

TOWN OF MARION, VIRGINIA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2016

**TOWN OF MARION, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

INTRODUCTORY SECTION

	<u>Page</u>
List of Elected and Appointed Officials	1

FINANCIAL SECTION

Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-14

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	1	15
Statement of Activities	2	16
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4	18
Statement of Revenues, Expenditures and Change in Fund Balances – Governmental Funds	5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	20
Statement of Net Position – Proprietary Funds	7	21-22
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	8	23
Statement of Cash Flows – Proprietary Funds	9	24
Statement of Fiduciary Net Position – Fiduciary Funds	10	25
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	11	26
Notes to Financial Statements		27-78

Required Supplementary Information:

Combining and Individual Fund Statements and Schedules:		
Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual:		
General Fund	12	79
Schedule of Funding Progress	13	80

Other Supplementary Information:

Combining Balance Sheet – Other Governmental Funds	14	81
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Other Governmental Funds	15	82
Discretely Presented Component Unit – Economic Development Authority:		
Statement of Net Position – Proprietary Fund	16	83
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	17	84
Statement of Cash Flows – Proprietary Fund	18	85

**TOWN OF MARION, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (CONTINUED)

	<u>Schedule</u>	<u>Page</u>
Supporting Schedules:		
Schedule of Revenues – Budget and Actual Governmental Funds	1	86-87
Schedule of Expenditures – Budget and Actual Governmental Funds	2	88-89

STATISTICAL INFORMATION

	<u>Table</u>	<u>Page</u>
Fund Balances –Governmental Funds	1	90
Net Position –Governmental and Business-type Activities.....	2	91
Changes in Fund Balance – Governmental Funds	3	92
Changes in Net Position – Governmental and Business-type Activities	4	93
Government-wide information:		
Government-Wide Expense by Function.....	5	94
Government-Wide Revenue	6	95
Fund information:		
General Governmental Expenditures by Function	7	96
General Governmental Revenues by Source.....	8	97
Property Tax Levies and Collections	9	98
Assessed Value of Taxable Property	10	99
Property Tax Rates.....	11	100
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	12	101
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures	13	102
Principal Taxpayers	14	103
Computation of Legal Debt Margin.....	15	104
Miscellaneous Statistics	16	105

COMPLIANCE SECTION

	<u>Page</u>
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 <i>Government Auditing Standards</i>	106-107

TOWN OF MARION, VIRGINIA

TOWN COUNCIL

David P. Helms, Mayor

James Gates

Larry Carter

Bill Weaver

Tricia Spencer

Jim Barker

Suzanne Jennings

Avery Cornett

OTHER OFFICIALS

Bill Rush Town Manager
Cindy Stanley Town Clerk/Director of Finance
Mark Fenyk Town Attorney



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

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

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Marion, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Marion, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–14 and 86–89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Marion, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of the Town of Marion, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Marion, Virginia's internal control over financial reporting and compliance.

Bostic, Tucker & Company, P.C.

Lebanon, Virginia
December 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016. 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 2015 fiscal year, the unassigned fund balance of the general fund was \$(512,997) and there were nonspendable prepaid expenses of \$110,423. For the current fiscal year, 2016, the unassigned fund balance of the general fund was \$106,663 and there were nonspendable prepaid expenses of \$119,587.

The total net position of the Town of Marion's governmental activities was \$3,437,895 as of June 30, 2015. The total net position for 2016 is \$4,290,150. The increase occurred due largely to increases in cash balances and decreases in accounts payable and deferred pension liability.

The total net position of the business-type activities was \$8,551,799 for fiscal year end 2015 and \$8,672,866 for the fiscal year end 2016, an increase of \$121,067. The water, sewer and swimming pool funds reported operating revenues of \$3,571,712, an increase of \$550,932 compared to 2015 operating revenues.

Overview of the Basic Financial Statements

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

Notes to the Financial Statements

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of government's financial position. In the case of the Town of Marion, assets exceeded liabilities by \$3,437,895 as of June 30, 2015. As of June 30, 2016, assets exceeded liabilities by \$4,290,150.

The largest portion of the Town's net position reflects its \$7,919,083 net investment in capital assets. Net investment in capital assets includes assets such as land, buildings, equipment, improvements, infrastructure, and construction in progress, less any outstanding debt used to acquire those assets. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position is \$219,941 in resources that are subject to external restriction on how they may be used. The remaining balance of unreserved net position is \$(3,848,874).

General revenues and transfers were \$5,789,956 for governmental activities. General revenues include property taxes, other local taxes, interest income, miscellaneous income, and transfers from other funds. Program revenues were \$3,317,903 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 \$8,255,604, which included expenses for general government, public safety, public works, culture and recreation, community development, and interest expense. The governmental activities exhibited a change in net position of \$852,255.

Business-type activities

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

The total net position for business-type activities was \$8,672,866 which includes net investment in capital assets of \$7,626,911, restricted for debt service and bond covenants of \$287,799, and unreserved net position of \$758,156.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Program revenues for business-type activities for the Town were \$3,571,712 for charges for services and \$199,234 for capital grants and contributions. Program revenues include charges for water and sewer usage, tap and connection fees, pool fees, and grants. The expenses incurred to provide these services were \$2,277,204. General revenues and transfers include interest income of \$60 and transfers to other funds of \$(1,372,735). The change in net position for business-type activities resulted in an increase to net position of \$121,067.

The remainder of this page left blank intentionally.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

The table below focuses on the net assets of the Town's governmental and business-type activities as of the years ended June 30, 2015 and 2016.

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Current Assets	2,076,876	2,424,277	1,948,634	2,094,391	4,025,510	4,518,668
Capital Assets	10,749,501	10,650,303	12,660,601	12,475,975	23,410,102	23,126,278
Total Assets	12,826,377	13,074,580	14,609,235	14,570,366	27,435,612	27,644,946
Deferred Outflows of Resources	440,084	430,961	87,739	85,920	527,823	516,881
Current Liabilities	1,357,397	1,032,132	304,233	149,325	1,661,630	1,181,457
Long-term Liabilities	7,099,050	6,928,721	5,727,719	5,770,952	12,826,769	12,699,673
Total Liabilities	8,456,447	7,960,853	6,031,952	5,920,277	14,488,399	13,881,130
Deferred Inflows of Resources	1,372,119	1,254,538	113,223	63,143	1,485,342	1,317,681
Net Position:						
Net Investment in						
Capital Assets	7,969,363	7,919,083	7,828,856	7,626,911	15,798,219	15,545,994
Restricted	219,941	219,941	281,408	287,799	501,349	507,740
Unrestricted	(4,751,409)	(3,848,874)	441,535	758,156	(4,309,874)	(3,090,718)
Total Net Position	3,437,895	4,290,150	8,551,799	8,672,866	11,989,694	12,963,016

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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

Table 2

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Charges for Services	1,171,451	1,230,480	3,020,780	3,571,712	4,192,231	4,802,192
Operating Grants/Contributions	1,721,986	1,942,168	-	-	1,721,986	1,942,168
Capital Grants/Contributions	765,651	145,255	65,745	199,234	831,396	344,489
Program Revenues	3,659,088	3,317,903	3,086,525	3,770,946	6,745,613	7,088,849
Taxes	3,269,680	3,442,822	-	-	3,269,680	3,442,822
Interest Income	13,604	14,057	4,639	60	18,243	14,117
Miscellaneous	54,199	51,429	-	-	54,199	51,429
Fines, forfeitures, permits	17,132	17,377	-	-	17,132	17,377
Recovered costs	-	819,333	4,459	-	4,459	819,333
Grants not restricted to program	68,648	72,203	-	-	68,648	72,203
General Revenues	3,423,263	4,417,221	9,098	60	3,432,361	4,417,281
Total Revenues	7,082,351	7,735,124	3,095,623	3,771,006	10,177,974	11,506,130
General Government	1,412,681	1,326,908	-	-	1,412,681	1,326,908
Public Safety	1,568,289	1,875,229	-	-	1,568,289	1,875,229
Public Works	2,325,699	2,871,732	-	-	2,325,699	2,871,732
Parks, Recreation, Cultural	1,194,373	1,062,583	-	-	1,194,373	1,062,583
Community Development	1,196,299	1,002,968	-	-	1,196,299	1,002,968
Interest expense	93,019	116,184	-	-	93,019	116,184
Swimming pool	-	-	44,461	44,010	44,461	44,010
Water and Sewer	-	-	2,127,095	2,233,194	2,127,095	2,233,194
Total Expenses	7,790,360	8,255,604	2,171,556	2,277,204	9,961,916	10,532,808
Transfers	1,302,097	1,372,735	(1,302,097)	(1,372,735)	-	-
Change in Net Position	594,088	852,255	(378,030)	121,067	216,058	973,322
Beginning Net Position	2,843,807	3,437,895	8,929,829	8,551,799	11,773,636	11,989,694
Ending Net Position	3,437,895	4,290,150	8,551,799	8,672,866	11,989,694	12,963,016

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Analysis of the Town's Funds

Governmental Funds

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

At the end of the current fiscal year, the Town of Marion's governmental funds reported a combined ending fund balance of \$513,162. Fund balance includes \$147,688 nonspendable for prepaid expenses and inventory, \$223,752 restricted for specific purposes, \$198,279 assigned to golf course and \$(56,557) unassigned.

Total revenues were \$7,951,804 for governmental funds. The governmental funds revenues include property taxes, other local taxes, permits, fees, and licenses, fines and forfeitures, revenue from the use of money and property, charges for services, recovered costs, intergovernmental, and miscellaneous income.

Total expenses for governmental funds were \$13,807,701. 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 \$5,855,897 in the governmental funds. The governmental funds obtained other financing sources of \$6,506,979, which included operating transfers from the Water and Sewer Fund of \$1,374,665, operating transfers to the Swimming Pool Fund of \$1,930, proceeds from a line of credit of \$4,195,000, and proceeds of indebtedness of \$939,244. After the other financing sources were received by the governmental funds, there was a change in fund balance of \$651,082 at June 30, 2016.

Proprietary Funds

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

Net position for the water and sewer fund increased from \$8,358,562 to \$8,488,040. The balance is composed of \$7,432,103 net investment in capital assets, \$287,799 restricted for debt service and bond covenants, and \$768,138 unreserved.

Swimming pool fund net position decreased from \$193,237 to \$184,826. Operating expenses were \$44,461 in fiscal year 2015 and \$44,010 in fiscal year 2016. The net position balance includes net investment in capital assets of \$194,808 and unreserved of \$(9,982).

Total operating revenues for proprietary funds were \$3,571,712. Operating expenses were \$2,007,463. This resulted in an operating income of \$1,564,249. The proprietary funds had total non-operating expenses of \$269,681, capital contributions of \$199,234, and net operating transfers out of \$1,372,735. The change in net position was \$121,067.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

General Fund Budgetary Highlights

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

Budgetary Highlights for 2015-2016:

	General Fund Budget	General Fund Actual	Variance
Revenues	\$5,905,652	\$7,413,024	\$1,507,372
Expenditures	7,001,130	13,178,634	(6,177,504)

Significant variances in the adopted budget and actual expenditures are reflected in the areas of public works maintenance, 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, 2016, 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:

Waterline and sewerline replacements and improvements—Capital expenditures on water- and sewer-lines were \$378,819 for the fiscal year ending June 30, 2016. Two projects, Wilden Street Waterline and Town Street Sewerline, were completed during the fiscal year and moved from construction in progress to lines in service. Improvements undertaken by the Comprehensive Infrastructure Replacement Program have not been completed—expenditures of \$278,722 were included in construction in progress.

Wayne C. Henderson School Project—Capital expenditures for the Wayne C. Henderson School Project were \$123,817 for the fiscal year ending June 30, 2016. The project was completed during the fiscal year, removed from construction in progress and included as a depreciable capital asset.

