	6/30/2011	\$	510,639	100.00%	\$	•
	6/30/2010	\$	483,251	100.00%		•
	6/30/2009	\$	473,225	100.00%		-

¹ Employer portion only

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 65.06% funded. The actuarial accrued liability for benefits was \$14,215,190 and the actuarial value of assets was \$9,248,742, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,966,448. The covered payroll (annual payroll of active employees covered by the plan) was \$2,517,201, and ratio of the UAAL to the covered payroll was 197.30%.

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, 2011 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	818,521	482,850	(1,150,117)	151,254
Total capital assets not being depreciated	\$ 1,809,100	\$ 482,850	\$ (1,150,117)	\$ 1,141,833
Capital assets, being depreciated:				
Buildings	\$ 3,976,400	\$ 1,100,205	\$ -	\$ 5,076,605
Improvements other than buildings	1,871,511	55,952	-	1,927,463
Machinery and equipment	4,807,358	44,046	(50,405)	4,800,999
Total capital assets being depreciated	\$ 10,655,269	\$ 1,200,203	\$ (50,405)	\$ 11,805,067
Less: accumulated depreciation for:				
Buildings	\$ (2,327,603)	\$ (106,497)	\$ -	\$ (2,434,100)
Improvements other than buildings	(219,485)	(53,986)	•	(273,471)
Machinery and equipment	(4,470,334)	(133,828)	50,405	(4,553,757)
Total accumulated depreciation	\$ (7,017,422)	\$ (294,311)	\$ 50,405	\$ (7,261,328)
Total capital assets being depreciated, net	\$ 3,637,847	\$ 905,892	<u> </u>	\$ 4,543,739
Governmental activities capital assets, net	\$ 5,446,947	\$ 1,388,742	\$ (1,150,117)	\$ 5,685,572

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

Governmental activities:	
General government	\$ 81,387
Public safety	75,160
Public works	126,827
Parks, recreation, and culture	 10,937
Total depreciation expense - governmental activities	\$ 294,311

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

Note 9-Capital Assets: (continued)

Business-type activities:

Water and Sewer Fund:

		eginning					Ending		
	Balance		Increases		De	ecreases	Balance		
Business-type Activities:							`		
Capital assets, not being depreciated:									
Land	\$	399,579	\$	-	\$	•	\$	399,579	
Construction in progress		1,425		177,066		(49,825)		128,666	
Total capital assets not being depreciated	\$	401,004	\$	177,066	_	(49,825)	\$	528,245	
Capital assets, being depreciated:									
Utility plant and equipment	\$ 1	9,393,195	\$	49,825	\$	-	\$	19,443,020	
Machinery and equipment		2,592,217		14,127		(6,000)		2,600,344	
Total capital assets being depreciated	\$ 2	1,985,412	\$	63,952	\$	(6,000)	\$	22,043,364	
Less: accumulated depreciation for:									
Utility plant and equipment	\$ ((7,505,982)	\$	(509,873)	\$	-	\$	(8,015,855)	
Machinery and equipment	(2,105,587)		(84,871)		6,000		(2,184,458)	
Total accumulated depreciation	\$ (9,611,569)	\$	(594,744)	\$	6,000	\$	(10,200,313)	
Total capital assets being depreciated, net	_\$ 1	2,373,843	\$	(530,792)	_\$_	-	\$	11,843,051	
Business-type acitivities capital assets, net	\$ 1	2,774,847	\$	(353,726)	\$	(49,825)	\$	12,371,296	

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NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

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	\$	(933,253)	\$	(4,657)	\$	-	\$ (937,910)	
Equipment		(29,151)		-		-	(29,151)	
Total accumulated depreciation	\$	(962,404)	\$	(4,657)	\$	•	\$ (967,061)	
Total capital assets being depreciated, net	\$	41,398	\$	(4,657)	\$	-	\$ 36,741	
Business-type acitivities capital assets, net	\$	220,523	\$	(4,657)	\$	-	\$ 215,866	

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

Business-type activities:

Water and Sewer Swimming Pool	\$ 594,744 4,657
Total depreciation expense - business type activities	\$ 599,401

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 \$720,778 is comprised of the following:

<u>Property Taxes</u> - 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	\$ 85,205
Restricted for downtown housing project	 137,239
Total	\$ 222,444
Business-type Activities	Balance
Restricted for debt service and bond covenants	\$ 385,220
Total	\$ 385,220

Note 14 - Restricted Cash and Cash Equivalents

Restricted cash of \$207,366 is reflected in the financial statements for the business-type activities. The \$207,366 represents the amount set aside for debt service in the water and sewer fund.

