

CITY OF MARION, NORTH CAROLINA

Independent Auditors' Report
Financial Statements and
Supplementary Information

June 30, 2011

**CITY OF MARION, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2011**

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
Marion, North Carolina

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marion, North Carolina as of and for the year ended June 30, 2011, which collectively comprise the City of Marion's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marion, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the City of Marion ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Marion ABC Board, is based solely on the report of another auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the City of Marion ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, North Carolina as of June 30, 2011, and the respective changes in financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the General Fund 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 our report dated October 14, 2011 on our consideration of the City of Marion's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 prepared in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Law Enforcement Officer's Special Separation Allowance Required Supplementary Information, and the Other Post-Employment Benefit Schedules of Funding Progress and Schedules of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statement, 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 assurance.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of the City of Marion, North Carolina as a whole. The combining and individual fund financial statements, budget and actual schedules, and the supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act and is also not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 14, 2011

Management's Discussion and Analysis

As management of the City of Marion, we offer readers of the City of Marion's financial statements this narrative overview and analysis of the financial activities of the City of Marion for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follows this narrative.

Financial Highlights

The assets of the City of Marion exceeded its liabilities at the close of the fiscal year by \$32,172,478 (*net assets*).

The government's total net assets increased by \$1,481,583, consisting of increases in the governmental activities net assets of \$147,899 and increases in the business-type activities net assets of \$1,333,684.

As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balance of \$3,442,779, a decrease of (\$281,189) in comparison with the prior year. Approximately 22.04 percent of this total amount, or \$758,734, is restricted or in non-spendable form. Approximately 13.85 percent of this total amount, or \$476,527, has been appropriated for subsequent year's expenditures (*assigned fund balance*).

At the end of the current fiscal year, the total fund balance for the General Fund was \$2,958,328, or 58.99 percent, of total General Fund expenditures for the fiscal year. The unassigned fund balance for the General Fund was \$1,652,890, or 32.95 percent, of total General Fund expenditures for the fiscal year.

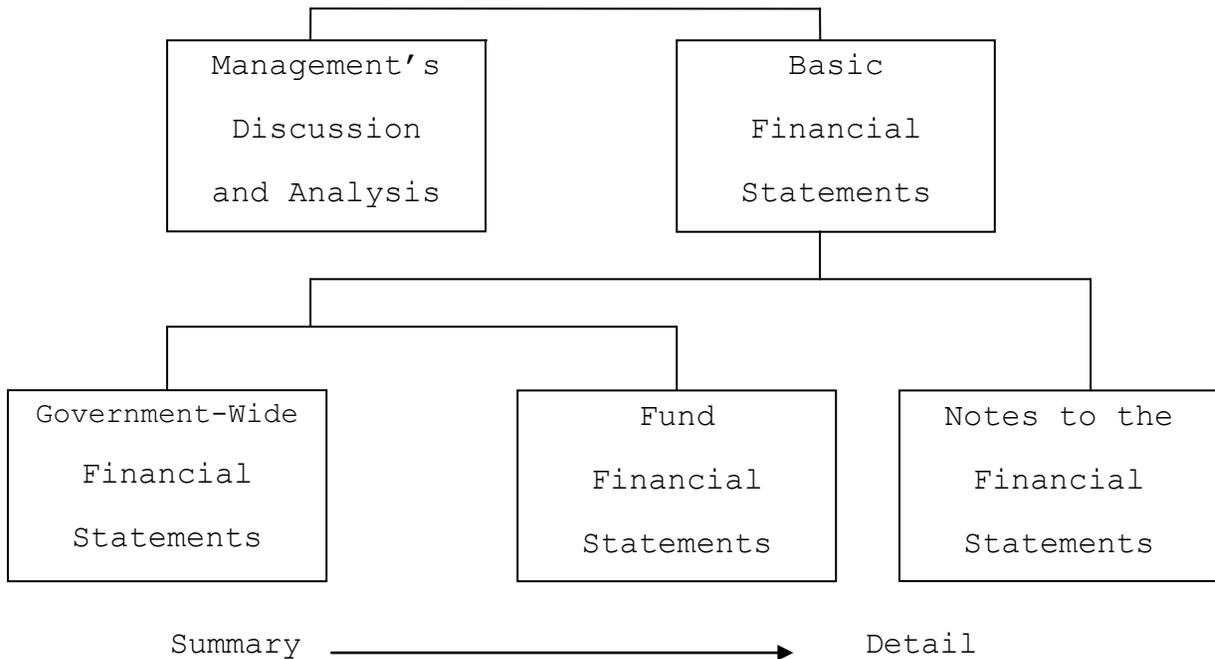
The City of Marion's total debt increased by \$705,933 (21.38%) during the current fiscal year. The key factor in this increase was the new debt issued for the Sugar Hill Water and Sewer Improvement Project (\$1,102,225). The City continued paying down debt for the Police Department Expansion, the fire truck and aerial ladder truck, the Automated Water Meter Project, and the Wastewater Treatment Plant Improvement Project. The US 221 North Water and Sewer Improvements Project and the Street Sweeper debt were paid in full during the year.