Buster Brown Building—Capital expenditures for the Dover Street Buster Brown Building were \$102,244 for the fiscal year ending June 30, 2016. The property was purchased September 24, 2015 with a loan from the Bank of Marion. The Town considers the property to be infrastructure.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

Capital Asset and Long-Term Debt Activity (Continued)

Long-term Debt

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

	Balance July 1, 2015	Issuances	Retirements	Balance June 30, 2016
General obligation bonds	\$ 4,831,746	\$ 1,892,768	\$ (2,024,949)	\$ 4,699,565
Line of credit	-	231,500	(82,000)	149,500
Compensated absences	46,964	11,841	-	58,805
Pension liability as restated	667,889	14,758	-	682,647
OPEB liability	181,121	-	(686)	180,435
Total	<u>\$ 5,727,720</u>	<u>\$ 2,150,867</u>	<u>\$ (2,107,635)</u>	<u>\$ 5,770,952</u>

The outstanding debt for governmental activities at June 30, 2016 is as follows:

	Balance July 1, 2015	Issuances	Retirements	Balance June 30, 2016
General obligation bonds	\$ 265,000	\$ 837,000	\$ (265,000)	\$ 837,000
Premium on bond	4,317	-	1,295	5,612
Loans payable as restated	2,333,722	229,544	(674,658)	1,888,608
Line of credit	160,541	4,195,000	(4,355,541)	-
Capital leases	16,559	-	(16,559)	-
OPEB liability	585,002	-	(17,070)	567,932
Pension liability as restated	3,532,668	-	(108,635)	3,424,033
Compensated absences	201,242	4,294	-	205,536
Total	<u>\$ 7,099,051</u>	<u>\$ 5,265,838</u>	<u>\$ (5,436,168)</u>	<u>\$ 6,928,721</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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

Scheduled Major Projects

Downtown Streetscape – The fourth phase of this ongoing project, started in 1999, began construction in the spring of 2016. The downtown streetscape design will continue westward from the Main/Sheffey intersection to the South Main/West Main split. Private construction at the Blue Ridge Job Corps and Ebenezer Lutheran Church on their adjoining walls will be coordinated with the project construction. Brick detail, street trees, pedestrian scaled lighting, and a new lighting feature at the Blue Ridge Job Corps stone wall will complete the most visible portion of the downtown streetscape.

Wayne C. Henderson School of Appalachian Arts – This \$2.7 million rehab project has been completed, with ribbon cuttings at the Henderson School and the Summit Center celebrating the events. Catherine Poole, Executive Director for the Henderson School, continues to coordinate project meetings, develop curriculum and provide an array of classes. She started Smyth County's first JAM (Junior Appalachian Musician) program, and has set up the Burke Letterpress Shop, even hosting her inaugural class of 12 for Letterpress. Wayne Henderson is set to teach his first guitar making class in the spring, a maximum of four students at \$2,500 each, and the class is sold out. Staff is working to finalize the list for lutherie and kitchen equipment and marketing materials. The Summit, a joint local/distance learning center between Virginia Highlands Community College and Wytheville Community College is housed upstairs in the Henderson School and is fully operational, offering 27 classes in its inaugural session. The colleges have provided one work study to assist with the greeting desk at the Henderson School, and local artist Jack Taylor continues to be instrumental as a volunteer.

Marion Community Gateway Project – Funded by DHCD, the primary corridor extending from an area around Exit 45 off Interstate 81 into town is being studied to maximize opportunities for economic development. Building facades, landscaping, gateway signage, and relocation of the state shop are priorities being addressed by this Planning Grant. Town staff has begun the legislative process to relocate the VDOT maintenance facility, and has submitted a preliminary grant application for a \$2.3 million Vibrant Communities Grant through DHCD, anticipating an early 2016 announcement.

Emory & Henry College – School of Health Sciences --The Town continues to partner with Emory & Henry College for the development of the Marion campus. As part of that partnership, the office of Community and Economic Development is serving as liaison for addressing needs and opportunities with the school, including spearheading a CDBG planning grant to study the feasibility of redeveloping the Centre Square Building as a multipurpose facility to include student housing and updated retail/restaurant space, to encourage local merchandise in their stores, and assisted with a potential \$600,000 CDBG grant for renovations.

Appalachian Spring/Mountain of Music Homecoming – in partnership with The Southwest Virginia Cultural Heritage Foundation, Marion is serving as a lead for this new natural asset tourism initiative, with the Lincoln Theatre serving as an anchor for the historic theatre trail and Hungry Mother State Park serving as a leading venue for the outdoor recreation trail. Marion's "Song of the Mountains" is an anchor program for the new nine-day music festival across the region.

"Back of the Dragon" Trail – Marion will continue to position ourselves as the gateway, and is working with local partners to develop a comprehensive plan to attract more group riders that will provide lodging and meals revenues.

Housing Rehabilitation of Crescent and Palmer Avenue – This project was started in fiscal year 2014 and will continue into fiscal year 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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

Scheduled Major Projects (Continued)

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

Water Leak Analysis Repairs – This project involves the installation of boundary valves on the water system in strategic locations in order to identify significant water losses in both pressure systems of the Town. The Town is also involved with meter replacement of all commercial and residential connections to the Town of Marion's water system. The Town acquired a grant from the Virginia Department of Health in 2014 to help with this project. This project will be done in conjunction with the capital infrastructure replacement plan below and is currently under way.

Capital Infrastructure Replacement Plan (CIRP) – This project is a comprehensive, multiyear plan to replace our aging water, sewer, paving, and storm water facilities. It will serve as a framework to coordinate future facility installations by intersections, and will incorporate all exterior utilities such as natural gas, cable, and phone. The first projects have been incorporated into the 2015-2016 budget cycle.

Fire/EMS Operations – The Town has successfully transformed from a fully volunteer Fire Department to a quasi-volunteer, partially paid Fire Department with Emergency Rescue Services. Currently, 100% of fire and 75% of EMS calls are answered on first alert, an improvement of 40%.

Requests for Information

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

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

FINANCIAL STATEMENTS

TOWN OF MARION, VIRGINIA
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Primary Government			Component Unit
	Governmental	Business-type	Total	Economic Development
	Activities	Activities		Authority
ASSETS				
Cash and cash equivalents	\$ 608,559	\$ 718,114	\$ 1,326,673	\$ 25
Receivables (net of allowance for uncollectibles):				
Taxes receivable	821,256	-	821,256	-
Accounts receivable	391,966	510,087	902,053	-
Other receivables	226,840	-	226,840	-
Due from other funds	152,320	556,121	708,441	-
Due from other governmental units	72,984	8,936	81,920	-
Inventories	20,165	-	20,165	-
Prepaid expenses	130,187	13,334	143,521	-
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	118,931	118,931	-
Investments	-	168,868	168,868	-
Capital assets (net of accumulated depreciation):				
Land	1,880,169	707,377	2,587,546	-
Buildings and system	6,048,683	-	6,048,683	-
Improvements other than buildings	-	15,683	15,683	-
Machinery and equipment	426,699	378,828	805,527	-
Plant and lines in service	-	11,095,365	11,095,365	-
Infrastructure	2,262,709	-	2,262,709	-
Construction in progress	32,043	278,722	310,765	-
Total assets	<u>\$ 13,074,580</u>	<u>\$ 14,570,366</u>	<u>\$ 27,644,946</u>	<u>\$ 25</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pensions	\$ 430,961	\$ 85,920	\$ 516,881	\$ -
Total deferred outflows of resources	<u>\$ 430,961</u>	<u>\$ 85,920</u>	<u>\$ 516,881</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ 103,146	\$ 28,532	\$ 131,678	\$ -
Accrued liabilities	220,545	58,009	278,554	-
Customers' deposits	-	48,650	48,650	-
Accrued interest payable	-	14,134	14,134	-
Due to other funds	708,441	-	708,441	-
Long-term liabilities:				
Due within one year	2,076,167	775,260	2,851,427	-
Due in more than one year	4,852,554	4,995,692	9,848,246	-
Total liabilities	<u>\$ 7,960,853</u>	<u>\$ 5,920,277</u>	<u>\$ 13,881,130</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	\$ 777,606	\$ -	\$ 777,606	\$ -
Deferred pensions	476,932	63,143	540,075	-
Total deferred inflows of resources	<u>\$ 1,254,538</u>	<u>\$ 63,143</u>	<u>\$ 1,317,681</u>	<u>\$ -</u>
NET POSITION				
Net Investment in capital assets	\$ 7,919,083	\$ 7,626,911	\$ 15,545,994	\$ -
Restricted for:				
Debt service and bond covenants	-	287,799	287,799	-
Downtown housing project	219,941	-	219,941	-
Unrestricted (deficit)	(3,848,874)	758,156	(3,090,718)	25
Total net position	<u>\$ 4,290,150</u>	<u>\$ 8,672,866</u>	<u>\$ 12,963,016</u>	<u>\$ 25</u>

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

TOWN OF MARION, VIRGINIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

					Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Economic Development Authority
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,326,908	\$ 3,097	\$ -	\$ -	\$ (1,323,811)	\$ -	\$ (1,323,811)	\$ -
Public safety	1,875,229	252,363	207,398	-	(1,415,468)	-	(1,415,468)	-
Public works	2,871,732	408,029	1,560,930	-	(902,773)	-	(902,773)	-
Parks, recreation, and cultural	1,062,583	562,253	-	-	(500,330)	-	(500,330)	-
Community development	1,002,968	4,738	173,840	145,255	(679,135)	-	(679,135)	-
Interest on long-term debt	116,184	-	-	-	(116,184)	-	(116,184)	-
Total government activities	\$ 8,255,604	\$ 1,230,480	\$ 1,942,168	\$ 145,255	\$ (4,937,701)	\$ -	\$ (4,937,701)	\$ -
Business-type activities:								
Water and Sewer	\$ 2,233,194	\$ 3,538,043	\$ -	\$ 199,234	\$ -	\$ 1,504,083	\$ 1,504,083	\$ -
Swimming Pool	44,010	33,669	-	-	-	(10,341)	(10,341)	-
Total business-type activities	\$ 2,277,204	\$ 3,571,712	\$ -	\$ 199,234	\$ -	\$ 1,493,742	\$ 1,493,742	\$ -
Total primary government	\$ 10,532,808	\$ 4,802,192	\$ 1,942,168	\$ 344,489	\$ (4,937,701)	\$ 1,493,742	\$ (3,443,959)	\$ -
COMPONENT UNITS:								
Economic Development Authority	\$ 819,000	\$ 819,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total component units	\$ 819,000	\$ 819,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General revenues:								
General property taxes					\$ 603,510	\$ -	\$ 603,510	-
Other local taxes:								
Local sales and use taxes					193,464	-	193,464	-
Consumers' utility taxes					111,466	-	111,466	-
Business license taxes					558,921	-	558,921	-
Communication tax					126,078	-	126,078	-
Motor vehicle licenses					79,974	-	79,974	-
Bank stock tax					182,763	-	182,763	-
Meals taxes					1,272,061	-	1,272,061	-
Other local taxes					314,585	-	314,585	-
Permits, privilege fees, and regulatory licenses					370	-	370	-
Fines and forfeitures					17,007	-	17,007	-
Unrestricted revenues from use of money and property					14,057	60	14,117	-
Miscellaneous					51,429	-	51,429	-
Recovered costs					819,333	-	819,333	-
Grants and contributions not restricted to specific programs					72,203	-	72,203	-
Gain (loss) on disposal of capital assets					-	-	-	-
Transfers					1,372,735	(1,372,735)	-	-
Total general revenues					\$ 5,789,956	\$ (1,372,675)	\$ 4,417,281	\$ -
Change in net position					\$ 852,255	\$ 121,067	\$ 973,322	\$ -
Net position - beginning					3,437,895	8,551,799	11,989,694	-
Net position - ending					\$ 4,290,150	\$ 8,672,866	\$ 12,963,016	\$ -