Note 15 - Restricted Investments

Restricted investment of \$85,205 is reflected in the financial statements for the governmental activities. The \$85,205 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 \$177,854 is reflected in the financial statements for the business-type activities. The \$177,854 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, 2011 due to the difficulty in estimating the number of employees who may retire with 30 years of VRS service.

Note 18 – Fund Balance-Restricted for:

Other Governmental Funds	Balance
Dare Fund	\$ 1,311
Streetscape Fund	512
Downtown Housing Fund	137,239
Master Redevelopment	 2,500
Total	\$ 141,562

Note 19 - Interfund Balances

Interfund balances consisted of the following at June 30, 2011:

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, 2011, the Town's annual OPEB costs of \$94,524 for governmental activities and \$33,860 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

		vernmental Activities	Business-type Activities			
Annual required contribution Interest on net OPEB obligation Adjustment to annual required contribution	\$	90,522 4,002 -	\$	32,924 936		
Annual OPEB cost Contributions made		94,524		33,860		
Increase in net OPEB obligation Net OPEB obligation-beginning of year		94,524 90,522		33,860 32,924		
Net OPEB obligation-end of year	<u>\$</u>	185,046	\$	66,784		

Notes to Financial Statements (Continued) For The Year Ended June 30, 2011

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.

		Percentage of Annual OPEB		
Fiscal Year	Annual OPEB Cost	Cost	Net OPEB	
Ending		Contributed	Obligation	
June 30, 2011	94,524	0%	185,046	
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, 2011	33,860	0%	66,784		
June 30, 2010	32,924	0%	32,924		

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2011 was as follows:

	ernmental ctivities	Business-type Activities		
Actuarial Accrued Liability (AAL) Actuarial Value of Plan Assets Unfunded Actuarial Accrued Liability (UAAL)	\$ 917,989 - 917,989	\$	215,871 - 215,871	
Funded Ratio (Actuarial Value of Plan Assets/AAL) Covered Payroll (Active Plan Members)	0% 2,268,403		0% 482,989	
UAAL as a Percentage of Covered Payroll	40.47%		44.69%	

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, 2011 is 28 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 2011, the Town had not designated any funding for the OPEB liability.

Note 21 – GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions:

Purpose

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

Components of Fund Balance

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

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

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

Components of Fund Balance (continued)

- Assigned fund balance amounts a government intends to use for a specific purpose; intent can be expressed
 by the governing body or by an official or body to which the governing body delegates the authority; for all funds
 except the general fund, assigned fund balance is the residual fund balance classification;
- Unassigned fund balance amounts that are available for any purpose; positive amounts are only reported in the general fund.

Committed Fund Balance Policy

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

Assigned Fund Balance Policy

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

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

Resource Flow Policy

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

Note 22. – New Accounting Standard:

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

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements improves financial reporting by addressing the issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement will be effective for periods beginning after December 15, 2011.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

Note 23 – Subsequent Events

The Town received a \$606,000 Rural Development loan for the Sewer Treatment Plant Phase I Improvements. The loan closing was July 2011.

The Town purchased the Holston Hills Country Club in November 2011. The Smyth Country Community Foundation provided financing in the amount of \$1.5 million loan to allow the Town to purchase the Holston Hills Country Club. The terms of the loan are interest only on the loan financed at a rate of 2.5% per year for five years beginning in 2012 and ending in 2017 with a balloon payment due at the end of the five year term. The Town will make payments of \$3,125 per month over a 60 month period. The total anticipated interest paid over the life of the loan is \$187,500.

