

TOWN OF MARION, VIRGINIA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF MARION, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2012

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	4-12

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	1	13
Statement of Activities	2	14
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	4	16
Statement of Revenues, Expenditures and Change in Fund Balances – Governmental Funds	5	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	18
Statement of Net Assets – Proprietary Funds	7	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	8	20
Statement of Cash Flows – Proprietary Funds	9	21
Statement of Fiduciary Net Assets – Fiduciary Funds	10	22
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	11	23
Notes to Financial Statements.....		24-53

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	54
Schedule of Funding Progress	13	55
Combining Balance Sheet – Other Governmental Funds	14	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Other Governmental Funds	15	57

	<u>Schedule</u>	<u>Page</u>
Supporting Schedules:		
Schedule of Revenues – Budget and Actual Governmental Funds	1	58-59
Schedule of Expenditures – Budget and Actual Governmental Funds	2	60-61

**TOWN OF MARION, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS (CONTINUED)

OTHER SUPPLEMENTARY INFORMATION

	<u>Table</u>	<u>Page</u>
Fund Balances –Governmental Funds	1	62
Net Assets –Governmental and Business-type Activities.....	2	63
Changes in Fund Balance – Governmental Funds	3	64
Changes in Net Assets – Governmental and Business-type Activities	4	65
Government-wide information:		
Government-Wide Expense by Function.....	5	66
Government-Wide Revenue	6	67
Fund information:		
General Governmental Expenditures by Function	7	68
General Governmental Revenues by Source.....	8	69
Property Tax Levies and Collections	9	70
Assessed Value of Taxable Property	10	71
Property Tax Rates.....	11	72
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	12	73
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures	13	74
Principal Taxpayers	14	75
Computation of Legal Debt Margin.....	15	76
Miscellaneous Statistics	16	77
Schedule of Expenditures of Federal Awards		78

COMPLIANCE SECTION

	<u>Page</u>
Compliance:	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79-80
Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133	81-82
Schedule of Findings and Questioned Costs	83

TOWN OF MARION, VIRGINIA

TOWN COUNCIL

David P. Helms, Mayor

James Gates

Jane Hale

Bill Weaver

Tricia Spencer

Jim Barker

Jim Owens

Suzanne Jennings

OTHER OFFICIALS

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



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2012 on our consideration of the internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 12, and the Schedules of Funding Progress on page 55, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules, listed in the Financial Section as Other Supplementary Information in the table of contents, and the Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, listed in the Compliance Section in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards have 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 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 and schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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.

Bostic, Tucker and Company PC

Lebanon, Virginia
December 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012. 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 2011 fiscal year, the unassigned fund balance of the general fund was \$297,778 and the fund balance was restricted for debt service of \$85,205 and nonspendable for prepaid expenses of \$108,273. For the current fiscal year, 2012, the unassigned fund balance of the general fund was (\$48,743) and the fund balance was restricted for debt service of \$68,401, committed to parking garage of \$161,590, and nonspendable for prepaid expenses of \$110,678.

The total net assets of the Town of Marion's governmental activities were \$4,627,648 as of June 30, 2011. The total net assets for 2012 are \$6,495,715. An increase occurred due largely to purchase of capital assets.

The total net assets of the business-type activities were \$9,699,830 for fiscal year end 2011 and \$9,740,741 for the fiscal year end 2012 resulting in an increase of \$40,911. The water, sewer and swimming pool funds reported operating revenues of \$2,826,104. An increase in operating revenues of \$101,366 occurred from fiscal year 2012.

Overview of the Basic Financial Statements

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

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

Historically, the primary focus of local government financial statements has been summarized fund type information on a current financial basis. This approach has been modified accrual basis in the basic financial statements presented. This year the report also presents the full accrual method

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

General revenues and transfers were \$6,741,222 for governmental activities. General revenues include property taxes, other local taxes, interest income, miscellaneous income, and transfers from other funds. Program revenues were \$2,503,846 for governmental activities. The source of the program revenues is from charges for services, operating grants and contributions, and capital grants and contributions. Total expenses for governmental activities were \$7,377,001, which included expense for general government, public safety, public works, culture and recreation, community development, and interest expense. The governmental activities exhibited a change in net assets of \$1,868,067.

Business-type activities

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

The total net assets for business-type activities was \$9,740,741 which includes invested in capital assets, net of related debt of \$8,061,600, reserved for debt service and bond covenants of \$429,406, and unreserved net assets of \$1,249,735.

Program revenues for business-type activities for the Town were \$2,826,104 for charges for services and \$226,252 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 \$2,035,902. General revenues and transfers include interest income of \$3,618, recovered costs of \$130,179, and a transfer to other funds of \$(1,109,340). The change in net assets for business-type activities resulted in an increase to net assets of \$40,911.

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TOWN OF MARION, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

The table below focuses on the net assets of the Town's governmental and business-type activities as of the years ended June 30, 2012 and 2011.

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Current Assets	2,428,252	2,779,151	2,010,731	2,076,170	4,438,983	4,855,321
Capital Assets	5,685,572	9,334,999	12,587,162	13,184,358	18,272,734	22,519,357
Total Assets	8,113,824	12,114,150	14,597,893	15,260,528	22,711,717	27,374,678
Current Liabilities	2,221,837	2,549,358	570,865	625,232	2,792,702	3,174,590
Long-Term Liabilities	1,264,339	3,069,077	4,327,198	4,894,555	5,591,537	7,963,632
Total Liabilities	3,486,176	5,618,435	4,898,063	5,519,787	8,384,239	11,138,222
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,349,974	6,267,452	8,047,842	8,061,600	12,397,816	14,329,052
Restricted	222,444	226,631	385,220	429,406	607,664	656,037
Unrestricted	55,230	1,632	1,266,768	1,249,735	1,321,998	1,251,367
Total Net Assets	4,627,648	6,495,715	9,699,830	9,740,741	14,327,478	16,236,456

TOWN OF MARION, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

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	
	2011	2012	2011	2012	2011	2012
Charges for Services	327,667	525,359	2,724,738	2,826,104	3,052,405	3,351,463
Operating Grants/Contributions	1,920,520	1,689,299	-	-	1,920,520	1,689,299
Capital Grants/Contributions	428,347	289,188	49,000	226,252	477,347	515,440
Program Revenues	2,676,534	2,503,846	2,773,738	3,052,356	5,450,272	5,556,202
Taxes	3,211,579	3,186,709	-	-	3,211,579	3,186,709
Interest Income	28,859	22,459	8,013	3,618	36,872	26,077
Miscellaneous	48,293	32,279	-	-	48,293	32,279
Fines, forfeitures, permits	24,474	32,037	-	-	24,474	32,037
Recovered costs	-	-	44,231	130,179	44,231	130,179
Contributions from nonprofit	-	2,294,760	-	-	-	2,294,760
Grants not restricted to program	73,332	63,638	-	-	73,332	63,638
General Revenues	3,386,537	5,631,882	52,244	133,797	3,438,781	5,765,679
Total Revenues	6,063,071	8,135,728	2,825,982	3,186,153	8,889,053	11,321,881
General Government	1,205,746	1,213,894	-	-	1,205,746	1,213,894
Public Safety	1,572,373	1,576,032	-	-	1,572,373	1,576,032
Public Works	2,091,079	2,189,344	-	-	2,091,079	2,189,344
Parks, Recreation, Cultural	503,161	901,040	-	-	503,161	901,040
Community Development	1,085,854	1,392,000	-	-	1,085,854	1,392,000
Interest expense	62,126	104,691	-	-	62,126	104,691
Swimming pool	-	-	57,057	55,388	57,057	55,388
Water and Sewer	-	-	1,908,270	1,980,514	1,908,270	1,980,514
Total Expenses	6,520,339	7,377,001	1,965,327	2,035,902	8,485,666	9,412,903
Transfers	1,242,138	1,109,340	(1,242,138)	(1,109,340)	-	-
Change in Net Assets	784,870	1,868,067	(381,483)	40,911	403,387	1,908,978
Beginning Net Assets	3,842,778	4,627,648	10,081,313	9,699,830	13,924,091	14,327,478
Ending Net Assets	4,627,648	6,495,715	9,699,830	9,740,741	14,327,478	16,236,456

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Financial Analysis of the Town's Funds
Governmental Funds

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

At the end of the current fiscal year, the Town of Marion's governmental funds reported combined ending fund balance of \$635,647. Fund balance includes \$110,678 nonspendable for prepaid expenses, \$68,401 restricted for debt service, \$162,041 restricted for specific purposes, \$161,590 committed to parking garage, \$327,029 assigned to golf course and (\$194,092) unassigned.

Total revenues were \$5,880,811 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 \$11,312,365. 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 \$5,431,554 in the governmental funds. The governmental funds obtained other financing sources of \$1,109,340, which included operating transfer from the Water and Sewer Fund of \$1,131,633 and operating transfer to the Swimming Pool Fund of \$22,293, proceeds from debt of \$2,063,234, and contribution from nonprofit of \$2,294,760. After the other financing sources were received by the governmental funds, there was a change in fund balance of \$35,780 at June 30, 2012.

Proprietary Funds

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

Net assets for the water and sewer fund increased from \$9,489,812 to \$9,535,597. The balance is made up of \$7,850,155 in invested in capital assets, net of related debt, \$429,406 restricted for debt service and bond covenants, and \$1,256,036 unreserved.

Swimming pool fund net assets in the amount of \$205,144 are down from 2011. Operating expenses were \$57,057 for fiscal year 2011 and \$55,388 in fiscal year 2012. The net asset balance includes \$211,445 invested in capital assets, net of related debt, and deficit unreserved net assets balance of \$6,301.

Proprietary funds total operating revenues were \$2,826,104. Operating expenses for the proprietary funds was \$1,859,616. This resulted in an operating income of \$966,488. The proprietary funds had total non-operating expense of \$42,489, capital contribution of \$226,252, and net operating transfer out of \$1,109,340. This resulted in a change in net assets of \$40,911.

TOWN OF MARION, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

General Fund Budgetary Highlights

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

Budgetary Highlights for 2011-2012

	GENERAL FUND BUDGET	GENERAL FUND ACTUAL	VARIANCE
Revenues	\$4,791,072	\$5,383,207	\$ 592,135
Expenditures	6,042,567	7,208,103	(1,165,536)

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

Capital Asset and Long-Term Debt Activity

Capital Assets

As of June 30, 2012 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:

STP Digester upgrade—Capital expenditures for the STP Digester upgrade were \$476,224 for the fiscal year ending June 30, 2012. The project was not completed by the end of the fiscal year and will be included in construction in progress at June 30, 2012.