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

TOWN OF MARION, VIRGINIA
BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 388,142	\$ 220,417	\$ 608,559
Receivables (net of allowance for uncollectibles):			
Taxes receivable	821,256	-	821,256
Accounts receivable	286,680	105,286	391,966
Other receivables	226,840	-	226,840
Due from other funds	33,951	118,369	152,320
Due from other governmental units	72,984	-	72,984
Inventories	-	20,165	20,165
Prepaid expenses	119,587	7,936	127,523
Restricted assets:			
Investments	-	-	-
Total assets	<u>\$ 1,949,440</u>	<u>\$ 472,173</u>	<u>\$ 2,421,613</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 92,210	\$ 10,936	\$ 103,146
Accrued liabilities	198,540	22,005	220,545
Due to other funds	556,121	152,320	708,441
Total liabilities	<u>\$ 846,871</u>	<u>\$ 185,261</u>	<u>\$ 1,032,132</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	<u>\$ 876,319</u>	<u>\$ -</u>	<u>\$ 876,319</u>
FUND BALANCE			
Fund balances:			
Nonspendable			
Prepaid expense	\$ 119,587	\$ 7,936	\$ 127,523
Inventory	-	20,165	20,165
Restricted for:			
Debt service and bond covenants	-	-	-
DARE	-	1,311	1,311
Downtown housing	-	219,941	219,941
Master redevelopment	-	2,500	2,500
Committed to:			
Parking garage	-	-	-
Assigned to:			
Golf Course	-	198,279	198,279
Unassigned	106,663	(163,220)	(56,557)
Total fund balances	<u>\$ 226,250</u>	<u>\$ 286,912</u>	<u>\$ 513,162</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,949,440</u>	<u>\$ 472,173</u>	<u>\$ 2,421,613</u>

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

TOWN OF MARION, VIRGINIA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 513,162
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,650,303
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	98,713
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(6,926,057)
Deferred outflows of resources reported in the Statement of Net Position	430,961
Deferred inflows of resources reported in the Statement of Net Position	(476,932)
Net position of governmental activities	<u>\$ 4,290,150</u>

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

TOWN OF MARION, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 592,351	\$ -	\$ 592,351
Other local taxes	2,839,312	-	2,839,312
Permits, privilege fees, and regulatory licenses	370	-	370
Fines and forfeitures	17,007	-	17,007
Revenue from the use of money and property	14,057	-	14,057
Charges for services	693,634	536,846	1,230,480
Miscellaneous	49,495	1,934	51,429
Recovered costs	919,872	-	919,872
Intergovernmental revenues:			
Commonwealth	1,971,701	-	1,971,701
Federal	315,225	-	315,225
Total revenues	<u>\$ 7,413,024</u>	<u>\$ 538,780</u>	<u>\$ 7,951,804</u>
EXPENDITURES			
Current:			
General government administration	\$ 1,311,957	\$ -	\$ 1,311,957
Public safety	1,917,880	-	1,917,880
Public works	2,839,192	-	2,839,192
Parks, recreation, and cultural	338,457	629,067	967,524
Community development	1,018,176	-	1,018,176
Capital projects	320,259	-	320,259
Debt service:			
Principal retirement	5,311,758	-	5,311,758
Interest and other fiscal charges	120,955	-	120,955
Total expenditures	<u>\$ 13,178,634</u>	<u>\$ 629,067</u>	<u>\$ 13,807,701</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (5,765,610)</u>	<u>\$ (90,287)</u>	<u>\$ (5,855,897)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 1,260,190	\$ 112,545	1,372,735
Proceeds from a line of credit	4,195,000	-	4,195,000
Proceeds of general obligation bonds	939,244	-	939,244
Total other financing sources (uses)	<u>\$ 6,394,434</u>	<u>\$ 112,545</u>	<u>\$ 6,506,979</u>
Net change in fund balances	\$ 628,824	\$ 22,258	\$ 651,082
Fund balances - beginning	(402,574)	264,654	(137,920)
Fund balances - ending	<u>\$ 226,250</u>	<u>\$ 286,912</u>	<u>\$ 513,162</u>

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

TOWN OF MARION, VIRGINIA
 RECONCILIATION OF STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

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

Net change in fund balances - total governmental funds	\$ 651,082
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	(99,198)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,159
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	48,919
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.	240,293
Change in net position of governmental activities	<u>\$ 852,255</u>

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

TOWN OF MARION, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Water and Sewer Fund	Swimming Pool Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 717,914	\$ 200	\$ 718,114
Accounts receivables, net of allowances for uncollectibles	510,087	-	510,087
Due from other funds	556,121	-	556,121
Due from other governmental units	8,936	-	8,936
Prepaid expenses	13,334	-	13,334
Total current assets	<u>\$ 1,806,392</u>	<u>\$ 200</u>	<u>\$ 1,806,592</u>
Noncurrent assets:			
Restricted current assets:			
Cash and cash equivalents	\$ 118,931	\$ -	\$ 118,931
Investments	168,868	-	168,868
Total restricted current assets	<u>\$ 287,799</u>	<u>\$ -</u>	<u>\$ 287,799</u>
Capital assets:			
Utility plant in service	21,788,457	-	21,788,457
Machinery and equipment	2,891,352	29,151	2,920,503
Land	528,252	179,125	707,377
Pool	-	974,651	974,651
Less accumulated depreciation	(13,205,616)	(988,119)	(14,193,735)
Construction in progress	278,722	-	278,722
Total capital assets	<u>\$ 12,281,167</u>	<u>\$ 194,808</u>	<u>\$ 12,475,975</u>
Total noncurrent assets	<u>\$ 12,568,966</u>	<u>\$ 194,808</u>	<u>\$ 12,763,774</u>
Total assets	<u>\$ 14,375,358</u>	<u>\$ 195,008</u>	<u>\$ 14,570,366</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pensions	\$ 85,920	\$ -	\$ 85,920
Total deferred outflows of resources	<u>\$ 85,920</u>	<u>\$ -</u>	<u>\$ 85,920</u>

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

TOWN OF MARION, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Water and Sewer Fund	Swimming Pool Fund	Total
Current liabilities:			
Accounts payable	\$ 24,443	\$ 4,089	\$ 28,532
Accrued liabilities	51,916	6,093	58,009
Customers' deposits	48,650	-	48,650
Accrued interest payable	14,134	-	14,134
Compensated absences	44,104	-	44,104
Pension liability	63,350	-	63,350
General obligation bonds payable - current portion	518,306	-	518,306
Line of credit	149,500	-	149,500
Total current liabilities	<u>\$ 914,403</u>	<u>\$ 10,182</u>	<u>\$ 924,585</u>
Noncurrent liabilities:			
General obligation bonds payable - net of current portion	\$ 4,181,258	\$ -	\$ 4,181,258
Compensated absences	14,701	-	14,701
Pension liability	619,298	-	619,298
OPEB liability	180,435	-	180,435
Total noncurrent liabilities	<u>\$ 4,995,692</u>	<u>\$ -</u>	<u>\$ 4,995,692</u>
Total liabilities	<u>\$ 5,910,095</u>	<u>\$ 10,182</u>	<u>\$ 5,920,277</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pensions	\$ 63,143	\$ -	\$ 63,143
Total deferred inflows of resources	<u>\$ 63,143</u>	<u>\$ -</u>	<u>\$ 63,143</u>
NET POSITION			
Net Investment in capital assets	\$ 7,432,103	\$ 194,808	\$ 7,626,911
Restricted for debt service and bond covenants	287,799	-	287,799
Unrestricted	768,138	(9,982)	758,156
Total net position	<u>\$ 8,488,040</u>	<u>\$ 184,826</u>	<u>\$ 8,672,866</u>

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

TOWN OF MARION, VIRGINIA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund Water and Sewer Fund	Enterprise Fund Swimming Pool Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 3,538,043	\$ 28,685	\$ 3,566,728
Other revenues	-	4,984	4,984
Total operating revenues	<u>\$ 3,538,043</u>	<u>\$ 33,669</u>	<u>\$ 3,571,712</u>
OPERATING EXPENSES			
Personal services	\$ 625,993	\$ 23,487	\$ 649,480
Fringe benefits	190,442	2,699	193,141
Contractual services	113,623	1,614	115,237
Materials and supplies	199,436	8,860	208,296
Other charges	194,910	3,259	198,169
Depreciation	639,049	4,091	643,140
Total operating expenses	<u>\$ 1,963,453</u>	<u>\$ 44,010</u>	<u>\$ 2,007,463</u>
Operating income (loss)	<u>\$ 1,574,590</u>	<u>\$ (10,341)</u>	<u>\$ 1,564,249</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	\$ -	\$ -	\$ -
Investment earnings	60	-	60
Interest expense	(269,741)	-	(269,741)
Total nonoperating revenues (expenses)	<u>\$ (269,681)</u>	<u>\$ -</u>	<u>\$ (269,681)</u>
Income before contributions and transfers	<u>\$ 1,304,909</u>	<u>\$ (10,341)</u>	<u>\$ 1,294,568</u>
Capital contributions	\$ 199,234	\$ -	\$ 199,234
Transfers in	-	1,930	1,930
Transfers out	(1,374,665)	-	(1,374,665)
Change in net position	<u>\$ 129,478</u>	<u>\$ (8,411)</u>	<u>\$ 121,067</u>
Total net position - beginning	<u>\$ 8,358,562</u>	<u>\$ 193,237</u>	<u>\$ 8,551,799</u>
Total net position - ending	<u><u>\$ 8,488,040</u></u>	<u><u>\$ 184,826</u></u>	<u><u>\$ 8,672,866</u></u>

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

TOWN OF MARION, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund	Enterprise Fund	
	Water and Sewer Fund	Swimming Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 3,369,972	\$ 33,669	\$ 3,403,641
Payments to suppliers	(862,759)	(13,255)	(876,014)
Payments to and for employees	(629,574)	(22,344)	(651,918)
Net cash provided (used by) operating activities	<u>\$ 1,877,639</u>	<u>\$ (1,930)</u>	<u>\$ 1,875,709</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (1,374,665)	\$ -	\$ (1,374,665)
Transfers from other funds	-	1,930	1,930
Net cash provided (used) by noncapital financing activities	<u>\$ (1,374,665)</u>	<u>\$ 1,930</u>	<u>\$ (1,372,735)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (458,513)	\$ -	\$ (458,513)
Proceeds from the sale of assets			-
Principal payments on bonds	(2,106,949)	-	(2,106,949)
Capital contributions	236,079	-	236,079
Intergovernmental contributions	-	-	-
Proceeds from indebtedness	2,124,268	-	2,124,268
Interest payments	(288,121)	-	(288,121)
Net cash provided (used) by capital and related financing activities	<u>\$ (493,236)</u>	<u>\$ -</u>	<u>\$ (493,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 60	\$ -	\$ 60
Net cash provided (used) by investing activities	<u>\$ 60</u>	<u>\$ -</u>	<u>\$ 60</u>
Net increase (decrease) in cash and cash equivalents	\$ 9,798	\$ -	\$ 9,798
Cash and cash equivalents - beginning	\$ 995,915	\$ 200	\$ 996,115
Cash and cash equivalents - ending	<u><u>\$ 1,005,713</u></u>	<u><u>\$ 200</u></u>	<u><u>\$ 1,005,913</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,574,590	\$ (10,341)	\$ 1,564,249
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	\$ 639,049	\$ 4,091	\$ 643,140
(Increase) decrease in accounts receivable	(168,771)	-	(168,771)
(Increase) decrease in prepaid expenses	(4,033)	-	(4,033)
Increase (decrease) in customer deposits	700	-	700
Increase (decrease) in operating accounts payable	(141,548)	4,320	(137,228)
Increase (decrease) in OPEB liability	(686)	-	(686)
Increase (decrease) in pension liability	14,759	-	14,759
Increase (decrease) in deferred pensions	(48,262)	-	(48,262)
Increase (decrease) in compensated absences	11,841	-	11,841
Total adjustments	<u>\$ 303,049</u>	<u>\$ 8,411</u>	<u>\$ 311,460</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,877,639</u></u>	<u><u>\$ (1,930)</u></u>	<u><u>\$ 1,875,709</u></u>

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

TOWN OF MARION, VIRGINIA
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	Cemetery Fund
ASSETS	
Cash and cash equivalents	\$ 6,895
Investments, at fair value	117,448
Total assets	<u>\$ 124,343</u>
NET POSITION	
Amounts held for cemetery maintenance	124,343
Total liabilities	<u>\$ 124,343</u>

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

TOWN OF MARION, VIRGINIA
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	Cemetery Fund
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 2,016
Realized gain on investment	<u>1,263</u>
Total additions	<u>\$ 3,279</u>
DEDUCTIONS	
Distribution	\$ 3,128
Fiduciary fees	150
Unrealized loss on investment	<u>3,121</u>
Total deductions	<u>\$ 6,399</u>
Change in net position	\$ (3,120)
Net position - beginning	<u>127,463</u>
Net position - ending	<u><u>\$ 124,343</u></u>

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

**NOTES TO
FINANCIAL STATEMENTS**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies:

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

A. Reporting Entity:

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

Blended Component Units - None

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

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

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues.