Town of Marion, Virginia General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual For the Year Ended June 30, 2011

		Budgeted Amounts						Variance with Final Budget -
REVENUES		<u>Original</u>		<u>Final</u>		Actual Amounts		Positive (Negative)
General property taxes	\$	611,150	\$	611,150	\$	600,862	\$	(10,288)
Other local taxes	•	2,445,347	Ψ	2,445,347	Ψ	2,607,956	Ψ	162,609
Permits, privilege fees, and regulatory licenses		200		200		165		(35)
Fines and forfeitures		35,400		35,400		24,309		(11,091)
Revenue from the use of money and property		41,630		41,630		28,859		(12,771)
Charges for services		325,120		325,120		327,667		2,547
Miscellaneous		35,000		35,000		46,868		11,868
Recovered costs		19,250		19,250		22,878		3,628
Intergovernmental revenues:		.0,200		.0,200		,0,,0		0,020
Commonwealth		1,194,168		1,194,168		1,811,588		617,420
Federal		•		-		602,210		602,210
Total revenues	\$	4,707,265	\$	4,707,265	\$	6,073,362	\$	1,366,097
EXPENDITURES								
Current:								
General government administration	\$	1,130,178	\$	1,130,178	\$	1.110.440	\$	19,738
Public safety	·	1,438,896	•	1,438,896	•	1,444,987	•	(6,091)
Public works		1,899,955		1,899,955		1,998,486		(98,531)
Parks, recreation, and cultural		517,271		517,271		500,548		16,723
Community development		414,553		414,553		1,121,162		(706,609)
Capital projects		75,007		75,007		493,270		(418,263)
Debt service:				•				(****),,
Principal retirement		256,739		256,739		285,114		(28,375)
Interest and other fiscal charges		58,355		58,355		64,805		(6,450)
Total expenditures	\$	5,790,954	\$	5,790,954	\$	7,018,812	\$	(1,227,858)
Excess (deficiency) of revenues over (under)								
expenditures	\$	(1,083,689)	\$	(1,083,689)	\$	(945,450)	\$	138,239
OTHER FINANCING SOURCES (USES)								
Transfers in	\$	40,000	\$	40,000	\$	1,301,613	\$	1,261,613
Total other financing sources and uses	<u>\$</u>	40,000	\$	40,000	\$	1,301,613	\$	1,261,613
Net change in fund balances	\$	(1,043,689)	\$	(1,043,689)	\$	356,163	\$	1,399,852
Fund balances - beginning	Ψ	(1,0-0,003)	Ψ	(1,0-0,003)	Ψ	135,093	Ψ	135,093
Fund balances - ending	\$	(1,043,689)	\$	(1,043,689)	\$		\$	1,534,945
	<u> </u>	11,010,000)	<u> </u>	(1,010,000)	<u> </u>	701,200	<u> </u>	1,007,040

Town of Marion, Virginia Schedule of Funding Progress For the Year Ended June 30, 2011

Primary Government:

Town Retirement Plan

Valu	uarial uation ate	Actuarial Value of Assets	L	Actuarial Accrued iability (AAL)	U	nfunded 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	/2010	\$ 9,248,742	\$	14,215,190	\$	4,966,448	65.06%	6\$	2,517,201	197.30%
6/30	/2009	9,406,922		13,066,095		3,659,173	71.99%	6	2,557,395	143.08%
6/30	/2008	9,390,285		11,927,272		2,536,987	78.73%	6	2,400,130	105.70%
6/30	/2007	8,530,097		11,285,559		2,755,462	75.58%	6	2,318,868	118.83%
6/30	/2006	7,606,056		10,660,703		3,054,647	71.35%	6	2,245,495	136.03%

Post-Employment Benefit Plan-Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued bility (AAL)	U	nfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2010 7/1/2009	\$	\$ 917,989 917,989	\$	917,989 917,989	0.00% 0.00%	\$ 2,268,403 2,256,784	40.47% 40.68%

Post-Employment Benefit Plan-Business-type Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued bility (AAL)	Ur	nfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2010 7/1/2009	\$ -	\$ 215,871 215,871	\$	215,871 215,871	0.00%	\$ 482,989 458,510	44.69% 47.08%

Town of Marion, Virginia Combining Balance Sheet Other Governmental Funds For the Year Ended June 30, 2011

		Dare Program	S	Streetscape <u>Program</u>	<u>Ho</u>	Downtown ousing Project	<u>Gi</u>	CDBG Iman Street	<u>F</u>	Master Redevelopment		<u>Total</u>
ASSETS		4044	•	540	•	107.000	•		•	2 500	•	140 560
Cash and cash equivalents	<u>\$</u>	1,311	÷	512		137,239	<u>\$</u>		\$		\$	142,562
Total assets	\$	1,311	\$	512	\$	137,239	\$	-	\$	3,500	\$	142,562
LIABILITIES AND FUND BALANCES Liabilities: Due to other funds Total liabilities	\$ \$	<u>.</u>	\$	-	\$	•	\$	32,951 32,951	\$		\$	33,951 33,951
Fund balances: Unreserved:	•	4.044	•	540	•	107.000	•	(00 0E1)	•	0.500	•	109 611
Designated for subsequent expenditure	_\$_	1,311	\$	512	_	137,239	\$	(32,951)			\$	108,611
Total fund balances	_\$_	1,311	\$	512	\$	137,239	\$	(32,951)	\$	2,000	\$	108,611
Total liabilities and fund balances	\$	1,311	\$	512	\$	137,239	\$	•	\$	3,500	\$	142,562