STP Phase I WWTP Improvements—Capital expenditures for the project were \$576,044 for the fiscal year ending June 30, 2012. The project was not completed by the end of the fiscal year and will be included in construction in progress at June 30, 2012.

Streetscape—Capital expenditures for the project were \$422,678 for the fiscal year ending June 30, 2012. The project was not completed by the end of the fiscal year.

Golf Course—The Town purchased the golf course from Holston Hills Country Club, Inc. The fair market value for the golf course property and equipment was \$3,324,050.

TOWN OF MARION, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

Long-term Debt

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

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
General obligation bonds	\$ 4,539,320	\$ 877,586	\$ (294,148)	\$ 5,122,758
OPEB liability	66,784	34,797	-	101,581
Compensated absences	41,916	2,316	-	44,232
Total	<u>\$ 4,648,020</u>	<u>\$ 914,699</u>	<u>\$ (294,148)</u>	<u>\$ 5,268,571</u>

The outstanding debt for governmental activities at June 30, 2012 is as follows:

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
General obligation bonds	\$ 555,000	\$ -	\$ (85,000)	\$ 470,000
Premium on bond	9,495	-	(1,294)	8,201
Loans payable	771,103	2,063,234	(244,991)	2,589,346
OPEB liability	185,046	88,649	-	273,695
Compensated absences	151,045	20,508	-	171,553
Total	<u>\$ 1,671,689</u>	<u>\$ 2,172,391</u>	<u>\$ (331,285)</u>	<u>\$ 3,512,795</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

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

Sewer Treatment Plant Upgrade—The total project costs are estimated at \$704,055 with funding from Smyth County and the Town. The Town expects to receive a loan from Rural Development in the amount of \$606,000. The most pressing needs are the influent pump station, disinfection system and lab roof. The project is separated into phases. There will be three phases to this project based upon need.

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

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

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

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

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

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

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

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

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 Assets
For the Year Ended June 30, 2012

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 1,308,417	\$ 704,535	\$ 2,012,952
Receivables (net of allowance for uncollectibles):			
Taxes receivable	715,540	-	715,540
Accounts receivable	143,985	386,108	530,093
Other receivables	126,414	-	126,414
Due from other funds	152,320	556,121	708,441
Due from other governmental units	153,396	-	153,396
Prepaid expenses	110,678	-	110,678
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	-	256,838	256,838
Investments	68,401	172,568	240,969
Capital assets (net of accumulated depreciation):			
Land	1,799,879	578,704	2,378,583
Buildings and system	4,849,034	-	4,849,034
Improvements other than buildings	-	32,320	32,320
Machinery and equipment	573,794	443,115	1,016,909
Plant and lines in service	-	10,948,341	10,948,341
Infrastructure	1,599,305	-	1,599,305
Construction in progress	512,987	1,181,878	1,694,865
Total assets	<u>\$ 12,114,150</u>	<u>\$ 15,260,528</u>	<u>\$ 27,374,678</u>
LIABILITIES			
Accounts payable	\$ 531,371	\$ 141,243	\$ 672,614
Accrued liabilities	192,900	23,520	216,420
Customers' deposits	-	46,080	46,080
Accrued interest payable	5,660	40,373	46,033
Due to other funds	708,441	-	708,441
Deferred revenue	667,268	-	667,268
Long-term liabilities:			
Due within one year	443,718	374,016	817,734
Due in more than one year	3,069,077	4,894,555	7,963,632
Total liabilities	<u>\$ 5,618,435</u>	<u>\$ 5,519,787</u>	<u>\$ 11,138,222</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 6,267,452	\$ 8,061,600	\$ 14,329,052
Restricted for:			
Debt service and bond covenants	68,401	429,406	497,807
Downtown housing project	158,230	-	158,230
Unrestricted (deficit)	1,632	1,249,735	1,251,367
Total net assets	<u>\$ 6,495,715</u>	<u>\$ 9,740,741</u>	<u>\$ 16,236,456</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 1,213,894	\$ -	\$ -	\$ -	\$ (1,213,894)	\$ -	\$ (1,213,894)
Public safety	1,576,032	250	181,707	-	(1,394,075)	-	(1,394,075)
Public works	2,189,344	310,961	1,076,492	-	(801,891)	-	(801,891)
Parks, recreation, and cultural	901,040	209,287	5,000	-	(686,753)	-	(686,753)
Community development	1,392,000	4,861	426,100	289,188	(671,851)	-	(671,851)
Interest on long-term debt	104,691	-	-	-	(104,691)	-	(104,691)
Total government activities	\$ 7,377,001	\$ 525,359	\$ 1,689,299	\$ 289,188	\$ (4,873,155)	\$ -	\$ (4,873,155)
Business-type activities:							
Water and Sewer	\$ 1,980,514	\$ 2,797,883	\$ -	\$ 226,252	\$ -	\$ 1,043,621	\$ 1,043,621
Swimming Pool	55,388	28,221	-	-	-	(27,167)	(27,167)
Total business-type activities	\$ 2,035,902	\$ 2,826,104	\$ -	\$ 226,252	\$ -	\$ 1,016,454	\$ 1,016,454
Total primary government	\$ 9,412,903	\$ 3,351,463	\$ 1,689,299	\$ 515,440	\$ (4,873,155)	\$ 1,016,454	\$ (3,856,701)
General revenues:							
General property taxes					\$ 593,748	\$ -	\$ 593,748
Other local taxes:							
Local sales and use taxes					168,920	-	168,920
Consumers' utility taxes					106,956	-	106,956
Business license taxes					549,536	-	549,536
Communication tax					132,984	-	132,984
Motor vehicle licenses					40,323	-	40,323
Bank stock tax					182,600	-	182,600
Meals taxes					1,123,665	-	1,123,665
Other local taxes					287,977	-	287,977
Permits, privilege fees, and regulatory licenses					225	-	225
Fines and forfeitures					31,812	-	31,812
Unrestricted revenues from use of money and property					22,459	3,618	26,077
Miscellaneous					32,279	-	32,279
Recovered costs					-	130,179	130,179
Grants and contributions not restricted to specific programs					63,638	-	63,638
Contribution from nonprofit					2,294,760	-	2,294,760
Transfers					1,109,340	(1,109,340)	-
Total general revenues					\$ 6,741,222	\$ (975,543)	\$ 5,765,679
Change in net assets					\$ 1,868,067	\$ 40,911	\$ 1,908,978
Net assets - beginning					4,627,648	9,699,830	14,327,478
Net assets - ending					\$ 6,495,715	\$ 9,740,741	\$ 16,236,456

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

Town of Marion, Virginia
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 998,502	\$ 309,915	\$ 1,308,417
Receivables (net of allowance for uncollectibles):			
Taxes receivable	715,540	-	715,540
Accounts receivable	56,399	87,586	143,985
Other receivables	126,414		126,414
Due from other funds	33,951	118,369	152,320
Due from other governmental units	153,396	-	153,396
Prepaid expenses	110,678	-	110,678
Restricted assets:			
Investments	68,401	-	68,401
Total assets	<u>\$ 2,263,281</u>	<u>\$ 515,870</u>	<u>\$ 2,779,151</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 523,393	\$ 7,978	\$ 531,371
Accrued liabilities	181,049	11,851	192,900
Due to other funds	556,121	152,320	708,441
Deferred revenue	710,792	-	710,792
Total liabilities	<u>\$ 1,971,355</u>	<u>\$ 172,149</u>	<u>\$ 2,143,504</u>
Fund balances:			
Nonspendable			
Prepaid expense	\$ 110,678	\$ -	\$ 110,678
Restricted for:			
Debt service and bond covenants	68,401	-	68,401
DARE	-	1,311	1,311
Downtown housing	-	158,230	158,230
Master redevelopment	-	2,500	2,500
Committed to:	-	-	-
Parking garage	161,590	-	161,590
Assigned to:	-	-	-
Golf Course	-	327,029	327,029
Unassigned	(48,743)	(145,349)	(194,092)
Total fund balances	<u>\$ 291,926</u>	<u>\$ 343,721</u>	<u>\$ 635,647</u>
Total liabilities and fund balances	<u>\$ 2,263,281</u>	<u>\$ 515,870</u>	<u>\$ 2,779,151</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 Assets
For the Year Ended June 30, 2012

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 635,647
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,334,999
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	43,524
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(3,518,455)
Net assets of governmental activities	<u><u>\$ 6,495,715</u></u>

The notes to 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, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 568,140	\$ -	\$ 568,140
Other local taxes	2,592,961	-	2,592,961
Permits, privilege fees, and regulatory licenses	225	-	225
Fines and forfeitures	31,812	-	31,812
Revenue from the use of money and property	22,459	-	22,459
Charges for services	332,030	193,329	525,359
Miscellaneous	31,511	768	32,279
Recovered costs	44,450	21,001	65,451
Intergovernmental revenues:			
Commonwealth	1,360,512	-	1,360,512
Federal	399,107	282,506	681,613
Total revenues	<u>\$ 5,383,207</u>	<u>\$ 497,604</u>	<u>\$ 5,880,811</u>
EXPENDITURES			
Current:			
General government administration	\$ 1,178,902	\$ -	\$ 1,178,902
Public safety	1,511,479	-	1,511,479
Public works	2,018,829	-	2,018,829
Parks, recreation, and cultural	570,958	320,052	891,010
Community development	1,331,550	422,688	1,754,238
Capital projects	199,522	3,324,050	3,523,572
Debt service:			
Principal retirement	329,991	-	329,991
Interest and other fiscal charges	66,872	37,472	104,344
Total expenditures	<u>\$ 7,208,103</u>	<u>\$ 4,104,262</u>	<u>\$ 11,312,365</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,824,896)</u>	<u>\$ (3,606,658)</u>	<u>\$ (5,431,554)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 1,062,332	\$ 47,008	1,109,340
Proceeds of general obligation bonds	563,234	-	563,234
Contribution from nonprofit	-	2,294,760	2,294,760
Proceeds of indebtedness	-	1,500,000	1,500,000
Total other financing sources (uses)	<u>\$ 1,625,566</u>	<u>\$ 3,841,768</u>	<u>\$ 5,467,334</u>
Net change in fund balances	\$ (199,330)	\$ 235,110	\$ 35,780
Fund balances - beginning	491,256	108,611	599,867
Fund balances - ending	<u>\$ 291,926</u>	<u>\$ 343,721</u>	<u>\$ 635,647</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, 2012

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

Net change in fund balances - total governmental funds	\$ 35,780
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.	3,649,426
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	25,608
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,731,948)
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.	(110,799)
Change in net assets of governmental activities	<u>\$ 1,868,067</u>