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

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

The government reports the following major governmental funds:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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

Fiduciary funds consist of a cemetery fund for perpetual care.

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

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

1. Deposits and Investments

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

2. Property Taxes

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

3. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for governmental activities amounted to approximately \$132,247 for property taxes and \$26,693 for garbage billings at June 30, 2016. The allowance for business-type activities amounted to approximately \$199,052 for water and sewer billings at June 30, 2016.

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:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

6. Compensated Absences

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

7. Long-term Obligations

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

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

8. Fund Equity

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

9. Net Position

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

10. Concentration of Credit Risk

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

11. Prepaid Expenses

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

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

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

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

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

14. Net Position Flow Assumption

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

15. Inventory

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

E. New Accounting Pronouncements

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

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement were effective for reporting periods beginning after June 15, 2015.

F. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

<p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<ul style="list-style-type: none"> • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

		<p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013, and 1.7% on creditable service earned, purchased or granted before January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivisions hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.0%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivisions hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable.
Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.	Normal Retirement Age Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.	Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

		Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Not applicable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

<ul style="list-style-type: none"> • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivision (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported services • The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that on-year period, the rate for most categories of service will change to actuarial cost.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

F. Plan Description (continued)

		<u>Defined Contribution Component:</u> Not applicable.
--	--	---

The remainder of this page left blank intentionally

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this \$(6,926,057) difference for the primary government is as follows:

	Primary Government
General obligation bonds and loans payable	\$ (2,731,220)
Prepaid interest	2,664
OPEB liability	(567,932)
Pension liability	(3,424,033)
Compensated absences	(205,536)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	<u><u>\$ (6,926,057)</u></u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "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 \$(99,198) difference for the primary government is as follows:

	Primary Government
Capital outlays	\$ 360,025
Depreciation expense	(459,223)
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ (99,198)</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2016

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 \$240,293 difference for the primary government is as follows:

	<u>Primary Government</u>
(Increase) Decrease in Compensated absences	\$ (4,294)
(Increase) Decrease in OPEB liability	17,070
(Increase) Decrease in Accrued interest	6,066
Pension expense	<u>221,451</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 240,293</u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 3 - Stewardship, Compliance, and Accountability:

A. Budgetary information

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

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

B. Deficit fund equity

At June 30, 2016, the CDBG Gilman Street Fund had a deficit fund equity of \$(32,951) and the Streetscape Fund had a deficit fund equity of \$(102,168). These funds are combined with non- major funds and reflected as an other governmental fund in the financial statement.

Note 4 - Deposits and Investments:

Deposits:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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:

	<u>Primary Government</u>
<u>Commonwealth of Virginia:</u>	
Local sales tax	\$ 33,526
Communication tax	20,594
Non-categorical aid	15,478
Categorical aid	<u>3,386</u>
Total	<u><u>\$ 72,984</u></u>

Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2016, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 1,260,190	\$ -
Other Governmental Funds	112,545	-
Water and Sewer Fund	-	(1,374,665)
Swimming Pool Fund	1,930	
Total	<u><u>\$ 1,374,665</u></u>	<u><u>\$ (1,374,665)</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7 - Long-Term Debt:Primary Government - Governmental Activity Indebtedness:

Details of long-term indebtedness:

Year Ending June 30,	General Obligation Bonds		Loan Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 96,156	\$ 19,852	\$ 1,521,346	\$ 41,963	\$ 1,617,502	\$ 61,815
2018	98,018	17,990	124,024	7,694	222,042	25,684
2019	98,884	16,089	22,232	6,395	121,116	22,484
2020	35,799	14,149	22,704	5,923	58,503	20,072
2021	36,728	13,220	23,196	5,431	59,924	18,651
2022-2026	198,438	51,301	124,141	18,995	322,579	70,296
2027-2031	225,557	24,182	50,965	4,190	276,522	28,372
2032-2036	47,420	1,264	-	-	47,420	1,264
2037-2041	-	-	-	-	-	-
2042-2046	-	-	-	-	-	-
Totals	<u>\$ 837,000</u>	<u>\$ 158,047</u>	<u>\$ 1,888,608</u>	<u>\$ 90,591</u>	<u>\$ 2,725,608</u>	<u>\$ 248,638</u>

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2016.

	Balance July 1, 2015	Issuances	Retirements	Balance June 30, 2016
General obligation bonds	\$ 265,000	\$ 837,000	\$ (265,000)	\$ 837,000
Premium on bond	4,317	-	1,295	5,612
Loans payable as restated	2,333,722	229,544	(674,658)	1,888,608
Line of credit	160,541	4,195,000	(4,355,541)	-
Capital leases	16,559	-	(16,559)	-
OPEB liability	585,002	-	(17,070)	567,932
Pension liability as restated	3,532,668	-	(108,635)	3,424,033
Compensated absences	201,242	4,294	-	205,536
Total	<u>\$ 7,099,051</u>	<u>\$ 5,265,838</u>	<u>\$ (5,436,168)</u>	<u>\$ 6,928,721</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7 - Long-Term Debt: (continued)

Primary Government - Governmental Activity Indebtedness (Continued):

Details of long-term indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>Loan Payable</u>		
Smyth County Community Foundation, issued November 11, 2011, monthly installments of interest in the amount of \$3,125 for five years with a balloon payment at the end of the five years. Interest computed at a rate of 2.5%.	\$ 1,500,000	\$ 1,500,000
Bank of Marion, issued February 18, 2015, monthly installments of principal and interest in the amount of \$1,311. Interest computed at a rate of 4.5% for fifteen years.	\$ 159,064	\$ 8,759
Bank of Marion, issued September 29, 2015, variable monthly installments of interest for two years with a balloon payment at the end of the two years. Interest is indexed to the Wall Street Journal U.S. Prime Rate.	\$ 102,244	\$ -
Virginia Resources Authority, issued March 18, 2016, semi-annual installments of principal and interest in the amount of \$6,449. Interest computed at a rate of 0.25% for ten years.	\$ 127,300	\$ 12,587
Total Loans Payable	<u>\$ 1,888,608</u>	<u>\$ 1,521,346</u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7 - Long-Term Debt: (continued)Primary Government - Governmental Activity Indebtedness (Continued):

Details of long-term indebtedness: (continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bonds</u>		
Bank of Marion bond, issued June 29, 2016, annual installments of principal and semi-annual installments of interest. Interest computed at a rate of 2.6% for sixteen years.	\$ 646,000	\$ 33,152
Bank of Marion bond, issued June 29, 2016, annual installments of principal and semi-annual installments of interest. Interest computed at a rate of 1.6% for three years.	\$ 191,000	\$ 63,004
Total General Obligation Bonds	<u>\$ 837,000</u>	<u>\$ 96,156</u>
<u>Line of Credit</u>		
Line of credit with Bank of Marion dated May 1, 2013 for an amount up to \$500,000. Interest computed at a rate of 2.75%. The initial draw on line of credit was made in August 2013.	\$ -	\$ -
Total Line of Credit	<u>\$ -</u>	<u>\$ -</u>
<u>Other Obligations:</u>		
Premium on bond	\$ 5,612	\$ 3,883
Compensated absences	205,536	154,152
Pension liability	3,424,033	300,630
OPEB liability	567,932	-
Total Other Obligations	<u>\$ 4,203,113</u>	<u>\$ 458,665</u>
Total Long-Term Obligations	<u>\$ 6,928,721</u>	<u>\$ 2,076,167</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7 - Long-Term Debt: (continued)Primary Government-Enterprise Activity Indebtedness: (continued)

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2017	\$ 518,306	\$ 184,602
2018	535,848	168,590
2019	343,596	77,771
2020	351,556	69,811
2021	359,734	61,633
2022-2026	1,691,844	177,436
2027-2031	439,541	56,069
2032-2036	133,179	44,059
2037-2041	100,102	32,930
2042-2046	112,623	20,410
2047-2051	113,236	7,040
2052-2056	-	-
Totals	<u>\$ 4,699,565</u>	<u>\$ 900,351</u>

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2016.

	Balance July 1, 2015	Issuances	Retirements	Balance June 30, 2016
General obligation bonds	\$ 4,831,746	\$ 1,892,768	\$ (2,024,949)	\$ 4,699,565
Line of credit	-	231,500	(82,000)	149,500
Compensated absences	46,964	11,841	-	58,805
Pension liability as restated	667,889	14,758	-	682,647
OPEB liability	181,121	-	(686)	180,435
Total	<u>\$ 5,727,720</u>	<u>\$ 2,150,867</u>	<u>\$ (2,107,635)</u>	<u>\$ 5,770,952</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7 - Long-Term Debt: (continued)Primary Government-Enterprise Activity Indebtedness: (continued)Details of long-term indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>General Obligation Bonds:</u>		
Virginia Resource Authority, issued on July 7, 1992, semi-annual principal and interest payments computed at a rate of 2.5%. Partially refinanced on June 29, 2016.	\$ 390,000	\$ 190,000
Bank of Marion bond, issued June 29, 2016, annual installments of principal and semi-annual installments of interest. Interest computed at a rate of 2.16% for nine years.	\$ 1,833,000	\$ 184,041
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%.	\$ 1,047,857	\$ 81,837
Virginia Resource Authority, issued December 15, 2011, semi-annual principal reductions of \$25,257. There is no interest rate on this note.	\$ 801,919	\$ 50,514
Rural Development, issued a \$606,000 loan on July 14, 2011. Monthly payments of principal and interest of \$1,988 at a rate of 2.375%.	\$ 567,021	\$ 10,500
Virginia Resource Authority, issued June 16, 2016, semi-annual principal and interest payments computed at a rate of 2.25% for thirty years.	\$ 59,768	\$ 1,414
Total General Obligation Bonds	<u>\$ 4,699,565</u>	<u>\$ 518,306</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 7 - Long-Term Debt: (continued)Primary Government-Enterprise Activity Indebtedness: (continued)Details of long-term indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>Line of Credit</u>		
Line of credit with Bank of Marion dated September 10, 2015 for an amount up to \$1,500,000. Interest is indexed to the Wall Street Journal U.S. Prime Rate. The initial draw on line of credit was made in September 2015.	\$ 149,500	\$ 149,500
Total Line of Credit	<u>\$ 149,500</u>	<u>\$ 149,500</u>
<u>Other Obligations:</u>		
Compensated absences	\$ 58,805	\$ 44,104
Pension liability	682,647	63,350
OPEB liability	180,435	-
Total other obligations	<u>\$ 921,887</u>	<u>\$ 107,454</u>
Total Long Term Obligations	<u>\$ 5,770,952</u>	<u>\$ 775,260</u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans:

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service. The System administers three different benefit structures for covered employees—Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>54</u>
Inactive members:	
Vested inactive members	5
Non-vested Inactive members	16
Inactive members active elsewhere in VRS	<u>16</u>
Total inactive members	37
Active members	<u>76</u>
Total covered employees	<u><u>167</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.0% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

If the employer used less than the certified rate: The Town's contractually required contribution rate for the year ended June 30, 2016 was 15.92% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. The actuarial rate for the Town's plan was 15.92%.