Town of Marion, Virginia Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Other Governmental Funds For the Year Ended June 30, 2011

DEVENUEO.	<u>P</u>	Dare rogram	\$	Streetscape <u>Program</u>		Downtown ousing Project	9	CDBG Gilman Street	Ē	Master Redevelopment		<u>Total</u>
REVENUES Miscellaneous	\$	1,425	\$		\$	-	\$	-	\$	-	\$	1,425
Recovered costs	•	-	•	•	•	44,546	Ť	-	•	-	•	44,546
Intergovernmental revenues:												
Commonwealth				8,401		•		-		•		8,401
Total revenues	_\$	1,425	\$	8,401	\$	44,546	\$	•	\$		\$	54,372
EXPENDITURES Current:	•		•		•	10.640	•		•		•	10,649
Community development	<u>\$</u>	-	\$		\$	10,649	_		<u>\$</u>	<u> </u>	<u> </u>	10,649
Total expenditures	<u> </u>		<u> </u>	-	<u> </u>	10,649	- D	•	Φ	-	4	10,049
Excess (deficiency) of revenues over (under) expenditures	\$	1,425	\$	8,401	\$	33,897	\$	-	\$	<u> </u>	\$	43,723
OTHER FINANCING SOURCES (USES)			_	40.040	_	442.024	_		•		•	(50.475)
Transfers out	\$	(475)		(9,649)		(49,351)		-	\$	•	<u>\$</u>	(59,475)
Total other financing sources and uses	\$	(475)	\$	(9,649)	\$	(49,351)	\$	•	\$		\$	(59,475)
Net change in fund balances	\$	950	\$	(1,248)	\$	(15,454)	\$	•	\$	•	\$	(15,752)
Fund balances - beginning		361		1,760		152,693		(32,951)		2,500		124,363
Fund balances - ending	_\$	1,311	\$	512	\$	137,239	\$	(32,951)	\$	2,500	\$	108,611

Town of Marion, Virginia Schedule of Revenues - Budget and Actual Governmental Funds For the Year Ended June 30, 2011

Fund, Major and Minor Revenue Source	Original <u>Budget</u>		Final <u>Budget</u>		<u>Actual</u>		Variance with Final Budget - Positive (Negative)	
General Fund:								
Revenue from local sources:								
General property taxes:								
Real property taxes	\$ 408,000	\$	408,000	\$	440,530	\$	32,530	
Real and personal public service corporation taxes	12,000		12,000		26,308		14,308	
Personal property taxes	183,150		183,150		129,000		(54,150)	
Penalties and Interest	 8,000		8,000		5,024		(2,976)	
Total general property taxes	\$ 611,150	\$	611,150	\$	600,862	\$	(10,288)	
Other local taxes:								
Local sales and use taxes	\$ 170,000	\$	170,000	\$	150,549	\$	(19,451)	
Consumers' utility taxes	108,000		108,000		108,605		605	
Communications taxes	115,000		115,000		135,743		20,743	
Lodging taxes	97,500		97,500		94,229		(3,271)	
Business license taxes	520,000		520,000		539,058		19,058	
Utility license taxes	31,000		31,000		31,051		51	
Motor vehicle licenses	60,000		60,000		34,242		(25,758)	
Bank stock taxes	150,000		150,000		255,718		105,718	
Tobacco taxes	165,000		165,000		159,358		(5,642)	
Meals taxes	1,016,847		1,016,847		1,091,809		74,962	
Comcast PEG capital fees	 12,000		12,000		7,594		(4,406)	
Total other local taxes	\$ 2,445,347	\$	2,445,347	\$	2,607,956	\$	162,609	
Permits, privilege fees, and regulatory licenses:								
Permits and other licenses	\$ 200	\$	200	<u>\$</u>	165	<u> \$ </u>	(35)	
Total permits, privilege fees, and regulatory licenses	\$ 200	\$	200	\$	165	\$	(35)	
Fines and forfeitures:								
Court fines and forfeitures	\$ 35,000	\$	35,000	\$	24,269	\$	(10,731)	
Parking Fines	400		400		40		(360)	
Total fines and forfeitures	\$ 35,400	\$_	35,400	\$	24,309	\$	(11,091)	
Revenue from use of money and property:								
Revenue from use of money	\$ 17,300	\$	17,300	\$	1,798	\$	(15,502)	
Revenue from use of property	 24,330		24,330		27,061		2,731	
Total revenue from use of money and property	\$ 41,630	\$	41,630	\$	28,859	\$	(12,771)	
Charges for services:								
Parking lot charges	\$ 700	\$	700	\$	720	\$	20	
Charges for sanitation and waste removal	308,000		308,000		303,503		(4,497)	
Charges for parks and recreation	8,500		8,500		15,284		6,784	
Farmers market	1,920		1,920		1,615		(305)	
Cemetery maintenance fees	 6,000		6,000		6,545	_	545_	
Total charges for services	\$ 325,120	\$	325,120	\$	327,667	\$	2,547	
Miscellaneous revenue:								
Miscellaneous	\$ 25,000	\$	25,000		28,193		3,193	
Sale of property and equipment	10,000		10,000		15,325		5,325	
Donations	 				3,350		3,350	
Total miscellaneous revenue	\$ 35,000	\$	35,000	\$	46,868	\$_	11,868	