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

Town of Marion, Virginia
Statement of Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Funds		
	Water and Sewer Fund	Swimming Pool Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 704,335	\$ 200	\$ 704,535
Accounts receivables, net of allowances for uncollectibles	386,108	-	386,108
Due from other funds	556,121	-	556,121
Total current assets	<u>\$ 1,646,564</u>	<u>\$ 200</u>	<u>\$ 1,646,764</u>
Noncurrent assets:			
Restricted current assets:			
Cash and cash equivalents	\$ 256,838	\$ -	\$ 256,838
Investments	172,568	-	172,568
Total restricted current assets	<u>\$ 429,406</u>	<u>\$ -</u>	<u>\$ 429,406</u>
Capital assets:			
Utility plant in service	19,475,506	-	19,475,506
Machinery and equipment	2,687,826	29,151	2,716,977
Land	399,579	179,125	578,704
Pool	-	974,651	974,651
Less accumulated depreciation	(10,771,876)	(971,482)	(11,743,358)
Construction in progress	1,181,878	-	1,181,878
Total capital assets	<u>\$ 12,972,913</u>	<u>\$ 211,445</u>	<u>\$ 13,184,358</u>
Total noncurrent assets	<u>\$ 13,402,319</u>	<u>\$ 211,445</u>	<u>\$ 13,613,764</u>
Total assets	<u>\$ 15,048,883</u>	<u>\$ 211,645</u>	<u>\$ 15,260,528</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 139,360	\$ 1,883	\$ 141,243
Accrued liabilities	18,902	4,618	23,520
Customers' deposits	46,080	-	46,080
Accrued interest payable	40,373	-	40,373
Compensated absences	33,174	-	33,174
General obligation bonds payable - current portion	340,842	-	340,842
Total current liabilities	<u>\$ 618,731</u>	<u>\$ 6,501</u>	<u>\$ 625,232</u>
Noncurrent liabilities:			
General obligation bonds payable - net of current portion	\$ 4,781,916	\$ -	\$ 4,781,916
Compensated absences	11,058	-	11,058
OPEB liability	101,581	-	101,581
Total noncurrent liabilities	<u>\$ 4,894,555</u>	<u>\$ -</u>	<u>\$ 4,894,555</u>
Total liabilities	<u>\$ 5,513,286</u>	<u>\$ 6,501</u>	<u>\$ 5,519,787</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 7,850,155	\$ 211,445	\$ 8,061,600
Restricted for debt service and bond covenants	429,406	-	429,406
Unrestricted	1,256,036	(6,301)	1,249,735
Total net assets	<u>\$ 9,535,597</u>	<u>\$ 205,144</u>	<u>\$ 9,740,741</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 Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Enterprise Fund <u>Water and Sewer Fund</u>	Enterprise Fund <u>Swimming Pool Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services:			
Charges for services	\$ 2,797,883	\$ 25,114	\$ 2,822,997
Other revenues	-	3,107	3,107
Total operating revenues	<u>\$ 2,797,883</u>	<u>\$ 28,221</u>	<u>\$ 2,826,104</u>
OPERATING EXPENSES			
Personal services	\$ 470,982	\$ 25,489	\$ 496,471
Fringe benefits	198,862	7,975	206,837
Contractual services	137,544	1,494	139,038
Materials and supplies	148,487	8,998	157,485
Other charges	276,791	7,011	283,802
Depreciation	571,562	4,421	575,983
Total operating expenses	<u>\$ 1,804,228</u>	<u>\$ 55,388</u>	<u>\$ 1,859,616</u>
Operating income (loss)	<u>\$ 993,655</u>	<u>\$ (27,167)</u>	<u>\$ 966,488</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	\$ 130,179	\$ -	\$ 130,179
Investment earnings	3,618	-	3,618
Interest expense	(176,286)	-	(176,286)
Total nonoperating revenues (expenses)	<u>\$ (42,489)</u>	<u>\$ -</u>	<u>\$ (42,489)</u>
Income before contributions and transfers	<u>\$ 951,166</u>	<u>\$ (27,167)</u>	<u>\$ 923,999</u>
Capital contributions	\$ 226,252	\$ -	\$ 226,252
Transfers in	-	22,293	22,293
Transfers out	(1,131,633)	-	(1,131,633)
Change in net assets	<u>\$ 45,785</u>	<u>\$ (4,874)</u>	<u>\$ 40,911</u>
Total net assets - beginning	<u>\$ 9,489,812</u>	<u>\$ 210,018</u>	<u>\$ 9,699,830</u>
Total net assets - ending	<u><u>\$ 9,535,597</u></u>	<u><u>\$ 205,144</u></u>	<u><u>\$ 9,740,741</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, 2012

	Enterprise Fund	Enterprise Fund	
	Water and Sewer Fund	Swimming Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,791,503	\$ 28,221	\$ 2,819,724
Payments to suppliers	(766,484)	(25,942)	(792,426)
Payments to and for employees	(430,844)	(24,572)	(455,416)
Net cash provided (used by) operating activities	\$ 1,594,175	\$ (22,293)	\$ 1,571,882
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (1,131,633)	\$ -	\$ (1,131,633)
Transfers from other funds	-	22,293	22,293
Net cash provided (used) by noncapital financing activities	\$ (1,131,633)	\$ 22,293	\$ (1,109,340)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (1,173,179)	\$ -	\$ (1,173,179)
Principal payments on bonds	(294,148)	-	(294,148)
Capital contributions	226,252	-	226,252
Intergovernmental contributions	130,179	-	130,179
Proceeds from indebtedness	877,586	-	877,586
Interest payments	(172,571)	-	(172,571)
Net cash provided (used) by capital and related financing activities	\$ (405,881)	\$ -	\$ (405,881)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 3,618	\$ -	\$ 3,618
Net cash provided (used) by investing activities	\$ 3,618	\$ -	\$ 3,618
Net increase (decrease) in cash and cash equivalents	\$ 60,279	\$ -	\$ 60,279
Cash and cash equivalents - beginning	\$ 1,073,462	\$ 200	\$ 1,073,662
Cash and cash equivalents - ending	\$ 1,133,741	\$ 200	\$ 1,133,941
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 993,655	\$ (27,167)	\$ 966,488
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	\$ 571,562	\$ 4,421	\$ 575,983
(Increase) decrease in accounts receivable	(5,160)	-	(5,160)
Increase (decrease) in customer deposits	(1,220)	-	(1,220)
Increase (decrease) in operating accounts payable	(1,775)	453	(1,322)
Increase (decrease) in OPEB liability	34,797	-	34,797
Increase (decrease) in compensated absences	2,316	-	2,316
Total adjustments	\$ 600,520	\$ 4,874	\$ 605,394
Net cash provided (used) by operating activities	\$ 1,594,175	\$ (22,293)	\$ 1,571,882

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, 2012

	Enterprise Fund Water and Sewer Fund	Enterprise Fund Swimming Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,791,503	\$ 28,221	\$ 2,819,724
Payments to suppliers	(766,484)	(25,942)	(792,426)
Payments to and for employees	(430,844)	(24,572)	(455,416)
Net cash provided (used by) operating activities	<u>\$ 1,594,175</u>	<u>\$ (22,293)</u>	<u>\$ 1,571,882</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (1,131,633)	\$ -	\$ (1,131,633)
Transfers from other funds	-	22,293	22,293
Net cash provided (used) by noncapital financing activities	<u>\$ (1,131,633)</u>	<u>\$ 22,293</u>	<u>\$ (1,109,340)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (1,173,179)	\$ -	\$ (1,173,179)
Principal payments on bonds	(294,148)	-	(294,148)
Capital contributions	226,252	-	226,252
Intergovernmental contributions	130,179	-	130,179
Proceeds from indebtedness	877,586	-	877,586
Interest payments	(172,571)	-	(172,571)
Net cash provided (used) by capital and related financing activities	<u>\$ (405,881)</u>	<u>\$ -</u>	<u>\$ (405,881)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 3,618	\$ -	\$ 3,618
Net cash provided (used) by investing activities	<u>\$ 3,618</u>	<u>\$ -</u>	<u>\$ 3,618</u>
Net increase (decrease) in cash and cash equivalents	\$ 60,279	\$ -	\$ 60,279
Cash and cash equivalents - beginning	\$ 1,073,462	\$ 200	\$ 1,073,662
Cash and cash equivalents - ending	<u><u>\$ 1,133,741</u></u>	<u><u>\$ 200</u></u>	<u><u>\$ 1,133,941</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 993,655	\$ (27,167)	\$ 966,488
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	\$ 571,562	\$ 4,421	\$ 575,983
(Increase) decrease in accounts receivable	(5,160)	-	(5,160)
Increase (decrease) in customer deposits	(1,220)	-	(1,220)
Increase (decrease) in operating accounts payable	(1,775)	453	(1,322)
Increase (decrease) in OPEB liability	34,797	-	34,797
Increase (decrease) in compensated absences	2,316	-	2,316
Total adjustments	<u>\$ 600,520</u>	<u>\$ 4,874</u>	<u>\$ 605,394</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,594,175</u></u>	<u><u>\$ (22,293)</u></u>	<u><u>\$ 1,571,882</u></u>

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

Town of Marion, Virginia
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Cemetery <u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 4,886
Investments, at fair value	109,061
Total assets	<u>\$ 113,947</u>
NET ASSETS	
Amounts held for cemetery maintenance	113,947
Total liabilities	<u>\$ 113,947</u>

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

Town of Marion, Virginia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Cemetery Fund
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 2,930
Unrealized gain on investment	<u>331</u>
Total additions	<u>\$ 3,261</u>
DEDUCTIONS	
Distribution	\$ 1,974
Fiduciary fees	361
Realized loss on investment	<u>1,493</u>
Total deductions	<u>\$ 3,828</u>
Change in net assets	\$ (567)
Net assets - beginning	<u>114,514</u>
Net assets - ending	<u><u>\$ 113,947</u></u>

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

**NOTES TO
FINANCIAL STATEMENTS**

TOWN OF MARION, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1-Summary of Significant Accounting Policies:

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

A. Reporting Entity:

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

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide and fund financial statements:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

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

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

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

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

Fiduciary funds consist of a cemetery fund for perpetual care.