If the employer used the certified rate: The Town's contractually required contribution rate for the year ended June 30, 2016 was 15.92% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employer contributions to the pension plan were \$516,881 and \$527,823 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

Actuarial Assumptions – General Employees (continued)

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

Actuarial Assumptions – General Employees (continued)

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

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

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

Largest 10 – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

Actuarial Assumptions – Public Safety Employees (continued)

Post-Disablement:

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

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension system investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension system investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
	<u>100.00%</u>		<u>5.83%</u>
	Inflation		2.50%
* Expected arithmetic nominal return			<u>8.33%</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that system member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2014	\$ 15,912,325	\$ 11,711,768	\$ 4,200,557
Changes for the year:			
Service Cost	280,978		280,978
Interest	1,086,547		1,086,547
Differences between expected and actual experience	(308,291)		(308,291)
Contributions - employer		477,291	(477,291)
Contributions - employee		150,330	(150,330)
Net investment income		532,938	(532,938)
Benefit payments, including refunds of employee contributions	(780,442)	(780,442)	-
Administrative expenses		(7,338)	7,338
Other changes	-	(111)	111
Net changes	278,792	372,668	(93,876)
Balance at June 30, 2015	\$ 16,191,117	\$ 12,084,436	\$ 4,106,681

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

The following presents the net pension liability of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	6.00%	7.00%	8.00%
Net Pension Liability	\$ 6,159,369	\$ 4,106,681	\$ 2,393,136

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the Town recognized pension expense of \$(254,953). At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 540,075
Employer contributions subsequent to the measurement date	\$ -	\$ (516,881)
Total	<u>\$ -</u>	<u>\$ 23,194</u>

\$516,881 reported as deferred outflows of resources related to pensions, resulting from the political subdivision's contributions subsequent to the measurement date, will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2017	(199,034)
2018	(199,034)
2019	(198,263)
2020	56,256
Thereafter	-
	<u>\$ (540,075)</u>

Payables to the Pension Plan

At June 30, 2016, the Town reported a payable of \$58,228 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)**Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios**

	<u>2015</u>
Total pension liability	
Service cost	\$ 280,978
Interest	1,086,547
Changes of benefit terms	-
Differences between expected and actual experience	(308,291)
Changes in assumptions	-
Benefit Payments, including refunds of employee contributions	(780,442)
Net change in total pension liability	<u>278,792</u>
Total pension liability - beginning	<u>15,912,325</u>
Total pension liability - ending (a)	<u><u>\$ 16,191,117</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 477,291
Contributions - employee	150,330
Net investment income	532,938
Benefit Payments, including refunds of employee contributions	(780,442)
Administrative expense	(7,338)
Other	(111)
Net change in plan fiduciary net position	<u>372,668</u>
Plan fiduciary net position - beginning	<u>11,711,768</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 12,084,436</u></u>
 Political subdivision's net pension liability - ending (a) - (b)	<u><u>\$ 4,106,681</u></u>
 Plan fiduciary net position as a percentage of the total Pension liability	 74.64%
 Covered-employee payroll	 \$ 2,985,915
 Political subdivision's net pension liability as a percentage of covered-employee payroll	 137.54%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

**Schedule of Employer Contributions
For the Year Ended June 30, 2016**

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as of % of Covered Employee Payroll (5)
2016	\$ 516,881	\$ 516,881	-	\$ 3,112,090	16.61%
2015	527,823	527,823	-	3,020,037	17.48%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

For Reference Only:

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

Column 2 – Actual employer contribution remitted to VRS

Column 3 – Employer's covered employee payroll amount for the fiscal year ended June 30, 2016.

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

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

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 8 - Pension Plans: (continued)

Changes of assumptions (continued)

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 9 - Capital Assets:

Capital asset activity for the year ended June 30, 2016 was as follows:

Primary Government:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,880,169	\$ -	\$ -	\$ 1,880,169
Construction in progress	1,331,284	137,821	(1,437,062)	32,043
Total capital assets not being depreciated	<u>\$ 3,211,453</u>	<u>\$ 137,821</u>	<u>\$ (1,437,062)</u>	<u>\$ 1,912,212</u>
Capital assets, being depreciated:				
Buildings	\$ 8,218,551	\$ 1,437,062	\$ -	\$ 9,655,613
Infrastructure	2,762,915	102,244	-	2,865,159
Machinery and equipment	6,300,129	119,960	-	6,420,089
Total capital assets being depreciated	<u>\$ 17,281,595</u>	<u>\$ 1,659,266</u>	<u>\$ -</u>	<u>\$ 18,940,861</u>
Less: accumulated depreciation for:				
Buildings	\$ (3,409,040)	\$ (197,890)	\$ -	\$ (3,606,930)
Infrastructure	(520,570)	(81,880)	-	(602,450)
Machinery and equipment	(5,813,937)	(179,453)	-	(5,993,390)
Total accumulated depreciation	<u>\$ (9,743,547)</u>	<u>\$ (459,223)</u>	<u>\$ -</u>	<u>\$ (10,202,770)</u>
Total capital assets being depreciated, net	<u>\$ 7,538,048</u>	<u>\$ 1,200,043</u>	<u>\$ -</u>	<u>\$ 8,738,091</u>
Governmental activities capital assets, net	<u><u>\$ 10,749,501</u></u>	<u><u>\$ 1,337,864</u></u>	<u><u>\$ (1,437,062)</u></u>	<u><u>\$ 10,650,303</u></u>

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

Governmental activities:

General government	\$ 98,944
Public safety	90,391
Public works	129,267
Parks, recreation, and culture	<u>140,621</u>
Total depreciation expense - governmental activities	<u><u>\$ 459,223</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2016

Note 9 - Capital Assets: (continued)

Business-type activities:

Water and Sewer Fund:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 528,252	\$ -	\$ -	\$ 528,252
Construction in progress	68,199	378,819	(168,296)	278,722
Total capital assets not being depreciated	<u>\$ 596,451</u>	<u>\$ 378,819</u>	<u>(168,296)</u>	<u>\$ 806,974</u>
Capital assets, being depreciated:				
Utility plant and equipment	\$ 21,620,161	\$ 168,296	\$ -	\$ 21,788,457
Machinery and equipment	2,811,657	79,695	-	2,891,352
Total capital assets being depreciated	<u>\$ 24,431,818</u>	<u>\$ 247,991</u>	<u>\$ -</u>	<u>\$ 24,679,809</u>
Less: accumulated depreciation for:				
Utility plant and equipment	\$ (10,126,402)	\$ (566,690)	\$ -	\$ (10,693,092)
Machinery and equipment	(2,440,165)	(72,359)	-	(2,512,524)
Total accumulated depreciation	<u>\$ (12,566,567)</u>	<u>\$ (639,049)</u>	<u>\$ -</u>	<u>\$ (13,205,616)</u>
Total capital assets being depreciated, net	<u>\$ 11,865,251</u>	<u>\$ (391,058)</u>	<u>\$ -</u>	<u>\$ 11,474,193</u>
Business-type activities capital assets, net	<u><u>\$ 12,461,702</u></u>	<u><u>\$ (12,239)</u></u>	<u><u>\$ (168,296)</u></u>	<u><u>\$ 12,281,167</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 9 - Capital Assets: (continued)

Business-type activities:

Swimming Pool Fund:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 179,125	\$ -	\$ -	\$ 179,125
Total capital assets not being depreciated	<u>\$ 179,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,125</u>
Capital assets, being depreciated:				
Pool	\$ 974,651	\$ -	\$ -	\$ 974,651
Equipment	29,151	-	-	29,151
Total capital assets being depreciated	<u>\$ 1,003,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,003,802</u>
Less: accumulated depreciation for:				
Pool	\$ (954,877)	\$ (4,091)	\$ -	\$ (958,968)
Equipment	(29,151)	-	-	(29,151)
Total accumulated depreciation	<u>\$ (984,028)</u>	<u>\$ (4,091)</u>	<u>\$ -</u>	<u>\$ (988,119)</u>
Total capital assets being depreciated, net	<u>\$ 19,774</u>	<u>\$ (4,091)</u>	<u>\$ -</u>	<u>\$ 15,683</u>
Business-type activities capital assets, net	<u>\$ 198,899</u>	<u>\$ (4,091)</u>	<u>\$ -</u>	<u>\$ 194,808</u>

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

Business-type activities:

Water and Sewer	\$ 639,049
Swimming Pool	<u>4,091</u>
Total depreciation expense - business type activities	<u>\$ 643,140</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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 \$876,319 is comprised of the following:

Property Taxes - Property tax revenue of \$817,718 representing uncollected tax billings not available for funding current expenditures.

RBEG Loan - Small business loan of \$58,601 representing uncollected loan payments not available for funding current expenditures.

Note 11 - Risk Management:

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

Note 12 - Surety Bonds:

Primary Government:

Virginia Municipal Liability Pool

Public Employees Dishonesty Coverage	\$	200,000
--------------------------------------	----	---------

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 13 - Restricted Net Position:

<i>Governmental Activities</i>	<i>Balance</i>
Restricted for debt service and bond covenants	\$ -
Restricted for downtown housing project	219,941
	<hr/>
Total	\$ 219,941
	<hr/>
<i>Business-type Activities</i>	<i>Balance</i>
Restricted for debt service and bond covenants	\$ 287,799
	<hr/>
Total	\$ 287,799
	<hr/>

Note 14 - Restricted Cash and Cash Equivalents

Restricted cash of \$118,931 is reflected in the financial statements for business-type activities and represents the amount set aside for debt service in the water and sewer fund.

Note 15 - Restricted Investments

Restricted investment of \$168,868 is reflected in the financial statements for business-type activities and represents the amount set aside to cover the requirements set forth by Virginia Resource Authority in connection with the general obligation bond.

Note 16 - Contingencies

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

Note 17 - Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. Town employees with up to five years of service earn vacation at the rate of one day for each month. After five years, thirteen vacation days are earned annually; after ten years, fourteen days vacation is earned; after fifteen years an employee earns fifteen days vacation; after twenty years, sixteen days vacation are earned. The employees also earn an additional one-half day vacation time when employees are accident-free for 90 days. No benefits or pay is received for unused sick leave upon termination. However, upon retirement with 30 years of VRS service, the Town will pay 25% of all accumulated and unused sick pay up to \$2,500. No sick leave will be accrued at June 30, 2016 due to the difficulty in estimating the number of employees who may retire with 30 years of VRS service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 18 - Fund Balance-Restricted for:

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

Note 19 - Interfund Balances

Interfund balances consisted of the following at June 30, 2016:

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

Note 20 - Other Post-Employment Benefits

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 20 - Other Post-Employment Benefits (continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2016, the Town's annual OPEB costs of \$30,506 for governmental activities and \$(686) for business-type activities, respectively, were not equal to the Annual Required Contribution (ARC).