Town of Marion, Virginia Schedule of Revenues - Budget and Actual Governmental Funds For the Year Ended June 30, 2011

Fund, Major and Minor Revenue Source		Original <u>Budget</u>		Final Budget		Actual	Fin	riance with al Budget - Positive <u>Negative)</u>
General Fund: (Continued) Revenue from local sources: (Continued) Recovered costs:								
County of Smyth - Recreation facilities Other recovered costs	\$	19,250	\$	19,250	\$	19,250 3,628	\$	- 3,628
Total recovered costs	\$	19,250	\$	19,250	\$	22,878	\$	3,628
Total revenue from local sources	\$	3,513,097	\$	3,513,097	\$	3,659,564	\$_	146,467
Revenue from the Commonwealth: Noncategorical aid:								
Mobile home titling tax	\$	-	\$	•	\$	75	\$	75
Rolling stock tax		6,920		6,920		69		(6,851)
Rental tax		-		-		17,736		17,736
Set off debt		5,000		5,000		9,667		4,667
Personal property tax relief funds		-		-	_	45,785	_	45,785
Total noncategorical aid	\$	11,920	\$	11,920	\$	73,332	\$	61,412
Categorical aid: Other categorical aid:								
Litter control grant	\$	2,528	\$	2,528	\$	2,915	\$	387
Fire programs	•	17,500		17,500		18,332		832
Street and highway maintenance		999,166		999,166		1,035,602		36,436
Law enforcement grant		152,198		152,198		152,208		10
Tobacco Indemnification and Community Revitilization grant		•		-		53,664		53,664
VDOT-Prater Lane		•		-		467,241		467,241
Police Grant-DMV		10,856		10,856		8,078		(2,778)
Asset forfeiture funds						216		216
Total other categorical aid	\$	1,182,248	\$	1,182,248	\$	1,738,256	<u>\$</u>	556,008
Total categorical aid	\$	1,182,248	\$	1,182,248	\$_	1,738,256	\$	556,008
Total revenue from the Commonwealth	_\$_	1,194,168	\$_	1,194,168	\$	1,811,588	\$	617,420
Revenue from the federal government:								
Categorical aid: Community Development Block Grant	\$	-	\$		\$	227,471	\$	227,471
DHCD Grant- Schoolhouse Project	•	•	•	•		316,414		316,414
Asset forfeiture funds		-		•		56		56
Rural Business Enterprise Grant		•		-		58,269		58,269
Total categorical aid	\$	•	\$	•	\$	602,210	\$	602,210
Total revenue from the federal government	\$		\$		\$	602,210	\$	602,210
Total General Fund	<u>\$</u>	4,707,265	\$	4,707,265	\$	6,073,362	\$_	1,366,097
Total Primary Government		4,707,265	\$	4,707,265	\$	6,073,362	\$	1,366,097