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

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

1. Deposits and Investments

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

2. Property Taxes

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

3. Allowance for Un-collectible Accounts

The Town calculates its allowance for un-collectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for governmental activities amounted to approximately \$87,502 for property taxes and \$6,048 for garbage billings at June 30, 2012. The allowance for business-type activities amounted to approximately \$79,631 for water and sewer billings at June 30, 2012.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

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

4. Use of Estimates

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

5. Capital Assets

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

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

<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

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

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

7. Long-term Obligations

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

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

8. Fund Equity

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

9. Net Assets

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

10. Concentration of Credit Risk

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

11. Prepaid Expenses

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail of this \$(3,518,455) difference for the primary government is as follows:

	<u>Primary Government</u>
General obligation bonds and loans payable	\$ (3,067,547)
Accrued interest	(5,660)
OPEB liability	(273,695)
Compensated absences	<u>(171,553)</u>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u><u>\$ (3,518,455)</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 assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The detail of this \$3,649,426 difference for the primary government is as follows:

	<u>Primary Government</u>
Capital outlays	\$ 3,995,708
Depreciation expense	<u>(346,282)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 3,649,426</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

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 \$(110,799) difference for the primary government is as follows:

	<u>Primary Government</u>
(Increase) Decrease in Compensated absences	\$ (20,508)
(Increase) Decrease in OPEB liability	(88,649)
(Increase) Decrease in Accrued interest	<u>(1,642)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (110,799)</u></u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, the CDBG Gilman Street Fund had a deficit fund equity of \$(32,951) and the Streetscape Fund had a deficit fund equity of \$(112,398). 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.

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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	\$ 32,220
Communication tax	22,712
Non-categorical aid	4,965
Community development block grant	51,920
Virginia department of transportation grant	41,579
	<u>41,579</u>
Total	<u>\$ 153,396</u>

Note 6-Interfund Transfers:

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 1,062,332	\$ -
Other Governmental Funds	47,008	-
Water and Sewer Fund	-	(1,131,633)
Swimming Pool Fund	22,293	
Total	<u>\$ 1,131,633</u>	<u>\$ (1,131,633)</u>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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
2013	\$ 65,000	\$ 20,870	\$ 248,759	\$ 75,610	\$ 313,759	\$ 96,480
2014	70,000	18,543	115,387	74,556	185,387	93,099
2015	70,000	16,022	47,764	64,607	117,764	80,629
2016	80,000	12,603	33,478	62,985	113,478	75,588
2017	80,000	8,847	1,527,122	55,839	1,607,122	64,686
2018-2022	105,000	5,875	151,113	106,940	256,113	112,815
2023-2027	-	-	180,924	77,129	180,924	77,129
2028-2032	-	-	199,004	41,039	199,004	41,039
2033-2037	-	-	85,795	12,585	85,795	12,585
2038-2042	-	-	-	-	-	-
Totals	<u>\$ 470,000</u>	<u>\$ 82,760</u>	<u>\$ 2,589,346</u>	<u>\$ 571,290</u>	<u>\$ 3,059,346</u>	<u>\$ 654,050</u>

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2012.

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
General obligation bonds	\$ 555,000	\$ -	\$ (85,000)	\$ 470,000
Premium on bond	9,495	-	(1,294)	8,201
Loans payable	771,103	2,063,234	(244,991)	2,589,346
OPEB liability	185,046	88,649	-	273,695
Compensated absences	151,045	20,508	-	171,553
Total	<u>\$ 1,671,689</u>	<u>\$ 2,172,391</u>	<u>\$ (331,285)</u>	<u>\$ 3,512,795</u>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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>		
Bank of Tazewell County, issued June 15, 2004, monthly installments of principal and interest in the amount of \$3,775. Interest computed at a rate of 3.45%, secured by equipment.	\$ 83,168	\$ 42,972
Bank of Marion, issued August 26, 2002, monthly installments of principal and interest in the amount of \$11,663. Interest computed at a rate of 4.74%, secured by equipment.	\$ 130,113	\$ 130,113
National Bank of Blacksburg, issued June 1, 2009, monthly installments of principal and interest in the amount of \$2,730. Interest computed at a rate of 4.37%, secured by equipment	\$ 59,802	\$ 30,636
National Bank, issued November 28, 2011, monthly installments of principal and interest in the amount of \$1,938. Interest computed at a rate of 3.92%, secured by equipment.	\$ 72,249	\$ 20,820
Bank of Marion, issued January 5, 2012, monthly installments of principal and interest in the amount of \$2,647. Interest computed at a rate of 3%.	\$ 468,127	\$ 18,664
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	\$ -
Bank of Marion, issued June 26, 2007, total issuance price of \$315,000. Interest computed at a rate of 4.5% for five years. For next 25 years, the interest rate is 5.2%.	\$ 275,887	\$ 5,554
Total Loans Payable	<u>\$ 2,589,346</u>	<u>\$ 248,759</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012

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>		
Virginia Resource Authority bond, issued May 8, 2005, variable semi-annual installments of principal and interest. Interest computed at a variable rate of 3.28% to 4.85%, unsecured.	\$ 470,000	\$ 65,000
Total General Obligation Bonds	<u>\$ 470,000</u>	<u>\$ 65,000</u>
<u>Other Obligations:</u>		
Premium on bond	\$ 8,201	\$ 1,294
Compensated absences	171,553	128,665
OPEB liability	<u>273,695</u>	<u>-</u>
Total Other Obligations	<u>\$ 453,449</u>	<u>\$ 129,959</u>
Total Long-Term Obligations	<u>\$ 3,512,795</u>	<u>\$ 443,718</u>

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TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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
2013	\$ 340,842	\$ 179,399
2014	343,042	167,749
2015	324,318	157,477
2016	335,044	149,147
2017	332,851	135,607
2018-2022	1,705,945	493,027
2023-2027	1,366,184	151,850
2028-2032	71,510	47,770
2033-2037	80,517	38,763
2038-2042	90,659	28,621
2043-2047	102,078	17,202
2048-2052	29,768	4,579
Totals	<u>\$ 5,122,758</u>	<u>\$ 1,571,191</u>

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2012.

	July 1, 2011	Issuances	Retirements	June 30, 2012
General obligation bonds	\$ 4,539,320	\$ 877,586	\$ (294,148)	\$ 5,122,758
Compensated absences	41,916	2,316	-	44,232
OPEB liability	66,784	34,797	-	101,581
Total	<u>\$ 4,648,020</u>	<u>\$ 914,699</u>	<u>\$ (294,148)</u>	<u>\$ 5,268,571</u>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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 February 9, 1993, semi-annual principal reductions of \$26,749. There is no interest rate on this note.	\$ 80,246	\$ 53,498
Virginia Resource Authority, issued on July 7, 1992, semi-annual principal and interest payments computed at a rate of 2.5%.	\$ 2,770,000	\$ 160,000
Virginia Resource Authority, issued on March 24, 2006, total issuance price of \$1,684,600. Semi-annual principal and interest payments computed at a rate of 3%.	\$ 1,351,452	\$ 82,569
Virginia Resource Authority, issued December 15, 2011, semi-annual principal reductions of \$25,257. There is no interest rate on this note.	\$ 333,780	\$ 25,257
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%.	\$ 543,806	\$ 8,811
Rural Development, issued a \$225,800 loan on June 9, 1997. Monthly payments of principal and interest of \$1,037 at a rate of 4.5%.	\$ 43,474	\$ 10,707
Total General Obligation Bonds	<u>\$ 5,122,758</u>	<u>\$ 340,842</u>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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>Other Obligations:</u>		
Compensated absences	\$ 44,232	\$ 33,174
OPEB liability	101,581	-
	<u>\$ 145,813</u>	<u>\$ 33,174</u>
Total other obligations	<u>\$ 145,813</u>	<u>\$ 33,174</u>
Total Long Term Obligations	<u>\$ 5,268,571</u>	<u>\$ 374,016</u>

Note 8-Employee Retirement System and Pension Plans:

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

A. Plan Description (continued)

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

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

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 20.49% of annual covered payroll.

C. Annual Pension Cost

Primary Government:

For fiscal year ended June 30, 2012, the Town's annual pension cost of \$529,511 was equal to the Town's required and actual contributions. The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
Town	6/30/2012	\$ 529,511	100.00%	\$ -
	6/30/2011	\$ 510,639	100.00%	-
	6/30/2010	\$ 483,251	100.00%	-

¹ Employer portion only

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 8-Employee Retirement System and Pension Plans: (continued)**D. Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the plan was 65.34% funded. The actuarial accrued liability for benefits was \$14,406,362 and the actuarial value of assets was \$9,412,677, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,993,685. The covered payroll (annual payroll of active employees covered by the plan) was \$2,501,429, and ratio of the UAAL to the covered payroll was 199.63%.

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

Note 9-Capital Assets:

Capital asset activity for the year ended June 30, 2012 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	\$ 990,579	\$ 809,300	\$ -	\$ 1,799,879
Construction in progress	151,254	476,278	(114,545)	512,987
Total capital assets not being depreciated	<u>\$ 1,141,833</u>	<u>\$ 1,285,578</u>	<u>\$ (114,545)</u>	<u>\$ 2,312,866</u>
Capital assets, being depreciated:				
Buildings	\$ 5,076,605	\$ 2,354,595	\$ -	\$ 7,431,200
Improvements other than buildings	1,927,463	-	-	1,927,463
Machinery and equipment	4,800,999	470,080	(62,286)	5,208,793
Total capital assets being depreciated	<u>\$ 11,805,067</u>	<u>\$ 2,824,675</u>	<u>\$ (62,286)</u>	<u>\$ 14,567,456</u>
Less: accumulated depreciation for:				
Buildings	\$ (2,434,100)	\$ (148,066)	\$ -	\$ (2,582,166)
Improvements other than buildings	(273,471)	(54,687)	-	(328,158)
Machinery and equipment	(4,553,757)	(143,528)	62,286	(4,634,999)
Total accumulated depreciation	<u>\$ (7,261,328)</u>	<u>\$ (346,281)</u>	<u>\$ 62,286</u>	<u>\$ (7,545,323)</u>
Total capital assets being depreciated, net	<u>\$ 4,543,739</u>	<u>\$ 2,478,394</u>	<u>\$ -</u>	<u>\$ 7,022,133</u>
Governmental activities capital assets, net	<u>\$ 5,685,572</u>	<u>\$ 3,763,972</u>	<u>\$ (114,545)</u>	<u>\$ 9,334,999</u>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 9-Capital Assets: (continued)

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

Governmental activities:

General government	\$	91,800
Public safety		57,627
Public works		126,458
Parks, recreation, and culture		70,396