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Annual required contribution	\$ 38,679	\$ (943)
Interest on net OPEB obligation	12,211	5,410
Adjustment to annual required contribution	<u>(20,384)</u>	<u>(5,153)</u>
Annual OPEB cost	30,506	(686)
Contributions made	<u>(43,269)</u>	<u>-</u>
Increase in net OPEB obligation	(17,070)	(686)
Net OPEB obligation-beginning of year	<u>585,002</u>	<u>181,121</u>
Net OPEB obligation-end of year	<u><u>\$ 567,932</u></u>	<u><u>\$ 180,435</u></u>

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.

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	38,679	0%	567,932
June 30, 2015	168,412	0%	585,002
June 30, 2014	168,204	0%	459,859

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.

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	(686)	0%	180,435
June 30, 2015	26,557	0%	181,121
June 30, 2014	26,513	0%	154,564

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 20 - Other Post-Employment Benefits (continued)**Funding Status and Funding Progress**

The funding status of the plan as of June 30, 2016 was as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Actuarial Accrued Liability (AAL)	\$ 1,579,715	\$ 340,105
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	1,579,715	340,105
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	2,875,685	518,947
UAAL as a Percentage of Covered Payroll	54.93%	65.54%

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 20 - Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

The entry age normal cost method was used to determine liabilities under the alternative measurement method. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. Active employees are assumed to retire at age 62 which is the historical average age of retirement for employees of the Town. Active employees age 62 or older who have qualified postemployment benefits under the plan are assumed to retire in the first projected year. A healthcare plan that includes both retirees and active employees contains a blended rate. The rate used in the calculation is the age-adjusted premium less the contribution from the retiree or blended premium. The actuarial assumptions for the Town included: inflation at 1.00% and an investment rate of return of 2.3%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics. The 2011 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2016 is 23 years.

Plan Description

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

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

Funding Policy

The Town currently funds post-employment health care benefits on a pay-as-you-go basis. During fiscal year 2016, the Town had not designated any funding for the OPEB liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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;
- 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

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.

<i>Nonspendable Fund Balance</i>	<i>Balance</i>
Prepaid expense	127,523
Inventory	20,165
	<hr/>
Total	<u><u>\$ 147,688</u></u>

<i>Restricted Fund Balance</i>	<i>Balance</i>
Debt service and bond covenants	-
DARE	1,311
Downtown Housing	219,941
Master Redevelopment	2,500
	<hr/>
Total	<u><u>\$ 223,752</u></u>

<i>Committed Fund Balance</i>	<i>Balance</i>
Parking Garage	-
	<hr/>
Total	<u><u>\$ -</u></u>

<i>Assigned Fund Balance</i>	<i>Balance</i>
Golf Course	198,279
	<hr/>
Total	<u><u>\$ 198,279</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 22 - New Accounting Standards:

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

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

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

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

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 22 - New Accounting Standards: (continued)

Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants, as determined by criteria established in the Statement. External investment pools that do not meet the criteria should apply the provisions in Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015.

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

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

Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues in Statements No. 67, No. 68, and No. 73 regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Note 23 - Subsequent Events

Subsequent events have been evaluated as of December 2, 2016, which is the date the financial statements were issued.

Note 24 - Economic Development Authority:

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

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

The Board of Directors of the EDA has determined that the Town has immediate need for the rehabilitation of the property commonly known as the location of the future Wayne C. Henderson School of Appalachian Music and Arts located in the former Marion Schoolhouse Building (the Property). The Board has been presented a plan for financing the rehabilitation of the Property (the Project). Pursuant to such financing, the EDA will enter into a forty-year long term

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Note 24 - Economic Development Authority: (continued)

lease, leasing the Property to Marion Schoolhouse Building, LLC, a for-profit Virginia limited liability company (the Building, LLC) formed to undertake the Project. To facilitate the rehabilitation of the Project, the EDA has formed Marion Schoolhouse Manager, LLC (Manager, LLC) and Marion Schoolhouse Development, LLC (Development, LLC), both Virginia limited liability companies, of which the EDA is the sole member. The EDA has agreed or will agree to assume the costs and expenditures of the Town for the Town's efforts in managing the Project prior to the date hereof (the management costs) and the EDA plans to reimburse the Town in part through the efforts of Development, LLC.

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

**REQUIRED
SUPPLEMENTARY
INFORMATION**

TOWN OF MARION, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 675,150	\$ 675,150	\$ 592,351	\$ (82,799)
Other local taxes	2,850,500	2,850,500	2,839,312	(11,188)
Permits, privilege fees, and regulatory licenses	500	500	370	(130)
Fines and forfeitures	20,600	20,600	17,007	(3,593)
Revenue from the use of money and property	23,701	23,701	14,057	(9,644)
Charges for services	795,602	795,602	693,634	(101,968)
Miscellaneous	15,000	15,000	49,495	34,495
Recovered costs	86,075	86,075	919,872	833,797
Intergovernmental revenues:				
Commonwealth	1,424,464	1,424,464	1,971,701	547,237
Federal	14,060	14,060	315,225	301,165
Total revenues	<u>\$ 5,905,652</u>	<u>\$ 5,905,652</u>	<u>\$ 7,413,024</u>	<u>\$ 1,507,372</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,284,851	\$ 1,284,851	\$ 1,311,957	\$ (27,106)
Public safety	1,931,613	1,931,613	1,917,880	13,733
Public works	2,238,268	2,238,268	2,839,192	(600,924)
Parks, recreation, and cultural	436,212	436,212	338,457	97,755
Community development	654,116	654,116	1,018,176	(364,060)
Capital projects	206,550	206,550	320,259	(113,709)
Debt service:				
Principal retirement	154,890	154,890	5,311,758	(5,156,868)
Interest and other fiscal charges	94,630	94,630	120,955	(26,325)
Total expenditures	<u>\$ 7,001,130</u>	<u>\$ 7,001,130</u>	<u>\$ 13,178,634</u>	<u>\$ (6,177,504)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,095,478)</u>	<u>\$ (1,095,478)</u>	<u>\$ (5,765,610)</u>	<u>\$ (4,670,132)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 1,260,190	\$ 1,260,190
Transfers out	-	-	-	-
Proceeds from a line of credit	-	-	4,195,000	4,195,000
Proceeds from general obligation bonds	-	-	939,244	939,244
Total other financing sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,394,434</u>	<u>\$ 6,394,434</u>
Net change in fund balances	<u>\$ (1,095,478)</u>	<u>\$ (1,095,478)</u>	<u>\$ 628,824</u>	<u>\$ 1,724,302</u>
Fund balances - beginning	-	-	(402,574)	(402,574)
Fund balances - ending	<u><u>\$ (1,095,478)</u></u>	<u><u>\$ (1,095,478)</u></u>	<u><u>\$ 226,250</u></u>	<u><u>\$ 1,321,728</u></u>

TOWN OF MARION, VIRGINIA
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

Primary Government:

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2015	\$ 11,719,097	\$ 16,190,234	4,471,137	72.38%	\$ 2,985,915	149.74%
6/30/2014	10,770,916	15,624,203	4,853,287	68.94%	2,733,750	177.53%
6/30/2013	9,800,267	15,382,101	5,581,834	63.71%	2,884,697	193.50%

Post-Employment Benefit Plan-Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2015	\$ -	\$ 1,579,715	1,579,715	0.00%	\$ 2,875,685	54.93%
7/1/2014	-	1,484,584	1,484,584	0.00%	2,875,685	51.63%
7/1/2013	-	1,484,584	1,484,584	0.00%	2,672,357	55.55%

Post-Employment Benefit Plan-Business-type Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2015	\$ -	\$ 340,105	340,105	0.00%	\$ 518,947	65.54%
7/1/2014	-	319,624	319,624	0.00%	518,947	61.59%
7/1/2013	-	319,624	319,624	0.00%	511,739	62.46%

OTHER
SUPPLEMENTARY
INFORMATION

TOWN OF MARION, VIRGINIA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Dare Program</u>	<u>Streetscape Program</u>	<u>Downtown Housing Project</u>	<u>CDBG Gilman Street</u>	<u>Master Redevelopment</u>	<u>Golf Course</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ 1,311	\$ 16,201	\$ 101,572	\$ -	\$ 3,500	\$ 97,833	\$ 220,417
Receivables (net of allowance for uncollectibles):							
Accounts receivable	-	-	-	-	-	105,286	105,286
Due from other funds	-	-	118,369	-	-	-	118,369
Inventories	-	-	-	-	-	20,165	20,165
Prepaid expense	-	-	-	-	-	7,936	7,936
Total assets	<u>\$ 1,311</u>	<u>\$ 16,201</u>	<u>\$ 219,941</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 231,220</u>	<u>\$ 472,173</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,936	\$ 10,936
Accrued liabilities	-	-	-	-	-	22,005	22,005
Due to other funds	-	118,369	-	32,951	1,000	-	152,320
Total liabilities	<u>\$ -</u>	<u>\$ 118,369</u>	<u>\$ -</u>	<u>\$ 32,951</u>	<u>\$ 1,000</u>	<u>\$ 32,941</u>	<u>\$ 185,261</u>
Fund balances:							
Unreserved:							
Designated for subsequent expenditure	\$ 1,311	\$ (102,168)	\$ 219,941	\$ (32,951)	\$ 2,500	\$ 198,279	\$ 286,912
Total fund balances	<u>\$ 1,311</u>	<u>\$ (102,168)</u>	<u>\$ 219,941</u>	<u>\$ (32,951)</u>	<u>\$ 2,500</u>	<u>\$ 198,279</u>	<u>\$ 286,912</u>
Total liabilities and fund balances	<u>\$ 1,311</u>	<u>\$ 16,201</u>	<u>\$ 219,941</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 231,220</u>	<u>\$ 472,173</u>

TOWN OF MARION, VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Dare Program</u>	<u>Streetscape Program</u>	<u>Downtown Housing Project</u>	<u>CDBG Gilman Street</u>	<u>Master Redevelopment</u>	<u>Golf Course</u>	<u>Total</u>
REVENUES							
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 536,846	\$ 536,846
Miscellaneous	-	-	-	-	-	1,934	1,934
Recovered costs	-	-	-	-	-	-	-
Intergovernmental revenues:							
Commonwealth	-	-	-	-	-	-	-
Federal	-	-	-	-	-	-	-
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 538,780</u>	<u>\$ 538,780</u>
EXPENDITURES							
Current:							
Parks, recreation, and cultural	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 629,067	\$ 629,067
Community development	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Interest and other fiscal charges	-	-	-	-	-	-	-
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 629,067</u>	<u>\$ 629,067</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (90,287)</u>	<u>\$ (90,287)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ -	\$ (7,153)	\$ -	\$ -	\$ -	\$ 119,698	\$ 112,545
Transfers out	-	-	-	-	-	-	-
Total other financing sources and uses	<u>\$ -</u>	<u>\$ (7,153)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,698</u>	<u>\$ 112,545</u>
Net change in fund balances	\$ -	\$ (7,153)	\$ -	\$ -	\$ -	\$ 29,411	\$ 22,258
Fund balances - beginning	1,311	(95,015)	219,941	(32,951)	2,500	168,868	264,654
Fund balances - ending	<u>\$ 1,311</u>	<u>\$ (102,168)</u>	<u>\$ 219,941</u>	<u>\$ (32,951)</u>	<u>\$ 2,500</u>	<u>\$ 198,279</u>	<u>\$ 286,912</u>

**DISCRETELY PRESENTED
COMPONENT UNIT**

TOWN OF MARION, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT
ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

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

TOWN OF MARION, VIRGINIA
 DISCRETELY PRESENTED COMPONENT UNIT
 ECONOMIC DEVELOPMENT AUTHORITY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund
REVENUES	
Charges for services	\$ 819,000
Total revenues	<u>\$ 819,000</u>
EXPENDITURES	
Current:	
Community development	\$ 819,000
Total expenditures	<u>\$ 819,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>
Net change in net position	\$ -
Total net position - beginning	<u>\$ 25</u>
Total net position - ending	<u><u>\$ 25</u></u>