Town of Marion, Virginia Schedule of Expenditures - Budget and Actual Governmental Funds For the Year Ended June 30, 2011

Fund, Function and Department Expenditures	ea June	Original Budget		Final Budget		<u>Actual</u>	-	/ariance with inal Budget - Positive (Negative)
General Fund:								
General government administration:								
Legislative:	œ	440 004	œ	440 004	•	02 200	•	19,521
Town council	\$	112,821	Þ	112,821	Þ	93,300	Ф	(1,705)
Town clerk		174,161		174,161		175,866		(1,703)
Legislative	_\$_	286,982	\$	286,982	\$	269,166	\$	17,816
General and financial administration:								
Town manager	\$	159,078	\$	159,078	\$	159,178	\$	(100)
Legal services		23,985		23,985		23,482		503
Independent auditor		24,000		24,000		22,975		1,025
Finance		221,198		221,198		207,731		13,467
Information technology		91,004		91,004		102,332		(11,328)
Risk management		97,181		97,181		99,344		(2,163)
Motor pool		111,523		111,523		114,363		(2,840)
Central purchasing		115,227		115,227		111,869		3,358
Total general and financial administration	\$	843,196	\$	843,196	\$	841,274	\$	1,922
Total general government administration	\$	1,130,178	\$	1,130,178	\$	1,110,440	\$	19,738
Public safety:								
Law enforcement and traffic control:								
Police	\$	1,365,146	\$	1,365,146	\$	1,368,501	\$	(3,355)
Fire and rescue services:								
Fire department	\$	49,750	\$	49,750	\$	45,453	\$	4,297
Rescue service		24,000	_	24,000	_	31,033		(7,033)
Total fire and rescue services	\$	73,750	\$	73,750	\$	76,486	\$	(2,736)
Total public safety	_\$_	1,438,896	\$	1,438,896	\$	1,444,987	\$	(6,091)
Public works:								
Maintenance of highways, streets, bridges and sidewalks:							_	(00.550)
Highways, streets, bridges and sidewalks	\$	1,557,561	\$	1,557,561	\$	1,646,120	\$	(88,559)
General engineering and administration	_	151,793		151,793		158,279	_	(6,486)
Total maintenance of highways, streets, bridges & sidewalks	\$	1,709,354	\$	1,709,354	\$	1,804,399	<u>\$</u>	(95,045)
Sanitation and waste removal:	•	400.001	•	400.004	٠	404.007	e	/2 ADE\
Refuse collection and disposal	<u>\$</u>	190,601		190,601		194,087 194,087		(3,486)
Total sanitation and waste removal		190,601	\$	190,601	3	194,007	<u> </u>	(3,400)
Total public works	_\$_	1,899,955	\$	1,899,955	\$	1,998,486	\$	(98,531)
Parks, recreation, and cultural:								
Parks and recreation:			_				_	
Recreation	\$	354,237	\$	354,237	\$	359,569	\$	(5,332)
Senior Citizens Center	_	163,034		163,034		140,979		22,055
Total parks, recreation, and cultural	\$	517,271	\$	517,271	\$	500,548	\$	16,723
Total parks, recreation, and cultural	\$	517,271	\$_	517,271	\$	500,548	\$	16

Town of Marion, Virginia Schedule of Expenditures - Budget and Actual Governmental Funds For the Year Ended June 30, 2011

Fund, Function and Department Expenditures		Original <u>Budget</u>	Final Budget		Actual		Variance with inal Budget - Positive (Negative)
General Fund: (Continued)							
Community development:							
Planning and community development:			4 000		0.400		4.400
Planning	\$	4,200	\$ 4,200	\$	3,100	\$	1,100
Community development		301,986	301,986		1,007,580		(705,594)
Cable TV		108,067	108,067		110,246		(2,179)
Transport services		300	 300	_	236	_	64
Total planning and community development	_\$	414,553	\$ 414,553	\$	1,121,162	\$	(706,609)
Total community development	\$	414,553	\$ 414,553	\$	1,121,162	\$	(706,609)
Capital projects:	\$	75,007	\$ 75,007	\$	493,270	\$	(418,263)
Capital outlays Total capital projects	\$	75,007	75,007	\$	493,270	\$	(418,263)
Debt service: Principal retirement Interest and other fiscal charges	\$	256,739 58,355	\$ 256,739 58,355	\$	285,114 64,805	\$	(28,375) (6,450)
Total debt service	\$	315,094	\$ 315,094	\$	349,919	_\$_	(34,825)
Total General Fund	\$	5,790,954	\$ 5,790,954	\$	7,018,812	\$	(1,227,858)
Total Primary Government	\$	5,790,954	\$ 5,790,954	\$	7,018,812	\$	(1,227,858)