Total depreciation expense - governmental activities	\$	346,281
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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	\$ 399,579	\$ -	\$ -	\$ 399,579
Construction in progress	128,666	1,107,820	(54,608)	1,181,878
Total capital assets not being depreciated	<u>\$ 528,245</u>	<u>\$ 1,107,820</u>	<u>(54,608)</u>	<u>\$ 1,581,457</u>
Capital assets, being depreciated:				
Utility plant and equipment	\$ 19,443,020	\$ 32,486	\$ -	\$ 19,475,506
Machinery and equipment	2,600,344	87,482	-	2,687,826
Total capital assets being depreciated	<u>\$ 22,043,364</u>	<u>\$ 119,968</u>	<u>\$ -</u>	<u>\$ 22,163,332</u>
Less: accumulated depreciation for:				
Utility plant and equipment	\$ (8,015,855)	\$ (511,310)	\$ -	\$ (8,527,165)
Machinery and equipment	(2,184,458)	(60,253)	-	(2,244,711)
Total accumulated depreciation	<u>\$ (10,200,313)</u>	<u>\$ (571,563)</u>	<u>\$ -</u>	<u>\$ (10,771,876)</u>
Total capital assets being depreciated, net	<u>\$ 11,843,051</u>	<u>\$ (451,595)</u>	<u>\$ -</u>	<u>\$ 11,391,456</u>
Business-type activities capital assets, net	<u>\$ 12,371,296</u>	<u>\$ 656,225</u>	<u>\$ (54,608)</u>	<u>\$ 12,972,913</u>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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	\$ (937,910)	\$ (4,421)	\$ -	\$ (942,331)
Equipment	(29,151)	-	-	(29,151)
Total accumulated depreciation	<u>\$ (967,061)</u>	<u>\$ (4,421)</u>	<u>\$ -</u>	<u>\$ (971,482)</u>
Total capital assets being depreciated, net	<u>\$ 36,741</u>	<u>\$ (4,421)</u>	<u>\$ -</u>	<u>\$ 32,320</u>
Business-type activities capital assets, net	<u>\$ 215,866</u>	<u>\$ (4,421)</u>	<u>\$ -</u>	<u>\$ 211,445</u>

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

Business-type activities:

Water and Sewer	\$ 571,563
Swimming Pool	4,421
Total depreciation expense - business type activities	<u>\$ 575,984</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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 \$710,792 is comprised of the following:

Property Taxes - Property tax revenue representing uncollected tax billings not available for funding current expenditures.

Note 11-Risk Management:

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

Note 12-Surety Bonds:

Primary Government:

Virginia Municipal Liability Pool

Public Employees Dishonesty Coverage	\$ 200,000
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Note 13 – Restricted Net Assets:

<i><u>Governmental Activities</u></i>	<i><u>Balance</u></i>
Restricted for debt service and bond covenants	\$ 68,401
Restricted for downtown housing project	158,230
	<hr/>
Total	\$ 226,631
	<hr/>
<i><u>Business-type Activities</u></i>	<i><u>Balance</u></i>
Restricted for debt service and bond covenants	\$ 429,406
	<hr/>
Total	\$ 429,406
	<hr/>

TOWN OF MARION, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 14 – Restricted Cash and Cash Equivalents

Restricted cash of \$256,838 is reflected in the financial statements for the business-type activities. The \$256,838 represents the amount set aside for debt service in the water and sewer fund.

Note 15 – Restricted Investments

Restricted investment of \$68,401 is reflected in the financial statements for the governmental activities. The \$68,401 represents the amount set aside to cover the requirements set forth by Virginia Resource Authority in connection with the general obligation bond. Restricted investment of \$172,568 is reflected in the financial statements for the business-type activities. The \$172,568 represents the amount set aside to cover the requirements set forth by Virginia Resource Authority in connection with the general obligation bond.

Note 16 – Contingencies

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

Note 17 – Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. Town employees with up to five years of service earn vacation at the rate of one day for each month. After five years, thirteen vacation days are earned annually; after ten years, fourteen days vacation is earned; after fifteen years an employee earns fifteen days vacation; after twenty years, sixteen days vacation are earned. The employees also earn an additional one-half day vacation time when employees go 90 days and are accident free. No benefits or pay is received for unused sick leave upon termination. However, upon retirement with 30 years of VRS service, the Town will pay 25% of all accumulated and unused sick pay up to \$2,500. No sick leave will be accrued at June 30, 2012 due to the difficulty in estimating the number of employees who may retire with 30 years of VRS service.

Note 18 – Fund Balance-Restricted for:

<i>Other Governmental Funds</i>	<i>Balance</i>
Dare Fund	\$ 1,311
Downtown Housing Fund	158,230
Master Redevelopment	<u>2,500</u>
Total	<u>\$ 162,041</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 19 – Interfund Balances

Interfund balances consisted of the following at June 30, 2012:

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 20 – Other Post-Employment Benefits (continued)**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation**

For the fiscal year ended June 30, 2012, the Town's annual OPEB costs of \$88,649 for governmental activities and \$34,797 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Annual required contribution	\$ 84,647	\$ 33,861
Interest on net OPEB obligation	4,002	936
Adjustment to annual required contribution	-	-
	<u>88,649</u>	<u>34,797</u>
Annual OPEB cost	88,649	34,797
Contributions made	-	-
	<u>88,649</u>	<u>34,797</u>
Increase in net OPEB obligation	88,649	34,797
Net OPEB obligation-beginning of year	185,046	66,784
	<u>185,046</u>	<u>66,784</u>
Net OPEB obligation-end of year	<u>\$ 273,695</u>	<u>\$ 101,581</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, 2012	88,649	0%	273,695
June 30, 2011	94,524	0%	185,046
June 30, 2010	90,522	0%	90,522

The Town's annual OPEB cost for business-type activities, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The Town's first year for implementing GASB No. 45 was June 30, 2010.

<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, 2012	34,797	0%	101,581
June 30, 2011	33,860	0%	66,784
June 30, 2010	32,924	0%	32,924

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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

The funding status of the plan as of June 30, 2012 was as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Actuarial Accrued Liability (AAL)	\$ 917,989	\$ 215,871
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	917,989	215,871
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%
Covered Payroll (Active Plan Members)	2,351,230	479,217
UAAL as a Percentage of Covered Payroll	39.04%	45.05%

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, 2012

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 3% and an investment rate of return of 4%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics. The 2004 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2012 is 27 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 2012, the Town had not designated any funding for the OPEB liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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 expenses	110,678
Total	<u><u>\$ 110,678</u></u>

<i>Restricted Fund Balance</i>	<i>Balance</i>
Debt service and bond covenants	68,401
DARE	1,311
Downtown Housing	158,230
Master Redevelopment	2,500
Total	<u><u>\$ 230,442</u></u>

<i>Committed Fund Balance</i>	<i>Balance</i>
Parking Garage	161,590
Total	<u><u>\$ 161,590</u></u>

<i>Assigned Fund Balance</i>	<i>Balance</i>
Golf Course	327,029
Total	<u><u>\$ 327,029</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Note 22 – New Accounting Standard:

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

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple—Employer Plans* contains provisions related to the frequency and timing of measurements. This statement will be effective for periods beginning after September 30, 2012.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* improves financial reporting by addressing the issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement will be effective for periods beginning after September 30, 2013.

GASB Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows, and Net Position* provides reporting on deferred outflows, inflows, and net position. This statement will be effective for periods beginning after September 30, 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* amends the financial reporting elements previously classified as assets and liabilities to be consistent with the definitions of Concept Statement 4. This statement will be effective for periods beginning after September 30, 2014.

Management has not yet evaluated the effects, if any, of adopting these standards, but does not expect them to be material.

Note 23 – Subsequent Events

The health department awarded the Town a grant in the amount of \$90,900 on the Edwynne Water Line Replacement.

Note 24 – Contribution from Nonprofit

The Town purchased a golf course from Holston Hills Country Club, Inc., a nonprofit organization. The statement of activities reports a contribution from nonprofit of \$2,294,760 which represents the difference between the purchase price of the golf course and the fair market value of the property received from the nonprofit.

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 647,150	\$ 647,150	\$ 568,140	\$ (79,010)
Other local taxes	2,455,300	2,455,300	2,592,961	137,661
Permits, privilege fees, and regulatory licenses	200	200	225	25
Fines and forfeitures	29,400	29,400	31,812	2,412
Revenue from the use of money and property	35,192	35,192	22,459	(12,733)
Charges for services	337,880	337,880	332,030	(5,850)
Miscellaneous	46,500	46,500	31,511	(14,989)
Recovered costs	46,250	46,250	44,450	(1,800)
Intergovernmental revenues:				
Commonwealth	1,193,200	1,193,200	1,360,512	167,312
Federal	-	-	399,107	399,107
Total revenues	<u>\$ 4,791,072</u>	<u>\$ 4,791,072</u>	<u>\$ 5,383,207</u>	<u>\$ 592,135</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,166,651	\$ 1,166,651	\$ 1,178,902	\$ (12,251)
Public safety	1,480,544	1,480,544	1,511,479	(30,935)
Public works	1,954,409	1,954,409	2,018,829	(64,420)
Parks, recreation, and cultural	538,110	538,110	570,958	(32,848)
Community development	425,744	425,744	1,331,550	(905,806)
Capital projects	126,891	126,891	199,522	(72,631)
Debt service:				
Principal retirement	291,206	291,206	329,991	(38,785)
Interest and other fiscal charges	59,012	59,012	66,872	(7,860)
Total expenditures	<u>\$ 6,042,567</u>	<u>\$ 6,042,567</u>	<u>\$ 7,208,103</u>	<u>\$ (1,165,536)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,251,495)</u>	<u>\$ (1,251,495)</u>	<u>\$ (1,824,896)</u>	<u>\$ (573,401)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 55,584	\$ 55,584	\$ 1,062,332	\$ 1,006,748
Proceeds of general obligation bonds	-	-	563,234	563,234
Total other financing sources and uses	<u>\$ 55,584</u>	<u>\$ 55,584</u>	<u>\$ 1,625,566</u>	<u>\$ 1,569,982</u>
Net change in fund balances	\$ (1,195,911)	\$ (1,195,911)	\$ (199,330)	\$ 996,581
Fund balances - beginning	-	-	491,256	491,256
Fund balances - ending	<u><u>\$ (1,195,911)</u></u>	<u><u>\$ (1,195,911)</u></u>	<u><u>\$ 291,926</u></u>	<u><u>\$ 1,487,837</u></u>

Town of Marion, Virginia
Schedule of Funding Progress
For the Year Ended June 30, 2012

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)
6/30/2011	\$ 9,412,677	\$ 14,406,362	\$ 4,993,685	65.34%	\$ 2,501,429	199.63%
6/30/2010	9,248,742	14,215,190	4,966,448	65.06%	2,517,201	197.30%
6/30/2009	9,406,922	13,066,095	3,659,173	71.99%	2,557,395	143.08%
6/30/2008	9,390,285	11,927,272	2,536,987	78.73%	2,400,130	105.70%
6/30/2007	8,530,097	11,285,559	2,755,462	75.58%	2,318,868	118.83%
6/30/2006	7,606,056	10,660,703	3,054,647	71.35%	2,245,495	136.03%