TOWN OF MARION, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT
ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 819,000
Payments to suppliers	<u>(819,000)</u>
Net cash provided (used by) operating activities	<u>\$ -</u>
Net increase (decrease) in cash and cash equivalents	\$ -
Cash and cash equivalents - beginning	\$ 25
Cash and cash equivalents - ending	<u><u>\$ 25</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ -
Net cash provided (used) by operating activities	<u><u>\$ -</u></u>

SUPPORTING SCHEDULES

TOWN OF MARION, VIRGINIA
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 468,000	\$ 468,000	\$ 435,907	\$ (32,093)
Real and personal public service corporation taxes	27,000	27,000	24,325	(2,675)
Personal property taxes	168,150	168,150	120,315	(47,835)
Penalties and Interest	12,000	12,000	11,804	(196)
Total general property taxes	<u>\$ 675,150</u>	<u>\$ 675,150</u>	<u>\$ 592,351</u>	<u>\$ (82,799)</u>
Other local taxes:				
Local sales and use taxes	\$ 185,000	\$ 185,000	\$ 193,464	\$ 8,464
Consumers' utility taxes	108,000	108,000	111,466	3,466
Communications taxes	135,000	135,000	126,078	(8,922)
Lodging taxes	160,000	160,000	139,346	(20,654)
Business license taxes	555,000	555,000	558,921	3,921
Consumer license taxes	30,000	30,000	28,377	(1,623)
Motor vehicle licenses	97,500	97,500	79,974	(17,526)
Bank stock taxes	182,000	182,000	182,763	763
Tobacco taxes	140,000	140,000	140,512	512
Meals taxes	1,250,000	1,250,000	1,272,061	22,061
Comcast PEG capital fees	8,000	8,000	6,350	(1,650)
Total other local taxes	<u>\$ 2,850,500</u>	<u>\$ 2,850,500</u>	<u>\$ 2,839,312</u>	<u>\$ (11,188)</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 500	\$ 500	\$ 370	\$ (130)
Total permits, privilege fees, and regulatory licenses	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 370</u>	<u>\$ (130)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 20,000	\$ 20,000	\$ 15,367	\$ (4,633)
Parking Fines	600	600	290	(310)
E-Summons	-	-	1,350	1,350
Total fines and forfeitures	<u>\$ 20,600</u>	<u>\$ 20,600</u>	<u>\$ 17,007</u>	<u>\$ (3,593)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 5,000	\$ 5,000	\$ 1,053	\$ (3,947)
Revenue from use of property	18,701	18,701	13,004	(5,697)
Total revenue from use of money and property	<u>\$ 23,701</u>	<u>\$ 23,701</u>	<u>\$ 14,057</u>	<u>\$ (9,644)</u>
Charges for services:				
Parking lot charges	\$ 480	\$ 480	\$ 240	\$ (240)
Policing services	-	-	2,500	2,500
Educational fees	-	-	4,400	4,400
Charges for sanitation and waste removal	425,000	425,000	407,789	(17,211)
Charges for parks and recreation	11,970	11,970	16,264	4,294
Farmers market	1,000	1,000	1,235	235
Fire calls	-	-	6,016	6,016
Fire/EMS	345,952	345,952	243,847	(102,105)
Credit card fees	2,000	2,000	3,097	1,097
Senior center-District III	4,200	4,200	3,508	(692)
Cemetery maintenance fees	5,000	5,000	4,738	(262)
Total charges for services	<u>\$ 795,602</u>	<u>\$ 795,602</u>	<u>\$ 693,634</u>	<u>\$ (101,968)</u>

TOWN OF MARION, VIRGINIA
SCHEDULE OF REVENUES – BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous revenue:				
Miscellaneous	\$ 10,000	\$ 10,000	\$ 8,167	\$ (1,833)
Sale of property and equipment	5,000	5,000	28,307	23,307
Donations	-	-	13,021	13,021
Total miscellaneous revenue	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 49,495</u>	<u>\$ 34,495</u>
Recovered costs:				
County of Smyth - Recreation facilities	\$ 19,250	\$ 19,250	\$ 19,250	\$ -
County of Smyth - Fire and rescue	45,000	45,000	53,142	8,142
Other recovered costs	21,825	21,825	847,480	825,655
Total recovered costs	<u>\$ 86,075</u>	<u>\$ 86,075</u>	<u>\$ 919,872</u>	<u>\$ 833,797</u>
Total revenue from local sources	<u>\$ 4,467,128</u>	<u>\$ 4,467,128</u>	<u>\$ 5,126,098</u>	<u>\$ 658,970</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 6,000	\$ 6,000	\$ 5,314	\$ (686)
Rental tax	20,000	20,000	20,690	690
Set off debt	-	-	414	414
Personal property tax relief funds	-	-	45,785	45,785
Total noncategorical aid	<u>\$ 26,000</u>	<u>\$ 26,000</u>	<u>\$ 72,203</u>	<u>\$ 46,203</u>
Categorical aid:				
Other categorical aid:				
Litter control grant	\$ 3,000	\$ 3,000	\$ 3,158	\$ 158
Fire programs	20,000	20,000	18,914	(1,086)
Street and highway maintenance	1,200,000	1,200,000	1,204,001	4,001
VDOT-Highway 16	9,000	9,000	353,771	344,771
Law enforcement grant	146,864	146,864	146,864	-
Commission of the arts	5,000	5,000	5,000	-
Small Business Loan Pool	14,250	14,250	-	(14,250)
Asset forfeiture funds	350	350	-	(350)
VRA Watershed Land	-	-	127,300	127,300
Other state aid	-	-	40,490	40,490
Total other categorical aid	<u>\$ 1,398,464</u>	<u>\$ 1,398,464</u>	<u>\$ 1,899,498</u>	<u>\$ 501,034</u>
Total categorical aid	<u>\$ 1,398,464</u>	<u>\$ 1,398,464</u>	<u>\$ 1,899,498</u>	<u>\$ 501,034</u>
Total revenue from the Commonwealth	<u>\$ 1,424,464</u>	<u>\$ 1,424,464</u>	<u>\$ 1,971,701</u>	<u>\$ 547,237</u>
Revenue from the federal government:				
Categorical aid:				
Community Development Block Grant	\$ -	\$ -	\$ 142,085	\$ 142,085
DHCD grants	-	-	162,966	162,966
Police Grant-DMV	14,000	14,000	10,119	(3,881)
Asset forfeiture funds	60	60	55	(5)
Total categorical aid	<u>\$ 14,060</u>	<u>\$ 14,060</u>	<u>\$ 315,225</u>	<u>\$ 301,165</u>
Total revenue from the federal government	<u>\$ 14,060</u>	<u>\$ 14,060</u>	<u>\$ 315,225</u>	<u>\$ 301,165</u>
Total General Fund	<u>\$ 5,905,652</u>	<u>\$ 5,905,652</u>	<u>\$ 7,413,024</u>	<u>\$ 1,507,372</u>
Total Primary Government	<u>\$ 5,905,652</u>	<u>\$ 5,905,652</u>	<u>\$ 7,413,024</u>	<u>\$ 1,507,372</u>

TOWN OF MARION, VIRGINIA
SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town council	\$ 93,895	\$ 93,895	\$ 131,499	\$ (37,604)
Town clerk	243,967	243,967	247,008	(3,041.00)
Legislative	\$ 337,862	\$ 337,862	\$ 378,507	\$ (40,645)
General and financial administration:				
Town manager	\$ 171,194	\$ 171,194	\$ 185,724	\$ (14,530)
Legal services	23,800	23,800	26,771	(2,971)
Independent auditor	28,950	28,950	34,213	(5,263)
Finance	281,382	281,382	270,983	10,399
Information technology	55,730	55,730	57,904	(2,174)
Risk management	105,543	105,543	104,980	563
Motor pool	128,809	128,809	102,078	26,731
Central purchasing	151,581	151,581	150,797	784
Total general and financial administration	\$ 946,989	\$ 946,989	\$ 933,450	\$ 13,539
Total general government administration	\$ 1,284,851	\$ 1,284,851	\$ 1,311,957	\$ (27,106)
Public safety:				
Law enforcement and traffic control:				
Police	\$ 1,541,542	\$ 1,541,542	\$ 1,534,714	\$ 6,828
Fire and rescue services:				
Fire and rescue services	\$ 390,071	\$ 390,071	\$ 383,166	\$ 6,905
Total fire and rescue services	\$ 390,071	\$ 390,071	\$ 383,166	\$ 6,905
Total public safety	\$ 1,931,613	\$ 1,931,613	\$ 1,917,880	\$ 13,733
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 1,837,566	\$ 1,837,566	\$ 2,442,920	\$ (605,354)
General engineering and administration	177,058	177,058	185,165	(8,107)
Total maintenance of highways, streets, bridges & sidewalks	\$ 2,014,624	\$ 2,014,624	\$ 2,628,085	\$ (613,461)
Sanitation and waste removal:				
Refuse collection and disposal	\$ 223,644	\$ 223,644	\$ 211,107	\$ 12,537
Total sanitation and waste removal	\$ 223,644	\$ 223,644	\$ 211,107	\$ 12,537
Total public works	\$ 2,238,268	\$ 2,238,268	\$ 2,839,192	\$ (600,924)
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation	\$ 306,865	\$ 306,865	\$ 264,841	\$ 42,024
Senior Citizens Center	129,347	129,347	73,616	55,731
Total parks, recreation, and cultural	\$ 436,212	\$ 436,212	\$ 338,457	\$ 97,755

TOWN OF MARION, VIRGINIA
 SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

<u>Fund, Function and Department Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning	\$ 3,850	\$ 3,850	\$ 5,814	\$ (1,964)
Community development	339,732	339,732	654,500	(314,768)
Cable TV	309,034	309,034	357,780	(48,746)
Transport services	1,500	1,500	82	1,418
Total planning and community development	<u>\$ 654,116</u>	<u>\$ 654,116</u>	<u>\$ 1,018,176</u>	<u>\$ (364,060)</u>
Total community development	<u>\$ 654,116</u>	<u>\$ 654,116</u>	<u>\$ 1,018,176</u>	<u>\$ (364,060)</u>
Capital projects:				
Capital outlays	\$ 206,550	\$ 206,550	\$ 320,259	\$ (113,709)
Total capital projects	<u>\$ 206,550</u>	<u>\$ 206,550</u>	<u>\$ 320,259</u>	<u>\$ (113,709)</u>
Debt service:				
Principal retirement	\$ 154,890	\$ 154,890	\$ 5,311,758	\$ (5,156,868)
Interest and other fiscal charges	94,630	94,630	120,955	(26,325)
Total debt service	<u>\$ 249,520</u>	<u>\$ 249,520</u>	<u>\$ 5,432,713</u>	<u>\$ (5,183,193)</u>
Total General Fund	<u>\$ 7,001,130</u>	<u>\$ 7,001,130</u>	<u>\$ 13,178,634</u>	<u>\$ (6,177,504)</u>
Total Primary Government	<u>\$ 7,001,130</u>	<u>\$ 7,001,130</u>	<u>\$ 13,178,634</u>	<u>\$ (6,177,504)</u>

STATISTICAL INFORMATION

TABLE 1

TOWN OF MARION, VIRGINIA
FUND BALANCES – GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

Fiscal Year	General Fund Reserved	General Fund Unreserved	Total General Fund Balance	Other Governmental Fund Reserved	Other Governmental Fund Unreserved	Total Other Governmental Fund Balance
2006-07	-	642,694	642,694	120,327	621,369	741,696
2007-08	67,903	654,193	722,096	19,984	119,157	139,141
2008-09	184,108	265,491	449,599	-	120,145	120,145
2009-10	187,375	(52,282)	135,093	-	124,363	124,363