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
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
2010-11	193,478	297,778	491,256	-	108,611	108,611

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

		Gove	ernmental Activities		Business-type Activities									
Fiscal Year	Ca	nvested in apital Assets of Related Debt	Restricted	Unrestricted	Сар	vested in oital Assets 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				
2010-11		4,349,974	222,444	55,230		8,047,842		385,220		1,266,768				

^{(1) =} Information available for 7 years only.

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

Fiscal Year	General Government Revenue	General Government Expenditures	Capital Outlay	Excess of Revenues over (under) Expenditures	Debt issued	Grant Proceeds	Transfers In	Transfers Out	Total Other Financing Sources (Uses)	Net Change In Fund Balance
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)
2010-11	6,127,734	6,536,191	493,270	(901,727)	-	-	1,301,613	(59,475)	1,242,138	340,411

Table 4
Town of Marion, Virginia
Changes in Net Assets - Governmental and Business-type Activities
Last Ten Fiscal Years (1)

Fiscal Year	_		Government W Fiscal Wide Pro		Government Wide Net Program (Expense) Revenues Revenue		(Expense)	_	overnment Wide General Revenues	Tı	ransfers	 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	
2010-11		8,485,666		5,450,272		(3,035,394)		3,438,781		-	403,387	

⁽¹⁾ Information has only be available for 7 years.

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

Fiscal Year	_	General Sovernment Iministration	Public Safety	Public Works	Parks, Recreation, nd Cultural	Community evelopment	 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	s	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
2010-11		1,205,746	1,572,373	2,091,079	503,161	1,085,854	-	62,126	57,057	1,908,270		8,485,666

⁽¹⁾ Information has only been available for 7 years.

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

		PR		GENERAL REVENUES																						
Fiscal Year		Charges for Services	C	Operating Grants and Contributions	C	Capital Grants and ontributions		General Property Taxes		Other Local Taxes	P	Permits, Privilege Fees, Regulatory Licenses		Fines and Forfeitures		Unrestricted Investment Earnings		Miscellaneous		Recovered Costs	Ne	Grants and Contributions ot Restricted to Specific Programs	•	Gain (Loss) on Disposal of Capital Assets	•	Total
	_		_				$\overline{}$	400.000	•	4 000 040						50.040		54.400	_		_		$\overline{}$		_	
2004-05	\$	2,993,669	2	1,080,218	2	1,075,431	\$	462,099	2	1,908,646	3	•	2	•	2	59,249	3	54,183	2	-	\$	-	2	•	\$	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		٠.		69,823		(1,259)		8,224,632
2010-11		3,052,405		1,920,520		477,347		603,623		2,607,956		165		24,309		36,872		48,293		44,231		73,332		(1,200)		8,889,053

⁽¹⁾ Information has only been available for 7 years.

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

	General			Parks,				
Fiscal	and Financial	Public	Public	Recreation,	Community	Non-	Debt	
Year	Administration	Safety	Works	and Cultural	Development	departmental	Service	Total (1)
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
2010-11	1,110,440	1,444,987	1,998,486	500,548	1,131,811	-	349,919	6,536,191

⁽¹⁾ Excludes capital projects

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
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
2010-11	600,862	2,607,956	165	24,309	28,859	327,667	48,293	67,424	2,422,199	6,127,734

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
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%
2010-11	665,404	628,847	94.51%	10,362	639,209	96.06%	66,206	9.95%

⁽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.

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

			Machinery	Public (Utility	
Fiscal	Real	Personal	and ' -	Real	Personal	
Year	Estate	Property	Tools	Estate	Property	Total
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
2010-11	306,380,374	35,162,885	14,324,067	15,169,863	1,017,351	372,054,540
Fiscal	Residential	Commercial	Industrial	Less Tax	Total Taxable	Total Direct
Year	Property	Property	Property	Exempt Property	Assessed Value	Tax Rate
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
2010-11	180,320,600	110,532,800	1,882,900	•	292,736,300	

Table 11 Town of Marion, Virginia Property Tax Rates Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
- 1001	Tour Estate	Troporty	and room
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
2010-11	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
2001-02	6,349	252,308	7,292,845	2.89%	1,149
2001-02	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
2010-11	5,968	372,055	5,865,423	1.58%	983

⁽¹⁾ U.S. Census Bureau.