Post-Employment Benefit Plan-Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2011	\$ -	\$ 917,989	\$ 917,989	0.00%	\$ 2,351,230	39.04%
7/1/2010	-	917,989	917,989	0.00%	\$ 2,268,403	40.47%
7/1/2009	-	917,989	917,989	0.00%	2,256,784	40.68%

Post-Employment Benefit Plan-Business-type Activities

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
7/1/2011	\$ -	\$ 215,871	\$ 215,871	0.00%	\$ 479,217	45.05%
7/1/2010	-	215,871	215,871	0.00%	\$ 482,989	44.69%
7/1/2009	-	215,871	215,871	0.00%	458,510	47.08%

Town of Marion, Virginia
Combining Balance Sheet
Other Governmental Funds
For the Year Ended June 30, 2012

	<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	\$ 5,971	\$ 39,861	\$ -	\$ 3,500	\$ 259,272	\$ 309,915
Receivables (net of allowance for uncollectibles):							
Accounts receivable	-	-	-	-	-	87,586	87,586
Due from other funds	-	-	118,369	-	-	-	118,369
Total assets	<u>\$ 1,311</u>	<u>\$ 5,971</u>	<u>\$ 158,230</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 346,858</u>	<u>\$ 515,870</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,978	\$ 7,978
Accrued liabilities	-	-	-	-	-	11,851	11,851
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>\$ 19,829</u>	<u>\$ 172,149</u>
Fund balances:							
Unreserved:							
Designated for subsequent expenditure	\$ 1,311	\$ (112,398)	\$ 158,230	\$ (32,951)	\$ 2,500	\$ 327,029	\$ 343,721
Total fund balances	<u>\$ 1,311</u>	<u>\$ (112,398)</u>	<u>\$ 158,230</u>	<u>\$ (32,951)</u>	<u>\$ 2,500</u>	<u>\$ 327,029</u>	<u>\$ 343,721</u>
Total liabilities and fund balances	<u>\$ 1,311</u>	<u>\$ 5,971</u>	<u>\$ 158,230</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 346,858</u>	<u>\$ 515,870</u>

Town of Marion, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2012

	<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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 193,329	\$ 193,329
Miscellaneous	-	-	-	-	-	768	768
Recovered costs	-	-	21,001	-	-	-	21,001
Intergovernmental revenues:							-
Federal	-	282,506	-	-	-	-	282,506
Total revenues	\$ -	\$ 282,506	\$ 21,001	\$ -	\$ -	\$ 194,097	\$ 497,604
EXPENDITURES							
Current:							
Parks, recreation, and cultural	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 320,052	\$ 320,052
Community development	-	422,678	10	-	-	-	422,688
Capital projects	-	-	-	-	-	3,324,050	3,324,050
Debt service:							-
Interest and other fiscal charges	-	-	-	-	-	37,472	37,472
Total expenditures	\$ -	\$ 422,678	\$ 10	\$ -	\$ -	\$ 3,681,574	\$ 4,104,262
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (140,172)	\$ 20,991	\$ -	\$ -	\$ (3,487,477)	\$ (3,606,658)
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ -	\$ 27,262	\$ -	\$ -	\$ -	\$ 19,746	\$ 47,008
Transfers out	-	-	-	-	-	-	-
Contribution from nonprofit	-	-	-	-	-	2,294,760	2,294,760
Proceeds of indebtedness	-	-	-	-	-	1,500,000	1,500,000
Other	-	-	-	-	-	-	-
Total other financing sources and uses	\$ -	\$ 27,262	\$ -	\$ -	\$ -	\$ 3,814,506	\$ 3,841,768
Net change in fund balances	\$ -	\$ (112,910)	\$ 20,991	\$ -	\$ -	\$ 327,029	\$ 235,110
Fund balances - beginning	1,311	512	137,239	(32,951)	2,500	-	108,611
Fund balances - ending	\$ 1,311	\$ (112,398)	\$ 158,230	\$ (32,951)	\$ 2,500	\$ 327,029	\$ 343,721

SUPPORTING

SCHEDULES

Town of Marion, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

<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	\$ 429,500	\$ 429,500	\$ 430,903	\$ 1,403
Real and personal public service corporation taxes	26,500	26,500	23,794	(2,706)
Personal property taxes	183,150	183,150	107,410	(75,740)
Penalties and Interest	8,000	8,000	6,033	(1,967)
Total general property taxes	<u>\$ 647,150</u>	<u>\$ 647,150</u>	<u>\$ 568,140</u>	<u>\$ (79,010)</u>
Other local taxes:				
Local sales and use taxes	\$ 150,800	\$ 150,800	\$ 168,920	\$ 18,120
Consumers' utility taxes	108,000	108,000	106,956	(1,044)
Communications taxes	140,000	140,000	132,984	(7,016)
Lodging taxes	97,500	97,500	105,865	8,365
Business license taxes	500,000	500,000	549,536	49,536
Utility license taxes	28,000	28,000	29,216	1,216
Motor vehicle licenses	60,000	60,000	40,323	(19,677)
Bank stock taxes	150,000	150,000	182,600	32,600
Tobacco taxes	160,000	160,000	143,948	(16,052)
Meals taxes	1,053,000	1,053,000	1,123,665	70,665
Comcast PEG capital fees	8,000	8,000	8,948	948
Total other local taxes	<u>\$ 2,455,300</u>	<u>\$ 2,455,300</u>	<u>\$ 2,592,961</u>	<u>\$ 137,661</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 200	\$ 200	\$ 225	\$ 25
Total permits, privilege fees, and regulatory licenses	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ 225</u>	<u>\$ 25</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 29,000	\$ 29,000	\$ 31,772	\$ 2,772
Parking Fines	400	400	40	(360)
Total fines and forfeitures	<u>\$ 29,400</u>	<u>\$ 29,400</u>	<u>\$ 31,812</u>	<u>\$ 2,412</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 6,650	\$ 6,650	\$ 1,411	\$ (5,239)
Revenue from use of property	28,542	28,542	21,048	(7,494)
Total revenue from use of money and property	<u>\$ 35,192</u>	<u>\$ 35,192</u>	<u>\$ 22,459</u>	<u>\$ (12,733)</u>
Charges for services:				
Parking lot charges	\$ 700	\$ 700	\$ 480	\$ (220)
Charges for sanitation and waste removal	308,000	308,000	310,481	2,481
Charges for parks and recreation	8,500	8,500	12,463	3,963
Farmers market	4,680	4,680	975	(3,705)
Fire calls	10,000	10,000	250	(9,750)
Senior center-District III	-	-	2,520	2,520
Cemetery maintenance fees	6,000	6,000	4,861	(1,139)
Total charges for services	<u>\$ 337,880</u>	<u>\$ 337,880</u>	<u>\$ 332,030</u>	<u>\$ (5,850)</u>
Miscellaneous revenue:				
Miscellaneous	\$ 26,500	\$ 26,500	\$ 15,430	\$ (11,070)
Sale of property and equipment	20,000	20,000	14,351	(5,649)
Donations	-	-	1,730	1,730
Total miscellaneous revenue	<u>\$ 46,500</u>	<u>\$ 46,500</u>	<u>\$ 31,511</u>	<u>\$ (14,989)</u>

Town of Marion
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

<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)				
Recovered costs:				
County of Smyth - Recreation facilities	\$ 19,250	\$ 19,250	\$ 19,250	\$ -
County of Smyth - Fire and rescue	25,000	25,000	25,000	-
Other recovered costs	2,000	2,000	200	(1,800)
Total recovered costs	<u>\$ 46,250</u>	<u>\$ 46,250</u>	<u>\$ 44,450</u>	<u>\$ (1,800)</u>
Total revenue from local sources	<u>\$ 3,597,872</u>	<u>\$ 3,597,872</u>	<u>\$ 3,623,588</u>	<u>\$ 25,716</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ -	\$ -	\$ 35	\$ 35
Rolling stock tax	6,920	6,920	5,076	(1,844)
Rental tax	-	-	12,742	12,742
Set off debt	10,000	10,000	-	(10,000)
ABC profits	6,075	6,075	-	(6,075)
Wine taxes	6,318	6,318	-	(6,318)
Personal property tax relief funds	-	-	45,785	45,785
Total noncategorical aid	<u>\$ 29,313</u>	<u>\$ 29,313</u>	<u>\$ 63,638</u>	<u>\$ 34,325</u>
Categorical aid:				
Other categorical aid:				
Litter control grant	\$ 2,915	\$ 2,915	\$ 2,457	\$ (458)
Fire programs	16,241	16,241	-	(16,241)
Street and highway maintenance	999,166	999,166	1,074,035	74,869
Law enforcement grant	136,303	136,303	146,864	10,561
VDOT-Prater Lane	-	-	33,735	33,735
Police block grant	9,262	9,262	9,999	737
Fire grant	-	-	5,700	5,700
Commission of the arts	-	-	5,000	5,000
Police Grant-DMV	-	-	18,764	18,764
Asset forfeiture funds	-	-	320	320
Total other categorical aid	<u>\$ 1,163,887</u>	<u>\$ 1,163,887</u>	<u>\$ 1,296,874</u>	<u>\$ 132,987</u>
Total categorical aid	<u>\$ 1,163,887</u>	<u>\$ 1,163,887</u>	<u>\$ 1,296,874</u>	<u>\$ 132,987</u>
Total revenue from the Commonwealth	<u>\$ 1,193,200</u>	<u>\$ 1,193,200</u>	<u>\$ 1,360,512</u>	<u>\$ 167,312</u>
Revenue from the federal government:				
Categorical aid:				
Community Development Block Grant	\$ -	\$ -	\$ 392,365	\$ 392,365
DHCD Grant- Schoolhouse Project	-	-	300	300
Asset forfeiture funds	-	-	60	60
Rural Business Enterprise Grant	-	-	6,382	6,382
Total categorical aid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,107</u>	<u>\$ 399,107</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,107</u>	<u>\$ 399,107</u>
Total General Fund	<u>\$ 4,791,072</u>	<u>\$ 4,791,072</u>	<u>\$ 5,383,207</u>	<u>\$ 592,135</u>
Total Primary Government	<u>\$ 4,791,072</u>	<u>\$ 4,791,072</u>	<u>\$ 5,383,207</u>	<u>\$ 592,135</u>