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

TABLE 2

TOWN OF MARION, VIRGINIA
NET POSITION – GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities		
	Net Investment in Capital Assets	Restricted	Unrestricted	Net Investment in Capital Assets	Restricted	Unrestricted
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
2011-12	6,267,452	226,631	1,632	8,061,600	429,406	1,249,735
2012-13	6,437,280	271,478	(614,117)	8,037,542	480,695	1,250,662
2013-14	6,634,300	208,814	(540,716)	7,991,802	378,873	1,288,218
2014-15	7,969,363	219,941	(4,751,409)	7,828,856	281,408	441,535
2015-16	7,919,083	219,941	(3,848,874)	7,626,911	287,799	758,156

TABLE 3

TOWN OF MARION, VIRGINIA
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

Fiscal Year	General Government Revenue	General Government Expenditures	Capital Outlay	Excess of Revenues over (under) Expenditures	Debt issued	Grant Proceeds/ Contributions	Transfers In	Transfers Out	Total Other Financing Sources (Uses)	Net Change In Fund Balance
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
2011-12	5,880,811	7,788,793	3,523,572	(5,431,554)	2,063,234	2,294,760	1,109,340	-	5,467,334	35,780
2012-13	5,857,494	6,998,746	263,278	(1,404,530)	-	-	884,494	-	884,494	(520,036)
2013-14	6,173,258	9,574,435	166,733	(3,567,910)	2,482,000	-	1,212,185	(5,401)	3,688,784	120,874
2014-15	7,269,565	14,037,831	1,371,408	(8,139,674)	6,429,052	-	1,302,097	-	7,731,149	(408,525)
2015-16	7,951,804	13,487,442	320,259	(5,855,897)	5,134,244	-	1,372,735	-	6,506,979	651,082

TOWN OF MARION, VIRGINIA
 CHANGES IN NET POSITION – GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
 LAST TEN FISCAL YEARS

Fiscal Year	Government Wide Expense	Government Wide Program Revenues	Net (Expense) Revenue	Government Wide General Revenues	Transfers	Change in Net Position
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
2011-12	9,412,903	5,556,202	(3,856,701)	5,765,679	-	1,908,978
2012-13	9,204,664	5,530,338	(3,674,326)	3,301,410	-	(372,916)
2013-14	9,189,957	5,827,396	(3,362,561)	3,460,312	-	97,751
2014-15	9,961,916	6,745,613	(3,216,303)	3,432,361	-	216,058
2015-16	10,532,808	7,088,849	(3,443,959)	4,417,281	-	973,322

TOWN OF MARION, VIRGINIA
GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non-departmental	Interest on Long-Term Debt	Swimming Pool	Water and Sewer	Total
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
2011-12	1,213,894	1,576,032	2,189,344	901,040	1,392,000	-	104,691	55,388	1,980,514	9,412,903
2012-13	1,309,870	1,583,513	2,173,422	1,141,233	732,440	-	87,659	50,034	2,126,493	9,204,664
2013-14	1,327,851	1,524,561	2,003,788	1,315,327	830,257	-	81,742	39,708	2,066,723	9,189,957
2014-15	1,412,681	1,568,289	2,325,699	1,194,373	1,196,299	-	93,019	44,461	2,127,095	9,961,916
2015-16	1,326,908	1,875,229	2,871,732	1,062,583	1,002,968	-	116,184	44,010	2,233,194	10,532,808

**TOWN OF MARION, VIRGINIA
GOVERNMENT-WIDE REVENUES
LAST TEN FISCAL YEARS**

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES										Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Unrestricted Investment Earnings	Miscellaneous	Recovered Costs	Grants and Contributions Not Restricted to Specific Programs	Gain (Loss) on Disposal of Capital Assets	Contribution from Nonprofit	
2006-07	3,257,417	1,346,305	-	542,400	2,229,086	-	-	93,123	44,131	-	-	-	-	7,512,462
2007-08	2,981,905	1,354,904	121,497	479,784	2,223,859	180	25,138	112,312	62,301	40,370	67,598	-	-	7,469,848
2008-09	2,961,251	1,343,479	47,550	522,114	2,066,362	75	24,933	66,100	11,911	61,377	67,240	-	-	7,172,392
2009-10	2,810,773	1,554,489	995,296	527,199	2,182,865	165	38,511	36,194	10,576	-	69,823	(1,259)	-	8,224,632
2010-11	3,052,405	1,920,520	477,347	603,623	2,607,956	165	24,309	36,872	48,293	44,231	73,332	-	-	8,889,053
2011-12	3,351,463	1,689,299	515,440	593,748	2,592,961	225	31,812	26,077	32,279	130,179	63,638	-	2,294,760	11,321,881
2012-13	3,668,212	1,511,125	351,001	614,219	2,521,376	280	26,140	26,317	92,347	4,458	75,878	(59,605)	-	8,831,748
2013-14	3,948,424	1,440,293	438,679	598,997	2,667,267	150	17,174	19,667	78,538	8,916	69,603	-	-	9,287,708
2014-15	4,192,231	1,721,986	831,396	593,460	2,676,220	105	17,027	18,243	54,199	4,459	68,648	-	-	10,177,974
2015-16	4,802,192	1,942,168	344,489	603,510	2,839,312	370	17,007	14,117	51,429	819,333	72,203	-	-	11,506,130

TOWN OF MARION, VIRGINIA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non- departmental	Debt Service	Total (1)
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
2011-12	1,178,902	1,511,479	2,018,829	891,010	1,754,238	-	434,335	7,788,793
2012-13	1,225,012	1,538,451	2,014,875	1,114,091	697,402	-	408,915	6,998,746
2013-14	1,247,119	1,450,222	2,043,903	1,243,183	847,182	-	2,742,826	9,574,435
2014-15	1,331,669	1,620,227	2,241,570	1,233,400	1,128,235	-	6,482,730	14,037,831
2015-16	1,311,957	1,917,880	2,839,192	967,524	1,018,176	-	5,432,713	13,487,442

(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
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
2011-12	568,140	2,592,961	225	31,812	22,459	525,359	32,279	65,451	2,042,125	5,880,811
2012-13	587,353	2,521,376	280	26,140	23,893	792,501	92,347	82,186	1,731,418	5,857,494
2013-14	584,811	2,667,267	150	17,174	16,557	889,334	78,538	102,945	1,816,482	6,173,258
2014-15	590,482	2,676,220	105	17,027	13,604	1,171,451	54,199	190,192	2,556,285	7,269,565
2015-16	592,351	2,839,312	370	17,007	14,057	1,230,480	51,429	919,872	2,286,926	7,951,804

**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
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%
2011-12	697,358	641,482	91.99%	9,653	651,135	93.37%	109,302	15.67%
2012-13	726,614	599,405	82.49%	6,611	606,016	83.40%	141,343	19.45%
2013-14	711,022	613,045	86.22%	10,104	623,149	87.64%	160,495	22.57%
2014-15	697,201	609,855	87.47%	13,089	622,944	89.35%	167,485	24.02%
2015-16	744,991	605,140	81.23%	21,192	626,332	84.07%	211,002	28.32%

(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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility		Total
				Real Estate	Personal Property	
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
2011-12	308,609,739	35,407,906	14,350,698	14,616,120	944,230	373,928,693
2012-13	306,933,800	36,527,508	13,869,828	14,447,803	-	371,778,939
2013-14	318,076,000	38,286,103	12,132,811	13,973,609	1,189,143	383,657,666
2014-15	302,902,413	38,877,153	9,952,565	15,906,298	-	367,638,429
2015-16	302,063,200	39,192,439	9,554,009	16,278,252	-	367,087,900

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
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	0.40
2011-12	181,077,900	110,532,800	1,125,600	-	292,736,300	0.40
2012-13	190,265,800	99,837,400	1,125,600	-	291,228,800	0.40
2013-14	189,967,600	111,501,600	1,010,600	-	302,479,800	0.40
2014-15	188,863,800	98,733,000	1,010,600	-	288,607,400	0.40
2015-16	188,972,400	96,026,000	1,010,600	-	286,009,000	0.40

TOWN OF MARION, VIRGINIA
PROPERTY TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
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
2011-12	0.15	0.35	0.35
2012-13	0.15	0.35	0.35
2013-14	0.15	0.35	0.35
2014-15	0.15	0.35	0.35
2015-16	0.15	0.35	0.35

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
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
2011-12	5,968	373,929	8,182,104	2.19%	1,371
2012-13	5,968	371,779	7,973,268	2.14%	1,336
2013-14	5,968	383,658	7,670,533	2.00%	1,285
2014-15	5,968	367,638	7,607,567	2.07%	1,275
2015-16	5,968	367,088	7,425,172	2.02%	1,244

(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
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%
2011-12	329,991	104,344	434,335	11,312,365	3.84%
2012-13	319,961	88,954	408,915	7,262,024	5.63%
2013-14	2,659,341	83,485	2,742,826	9,741,168	28.16%
2014-15	6,388,228	94,502	6,482,730	15,409,239	42.07%
2015-16	5,311,758	120,955	5,432,713	13,807,701	39.35%

**TOWN OF MARION, VIRGINIA
PRINCIPAL TAXPAYERS (1)
LAST TEN FISCAL YEARS**

Company	2014-2015	Rank	2015-2016	Rank
	Assessed Value		Assessed Value	
Marion Properties	11,814,900	1	11,814,900	1
Mack Trammell	3,048,000	6	6,773,300	2
Smyth County Foundation	6,712,800	3	6,712,800	3
Regency Marion/Walmart	8,505,200	2	5,800,000	4
Highland Development	4,525,600	4	4,525,600	5
Jane Sheffey etal	2,769,500	7	2,769,500	6
JAI Gopal	2,123,100	8	2,123,100	7
Susan Keene/SCEA	1,966,500	9	1,966,500	8
Smyth County Community Hospital	1,828,300	10	1,828,300	9
Ernie Sullins	-		1,774,400	10
Marion Plaza	3,931,100	5	-	

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

**TOWN OF MARION, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assessed valuations:										
Assessed value	\$ 314,881,507	\$ 317,550,680	\$ 324,750,570	\$ 321,832,980	\$ 372,054,540	\$ 373,928,693	\$ 371,778,939	\$ 383,657,666	\$ 367,638,429	\$ 367,087,900
Legal debt margin										
Debt limitation - 10 percent of total assessed value	31,488,151	31,755,068	32,475,057	32,183,298	37,205,454	37,392,869	37,177,894	38,365,767	36,763,843	36,708,790
Debt applicable to limitation:										
General obligation bonds	7,443,900	7,285,280	6,993,542	6,442,960	5,874,919	8,190,305	7,980,174	7,676,145	7,611,885	7,430,784
Less: Amount set aside for repayment	11,662	231,834	358,387	423,918	470,425	497,807	555,385	378,873	344,559	352,828
Total debt applicable to limitation	7,432,238	7,053,446	6,635,155	6,019,042	5,404,494	7,692,498	7,424,789	7,297,272	7,267,326	7,077,956
Legal debt margin	24,055,913	24,701,622	25,839,902	26,164,256	31,800,960	29,700,371	29,753,105	31,068,495	29,496,517	29,630,834
Total net debt applicable to the limit as a percentage of debt limit	23.60%	22.21%	20.43%	18.70%	14.53%	20.57%	19.97%	19.02%	19.77%	19.28%

TOWN OF MARION, VIRGINIA
MISCELLANEOUS STATISTICS
FOR THE YEAR ENDED JUNE 30, 2016

Date of incorporation	1832
Form of government	Council-Manager
Number of employees:	
General government administration	13
Public safety	22
Public works	25
Parks, recreation, and cultural	6
Community development	5
Water and sewer	13
Swimming pool	14
Golf course	31

COMPLIANCE SECTION



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

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

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

To the Town Council
Town of Marion, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Marion, Virginia's basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Bostic, Lusk & Company, P.C.

Lebanon, Virginia
December 2, 2016