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

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
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%
2010-11	285,114	64,805	349,919	7,029,461	4.98%

Town of Marion, Virginia Principal Taxpayers (1) For Fiscal Year Ended June 30, 2011

	2009-2010		2010-2011	
Company	Assessed Value	Rank	Assessed Value	Rank
Marion Properties	11,814,900	1	11,814,900	1
IRT/Walmart	8,502,700	2	8,502,700	2
Smyth County Foundation	6,944,400	3	6,944,400	3
Highland Development	4,432,600	4	4,432,600	4
Marion Plaza	3,529,300	5	3,559,300	5
Mack Trammell	3,048,000	6	3,048,000	6
81-Motel	2,791,100	7	2,791,100	7
Grey Rock S/C	2,766,500	9	2,766,500	8
Susan Keene	1,991,500	10	1,991,500	9
Bank of Marion	2,790,400	8	1,536,800	10

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

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

					Fiscal Year					
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assessed valuations: Assessed value	\$ 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	\$ 372,054,540
Legal debt margin Debt limitation - 10 percent of total assessed value Debt applicable to limitation:	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	37,205,454
General obligation bonds	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	5,874,919
Less: Amount set aside for repayment	6,222	7,464	8,708	9,952	11,196	11,662	231,834	358,387	423,918	470,425
Total debt applicable to limitation	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	5,404,494
Legal debt margin	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	31,800,960
Total net debt applicable to the limit as a percentage of debt limit	24.80%	22.03%	20.04%	23.01%	20.57%	23.60%	22.21%	20.43%	18.70%	14.53%

Town of Marion, Virginia Miscellaneous Statistics For the Year Ended June 30, 2011

Date (of incorporation	1832	
Form	of government	Council-Manager	
Numb	per of employees:		
	General government administration	12	
	Public safety	21	
	Public works	27	
	Parks, recreation, and cultural	16	
	Community development	1	
	Water and sewer	11	
	Swimming pool	15	

COMPLIANCE SECTION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Town of Marion, Virginia Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2011

	State Pass - Through Grantor/ s - Through Grantor's Number)	Federal Catalog Number	Expenditures
Department of Agriculture: Pass Through Payments: Department of Agriculture: Rural Business Enterprise Grant		10.783	58,269
Total Department of Agriculture			58,269
Department of Justice: Direct payments: Asset forfeiture proceeds		16.000	56_
Total Department of Justice			56_
Department of Housing and Urban Development: Direct Payments: Community Development Block Grants/Entitlement Grant	ts (A)	14.228	543,885
Total Department of Housing and Urban Development			\$ 543,885
Total Federal Assistance			\$ 602,210

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of 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.

Note 2 - Relationship to the Financial Statetments:

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements: Primary government: General Fund	<u> </u>	602,210
Total primary government	\$	602,210
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>_\$</u>	602,210

Note 3. Major Programs

Major Programs - identified by (A)



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

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

We have audited the financial statements of the Town of Marion, Virginia as of and for the year ended June 30, 2011, and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with generally accepted auditing standards 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 the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Marion's internal control over 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Town'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 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 the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 non-compliance that are required to be reported under *Government Auditing Standards*.

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

Bostic, Lucker and Company PC Lebanon, Virginia

December 19, 2011



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INDEPENDENT AUDITOR'S 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

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

Compliance

We have audited Town of Marion's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2011. The 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 the Town of Marion's management. Our responsibility is to express an opinion on the 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 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, the 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, 2011

Internal Control over Compliance

The 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 the Town of Marion's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 the 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, City Council, others within the entity, 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.

Lebanon, Virginia December 19, 2011

Bostic, Lucker and Company PC

Town of Marion Schedule of Findings and Questioned Costs For The Year Ended June 30, 2011

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:		
Community Development Block Grants	CFDA 14.228	
Dollar threshold used to distinguish between Type A and Type B Programs:		\$300,000
Auditee qualified as low risk?		Yes

Section II - Financial Statements Findings:

None Reported

Section III - Federal Award Findings and Questioned Costs

None Reported

Prior year findings:

None Reported