Town of Marion, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

<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	\$ 109,388	\$ 109,388	\$ 137,239	\$ (27,851)
Town clerk	170,171	170,171	168,049	2,122
	<u>\$ 279,559</u>	<u>\$ 279,559</u>	<u>\$ 305,288</u>	<u>\$ (25,729)</u>
Legislative				
General and financial administration:				
Town manager	\$ 165,112	\$ 165,112	\$ 167,902	\$ (2,790)
Legal services	29,447	29,447	23,534	5,913
Independent auditor	28,000	28,000	32,265	(4,265)
Finance	223,658	223,658	189,815	33,843
Information technology	105,104	105,104	104,197	907
Risk management	108,250	108,250	108,136	114
Motor pool	114,922	114,922	122,902	(7,980)
Central purchasing	112,599	112,599	124,863	(12,264)
Total general and financial administration	<u>\$ 887,092</u>	<u>\$ 887,092</u>	<u>\$ 873,614</u>	<u>\$ 13,478</u>
Total general government administration	<u>\$ 1,166,651</u>	<u>\$ 1,166,651</u>	<u>\$ 1,178,902</u>	<u>\$ (12,251)</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 1,395,872	\$ 1,395,872	\$ 1,417,612	\$ (21,740)
Fire and rescue services:				
Fire department	\$ 60,672	\$ 60,672	\$ 62,894	\$ (2,222)
Rescue service	24,000	24,000	30,973	(6,973)
Total fire and rescue services	<u>\$ 84,672</u>	<u>\$ 84,672</u>	<u>\$ 93,867</u>	<u>\$ (9,195)</u>
Total public safety	<u>\$ 1,480,544</u>	<u>\$ 1,480,544</u>	<u>\$ 1,511,479</u>	<u>\$ (30,935)</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 1,602,218	\$ 1,602,218	\$ 1,661,618	\$ (59,400)
General engineering and administration	156,795	156,795	160,514	(3,719)
Total maintenance of highways, streets, bridges & sidewalks	<u>\$ 1,759,013</u>	<u>\$ 1,759,013</u>	<u>\$ 1,822,132</u>	<u>\$ (63,119)</u>
Sanitation and waste removal:				
Refuse collection and disposal	\$ 195,396	\$ 195,396	\$ 196,697	\$ (1,301)
Total sanitation and waste removal	<u>\$ 195,396</u>	<u>\$ 195,396</u>	<u>\$ 196,697</u>	<u>\$ (1,301)</u>
Total public works	<u>\$ 1,954,409</u>	<u>\$ 1,954,409</u>	<u>\$ 2,018,829</u>	<u>\$ (64,420)</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation	\$ 359,696	\$ 359,696	\$ 369,018	\$ (9,322)
Senior Citizens Center	178,414	178,414	201,940	(23,526)
Total parks, recreation, and cultural	<u>\$ 538,110</u>	<u>\$ 538,110</u>	<u>\$ 570,958</u>	<u>\$ (32,848)</u>

Town of Marion, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2012

<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	\$ 11,800	\$ 11,800	\$ 11,785	\$ 15
Community development	294,125	294,125	1,192,274	(898,149)
Cable TV	119,519	119,519	127,491	(7,972)
Transport services	300	300	-	300
Total planning and community development	<u>\$ 425,744</u>	<u>\$ 425,744</u>	<u>\$ 1,331,550</u>	<u>\$ (905,806)</u>
Total community development	<u>\$ 425,744</u>	<u>\$ 425,744</u>	<u>\$ 1,331,550</u>	<u>\$ (905,806)</u>
Capital projects:				
Capital outlays	\$ 126,891	\$ 126,891	\$ 199,522	\$ (72,631)
Total capital projects	<u>\$ 126,891</u>	<u>\$ 126,891</u>	<u>\$ 199,522</u>	<u>\$ (72,631)</u>
Debt service:				
Principal retirement	\$ 291,206	\$ 291,206	\$ 329,991	\$ (38,785)
Interest and other fiscal charges	59,012	59,012	66,872	(7,860)
Total debt service	<u>\$ 350,218</u>	<u>\$ 350,218</u>	<u>\$ 396,863</u>	<u>\$ (46,645)</u>
Total General Fund	<u>\$ 6,042,567</u>	<u>\$ 6,042,567</u>	<u>\$ 7,208,103</u>	<u>\$ (1,165,536)</u>
Total Primary Government	<u>\$ 6,042,567</u>	<u>\$ 6,042,567</u>	<u>\$ 7,208,103</u>	<u>\$ (1,165,536)</u>

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

	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

Table 2

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

Fiscal Year	Governmental Activities			Business-type Activities		
	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted
2004-05	\$ 4,029,462	\$ 87,357	\$ (773,781)	\$ 7,577,144	\$ -	\$ 2,681,785
2005-06	3,130,941	107,867	526,705	8,697,111	-	2,358,346
2006-07	2,900,510	120,327	823,938	8,622,377	-	2,272,068
2007-08	2,985,101	199,114	473,725	8,488,274	163,931	1,838,254
2008-09	3,065,181	229,430	190,182	8,193,951	275,057	1,631,342
2009-10	3,824,940	234,526	(216,688)	8,174,417	342,085	1,564,811
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

(1) = Information available for 8 years only.

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
2002-03	\$ 3,621,014	\$ 4,748,694	\$ 1,747,304	\$ (2,874,984)	\$ 1,500,000	\$ -	\$ 689,619	\$ (33,975)	\$ 2,155,644	\$ (719,340)
2003-04	3,968,506	5,146,086	546,002	(1,723,582)	382,755	-	1,301,296	(16,953)	1,667,098	(56,484)
2004-05	4,593,306	6,714,983	179,029	(2,300,706)	1,022,264	100,000	1,053,564	-	2,175,828	(124,878)
2005-06	4,614,866	4,762,754	867,117	(1,015,005)	-	-	1,244,747	(27,500)	1,217,247	202,242
2006-07	4,886,010	5,370,581	537,259	(1,021,830)	-	-	1,291,146	-	1,291,146	269,316
2007-08	4,713,209	5,865,689	504,300	(1,656,780)	-	-	1,743,643	(315,000)	1,428,643	(228,137)
2008-09	4,470,393	5,632,006	401,721	(1,563,334)	146,660	-	1,145,165	-	1,291,825	(271,509)
2009-10	5,659,073	6,048,558	882,088	(1,271,573)	89,785	-	871,500	-	961,285	(310,288)
2010-11	6,127,734	6,536,191	493,270	(901,727)	-	-	1,301,613	(59,475)	1,242,138	340,411
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

Table 4

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

Fiscal Year	Government Wide Expense	Government Wide Program Revenues	Net (Expense) Revenue	Government Wide General Revenues	Transfers	Change in Net Assets
2004-05	\$ 6,959,790	\$ 5,149,318	\$ (1,810,472)	\$ 2,484,177	\$ (2,268)	\$ 671,437
2005-06	6,861,005	5,365,644	(1,495,361)	2,711,270	3,093	1,219,002
2006-07	7,589,145	4,603,722	(2,985,423)	2,908,740	(5,068)	(81,751)
2007-08	8,153,835	4,458,306	(3,695,529)	3,011,542	-	(683,987)
2008-09	7,735,648	4,352,280	(3,383,368)	2,820,112	-	(563,256)
2009-10	7,885,684	5,360,558	(2,525,126)	2,864,074	-	338,948
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

(1) Information has only be available for 8 years.

Table 5

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non-departmental	Interest on Long-Term Debt	Swimming Pool	Water and Sewer	Total
2004-05	\$ 989,675	\$ 1,588,599	\$ 1,991,935	\$ 419,388	\$ 215,459	\$ -	\$ 111,643	\$ 109,130	\$ 1,533,961	\$ 6,959,790
2005-06	1,029,902	1,617,197	1,728,400	451,456	245,360	69,579	86,260	58,438	1,574,413	6,861,005
2006-07	2,456,617	530,880	2,041,691	465,949	248,302	25,038	72,055	60,030	1,688,583	7,589,145
2007-08	1,179,021	1,766,948	2,345,736	472,177	388,637	-	104,548	65,565	1,831,203	8,153,835
2008-09	1,214,519	1,521,445	2,096,432	487,930	346,523	-	67,536	58,670	1,942,593	7,735,648
2009-10	1,195,607	1,569,854	1,925,453	520,707	719,609	-	75,705	50,272	1,828,477	7,885,684
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

(1) Information has only been available for 8 years.

Table 6

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

PROGRAM REVENUES				GENERAL REVENUES											
Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Unrestricted Investment Earnings	Miscellaneous	Recovered Costs	Grants and Contributions Not Restricted to Specific Programs	Gain (Loss) on Disposal of Capital Assets	Contribution from Nonprofit	Total	
2004-05	\$ 2,993,669	\$ 1,080,218	\$ 1,075,431	\$ 462,099	\$ 1,908,646	\$ -	\$ -	\$ 59,249	\$ 54,183	\$ -	\$ -	\$ -	\$ -	\$ 7,633,495	
2005-06	3,237,203	1,355,338	773,103	436,669	2,041,365	-	-	78,015	155,221	-	-	-	-	8,076,914	
2006-07	3,257,417	1,346,305	-	542,400	2,229,086	-	-	93,123	44,131	-	-	-	-	7,512,462	
2007-08	2,981,905	1,354,904	121,497	479,784	2,223,859	180	25,138	112,312	62,301	40,370	67,598	-	-	7,469,848	
2008-09	2,961,251	1,343,479	47,550	522,114	2,066,362	75	24,933	66,100	11,911	61,377	67,240	-	-	7,172,392	
2009-10	2,810,773	1,554,489	995,296	527,199	2,182,865	165	38,511	36,194	10,576	-	69,823	(1,259)	-	8,224,632	
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	

(1) Information has only been available for 8 years.

Table 7

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

Fiscal Year	General and Financial Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Non-departmental	Debt Service	Total (1)
2002-03	748,718	940,283	1,936,612	339,784	260,778	-	522,519	4,748,694
2003-04	942,684	1,070,852	2,190,192	393,852	317,522	-	230,984	5,146,086
2004-05	921,986	1,156,908	2,837,325	409,662	215,459	-	1,173,643	6,714,983
2005-06	959,534	1,177,188	1,589,421	432,505	245,360	69,579	289,167	4,762,754
2006-07	827,517	1,277,511	2,015,502	302,772	643,473	12,683	291,123	5,370,581
2007-08	1,098,443	1,376,190	2,210,059	473,022	399,521	-	308,454	5,865,689
2008-09	1,112,726	1,382,225	1,966,409	491,837	366,508	-	312,301	5,632,006
2009-10	1,145,845	1,359,099	1,846,756	521,547	734,600	-	440,711	6,048,558
2010-11	1,110,440	1,444,987	1,998,486	500,548	1,131,811	-	349,919	6,536,191
2011-12	1,178,902	1,511,479	2,018,829	891,010	1,754,238	-	434,335	7,788,793

(1) Excludes capital projects

Table 8

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2002-03	\$ 393,993	\$ 1,694,467	\$ 230	\$ 35,803	\$ 160,131	\$ 178,316	\$ 8,214	\$ 82,769	\$ 1,067,091	\$ 3,621,014
2003-04	406,563	1,872,537	215	43,739	79,323	189,779	33,491	59,209	1,283,650	3,968,506
2004-05	430,421	1,900,883	185	35,481	32,664	246,848	15,000	48,149	1,883,675	4,593,306
2005-06	464,984	2,032,056	195	24,992	26,916	251,383	147,065	55,010	1,612,265	4,614,866
2006-07	538,460	2,210,211	210	25,774	32,669	234,918	32,988	29,710	1,781,070	4,886,010
2007-08	485,251	2,258,281	180	25,138	26,642	308,018	62,474	50,634	1,496,591	4,713,209
2008-09	514,629	2,066,362	75	24,933	34,208	308,251	11,910	61,806	1,448,219	4,470,393
2009-10	525,667	2,182,865	165	38,511	24,496	329,010	10,576	166,640	2,381,143	5,659,073
2010-11	600,862	2,607,956	165	24,309	28,859	327,667	48,293	67,424	2,422,199	6,127,734
2011-12	568,140	2,592,961	225	31,812	22,459	525,359	32,279	65,451	2,042,125	5,880,811

Table 9

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Delinquent Taxes to Tax Levy
2002-03	365,219	352,406	96.49%	2,632	355,038	97.21%	27,516	7.53%
2003-04	369,067	355,741	96.39%	3,964	359,705	97.46%	10,137	2.75%
2004-05	455,075	441,043	96.92%	7,301	448,344	98.52%	10,039	2.21%
2005-06	424,351	405,851	95.64%	23,177	429,028	101.10%	18,500	4.36%
2006-07	503,090	486,666	96.74%	43,252	529,918	105.33%	16,424	3.26%
2007-08	542,246	520,156	95.93%	6,145	526,301	97.06%	18,717	3.45%
2008-09	558,935	544,770	97.47%	8,407	553,177	98.97%	39,505	7.07%
2009-10	586,857	545,797	93.00%	10,709	556,506	94.83%	46,734	7.96%
2010-11	665,404	628,847	94.51%	10,362	639,209	96.06%	66,206	9.95%
2011-12	697,358	641,482	91.99%	9,653	651,135	93.37%	109,302	15.67%

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

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

Table 10

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Utility		Total
				Real Estate	Personal Property	
2002-03	208,103,625	35,417,916	6,694,100	12,695,905	157,924	263,069,470
2003-04	209,454,559	35,340,158	7,054,336	13,478,041	390,775	265,717,869
2004-05	250,859,573	33,917,951	9,971,430	15,220,925	90,227	310,060,106
2005-06	255,641,963	33,684,964	9,958,650	14,972,639	37,344	314,295,560
2006-07	260,381,223	24,067,490	8,329,703	12,308,782	35,735	305,122,933
2007-08	261,783,380	35,859,020	7,893,263	12,015,017	-	317,550,680
2008-09	261,564,133	36,670,016	14,705,050	11,811,371	-	324,750,570
2009-10	261,863,888	34,387,058	13,770,663	11,811,371	-	321,832,980
2010-11	306,380,374	35,162,885	14,324,067	15,169,863	1,017,351	372,054,540
2011-12	308,609,739	35,407,906	14,350,698	14,616,120	944,230	373,928,693

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2002-03	129,769,200	68,318,200	1,125,000	-	199,212,400	0.40
2003-04	130,185,200	68,296,200	1,111,700	-	199,593,100	0.40
2004-05	154,129,400	85,134,700	1,431,700	-	240,695,800	0.40
2005-06	156,279,800	86,745,600	1,167,500	-	244,192,900	0.40
2006-07	147,680,200	91,382,100	9,795,125	-	248,857,425	0.40
2007-08	149,375,700	100,419,600	1,431,700	-	251,227,000	0.40
2008-09	148,421,900	90,104,900	1,167,500	-	239,694,300	0.40
2009-10	179,585,000	110,217,500	1,790,700	-	291,593,200	0.40
2010-11	180,320,600	110,532,800	1,882,900	-	292,736,300	0.40
2011-12	181,077,900	110,532,800	1,125,600	-	292,736,300	0.40

Table 11

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools
2002-03	0.11	0.29	0.29
2003-04	0.11	0.29	0.29
2004-05	0.11	0.29	0.29
2005-06	0.11	0.29	0.29
2006-07	0.15	0.29	0.29
2007-08	0.15	0.29	0.29
2008-09	0.15	0.29	0.29
2009-10	0.15	0.35	0.35
2010-11	0.15	0.35	0.35
2011-12	0.15	0.35	0.35

Table 12

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

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross and Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2002-03	6,349	263,069	7,905,761	3.01%	1,245
2003-04	6,349	265,718	7,684,043	2.89%	1,210
2004-05	6,349	310,060	7,145,887	2.30%	1,126
2005-06	6,349	314,296	6,479,289	2.06%	1,021
2006-07	6,048	305,123	7,443,990	2.44%	1,231
2007-08	6,048	317,551	7,271,901	2.29%	1,202
2008-09	6,048	324,751	6,981,457	2.15%	1,154
2009-10	6,048	321,833	6,432,170	2.00%	1,064
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

(1) U.S. Census Bureau.

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

Table 13

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

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2002-03	\$ 418,130	\$ 104,389	\$ 522,519	\$ 4,748,694	11.00%
2003-04	133,957	97,027	230,984	5,146,086	4.49%
2004-05	1,062,000	111,643	1,173,643	6,714,983	17.48%
2005-06	202,908	86,259	289,167	4,762,754	6.07%
2006-07	219,068	72,055	291,123	5,370,581	5.42%
2007-08	220,060	88,394	308,454	5,865,689	5.26%
2008-09	234,568	77,733	312,301	5,632,006	5.55%
2009-10	363,156	77,555	440,711	6,888,134	6.40%
2010-11	285,114	64,805	349,919	7,029,461	4.98%
2011-12	329,991	104,344	434,335	11,312,365	3.84%

Table 14

Town of Marion, Virginia
Principal Taxpayers (1)
For Fiscal Year Ended June 30, 2012

Company	2010-2011 Assessed Value	Rank	2011-2012 Assessed Value	Rank
Marion Properties	11,814,900	1	11,814,900	1
IRT/Walmart	8,502,700	2	8,502,700	2
Smyth County Foundation	6,944,400	3	6,944,400	3
Highland Development	4,432,600	4	4,432,600	4
Marion Plaza	3,559,300	5	3,559,300	5
Mack Trammell	3,048,000	6	3,048,000	6
81-Motel	2,791,100	7	2,791,100	7
Grey Rock S/C	2,766,500	8	2,766,500	8
Susan Keene	1,991,500	9	1,991,500	9
Bank of Marion	1,536,800	10	1,536,800	10

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

Table 15

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Assessed valuations:										
Assessed value	\$ 263,069,470	\$ 265,717,869	\$ 310,060,106	\$ 314,413,110	\$ 314,881,507	\$ 317,550,680	\$ 324,750,570	\$ 321,832,980	\$ 372,054,540	\$ 373,928,693
Legal debt margin										
Debt limitation - 10 percent of total assessed value	\$ 26,306,947	\$ 26,571,787	\$ 31,006,011	\$ 31,441,311	\$ 31,488,151	\$ 31,755,068	\$ 32,475,057	\$ 32,183,298	\$ 37,205,454	\$ 37,392,869
Debt applicable to limitation:										
General obligation bonds	5,803,425	5,332,908	7,145,887	6,479,289	7,443,900	7,285,280	6,993,542	6,442,960	5,874,919	8,190,305
Less: Amount set aside for repayment	7,464	8,708	9,952	11,196	11,662	231,834	358,387	423,918	470,425	497,807
Total debt applicable to limitation	5,795,961	5,324,200	7,135,935	6,468,093	7,432,238	7,053,446	6,635,155	6,019,042	5,404,494	7,692,498
Legal debt margin	20,510,986	21,247,587	23,870,076	24,973,218	24,055,913	24,701,622	25,839,902	26,164,256	31,800,960	29,700,371
Total net debt applicable to the limit as a percentage of debt limit	22.03%	20.04%	23.01%	20.57%	23.60%	22.21%	20.43%	18.70%	14.53%	20.57%

Table 16

Town of Marion, Virginia
Miscellaneous Statistics
For the Year Ended June 30, 2012

Date of incorporation	1832
Form of government	Council-Manager
Number of employees:	
General government administration	12
Public safety	21
Public works	26
Parks, recreation, and cultural	16
Community development	1
Water and sewer	11
Swimming pool	15
Golf course	3

**SCHEDULE OF EXPENDITURES
OF
FEDERAL AWARDS**

Town of Marion, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
Department of Agriculture: Pass Through Payments: Department of Agriculture: Rural Business Enterprise Grant	10.783	6,382
Total Department of Agriculture		6,382
Department of Justice: Direct payments: Asset forfeiture proceeds	16.000	60
Total Department of Justice		60
Department of Housing and Urban Development: Direct Payments: Community Development Block Grants/Entitlement Grants	14.228	392,665
Total Department of Housing and Urban Development		\$ 392,665
Department of Transportation Pass Through Payments: Virginia Department of Transportation: Highway Planning and Construction (3)	20.205	282,506
Total Department of Transportation		282,506
Total Federal Assistance		\$ 681,613
Note 1 - Basis of Presentation: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Marion, Virginia		
Note 2 - Relationship to the Financial Statements: Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:		
Note 3 - Major federal program		
Intergovernmental federal revenues per the basic financial statements:		
Primary government:		
General Fund		\$ 399,107
Streetscape Fund		282,506
Total primary government		\$ 681,613
Total federal expenditures per the Schedule of Expenditures of Federal Awards		\$ 681,613

COMPLIANCE SECTION



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marion, Virginia (the Town) as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audit of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Auditing Standards.

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

Bostic, Lucker and Company PC

Lebanon, Virginia

December 18, 2012



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

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

Compliance

We have audited Town of Marion's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2012. The Town of Marion's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Marion's management. Our responsibility is to express an opinion on the Town of Marion's compliance based on our audit.

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

In our opinion, the Town of Marion, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

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

Bostic, Tucker and Company PC

Lebanon, Virginia
December 18, 2012

Town of Marion
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2012

Financial Statements

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

Federal Awards

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

Major programs identified:

	CFDA
Highway Planning and Construction	20.205

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

Section II - Financial Statements Findings:

None Reported

Section III - Federal Award Findings and Questioned Costs

None Reported

Prior year findings:

None Reported