The City of Marion maintained a stable or declining property tax rate for the 44th consecutive year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marion's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Marion.

Required Components of Annual Financial Report Figure 1



Basic Financial Statements

The first two statements (pages 15-16) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 17-25) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, streets, sanitation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Marion. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City because the City exercises control over the Board by appointing its members, and the Board is required to distribute its profits to the City.

The government-wide financial statements are on pages 15-16 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Marion, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Marion can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Marion adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The City of Marion has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Marion uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the City of Marion. The City uses an internal service fund to account for one activity - its warehouse operations. Because this operation benefits predominantly governmental rather than business-type activities, the Internal Service Fund has been included within the governmental activities in the government-wide financial statements.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 26-54 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Marion's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 55 of this report.

Government-Wide Financial Analysis

City of Marion's Net Assets Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 3,821,210	\$ 4,087,532	\$ 1,697,594	\$ 2,027,909	\$ 5,518,804	\$ 6,115,441
Restricted assets	193,413	231,054	1,308,208	-	1,501,621	231,054
Capital assets	<u>8,604,083</u>	<u>8,342,188</u>	<u>21,435,954</u>	<u>19,956,885</u>	<u>30,040,037</u>	<u>28,299,073</u>
Total assets	<u>12,618,706</u>	<u>12,660,774</u>	<u>24,441,756</u>	<u>21,984,794</u>	<u>37,060,462</u>	<u>34,645,568</u>
Long-term liabilities outstanding	1,496,222	1,350,371	2,516,681	1,392,434	4,012,903	2,742,805
Current liabilities	<u>157,189</u>	<u>493,007</u>	<u>717,892</u>	<u>718,861</u>	<u>875,081</u>	<u>1,211,868</u>
Total liabilities	<u>1,653,411</u>	<u>1,843,378</u>	<u>3,234,573</u>	<u>2,111,295</u>	<u>4,887,984</u>	<u>3,954,673</u>
Net assets:						
Invested in capital assets, net of related debt	7,400,508	6,941,285	20,056,487	18,378,514	27,466,845	25,319,799
Restricted	753,859	195,752	-	-	183,257	195,752
Unrestricted	<u>2,810,928</u>	<u>3,680,359</u>	<u>1,150,696</u>	<u>1,494,985</u>	<u>4,521,975</u>	<u>5,175,344</u>
Total net assets	<u>\$ 10,965,295</u>	<u>\$ 10,817,396</u>	<u>\$ 21,207,183</u>	<u>\$ 19,873,499</u>	<u>\$ 32,172,478</u>	<u>\$ 30,690,895</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Marion exceeded liabilities by \$32,172,478 as of June 30, 2011. The City's net assets increased by \$1,481,583 for the fiscal year ended June 30, 2011. The increase in net assets was due to the City's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items, and due to the City taking in more revenue from grant sources, tax sources and sales and services than was expended.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

Continued diligence in the collection of property taxes by obtained a tax collection percentage of 95.99% of property other than motor vehicles.

Total grant revenues of \$1,560,390 were received, primarily due to the Wastewater Treatment Plant Improvement Project.

Continued low cost of debt due to the City's good credit rating.

The City's total revenues were \$9,754,939 for the fiscal year ending June 30, 2011. Charges for services, particularly water and sewer services, make up 41.0 percent of the City's total revenues, while property taxes contribute 19.7 percent of the total revenues and other taxes and licenses comprise 15.7 percent of total revenues.

Water and sewer revenues are 83.5 percent of the total amount collected for charges for service.

The City's expenses cover a wide range of services. Public safety accounted for 32.8 percent of the total for 2010-11, with water and sewer operating expenses comprising 38.2 percent of total expenses and transportation accounting for 12.6 percent of total expenses.

**City of Marion's Changes in Net Assets
Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 663,219	\$ 849,094	\$ 3,335,716	\$ 2,962,584	\$ 3,998,935	\$ 3,811,678
Operating grants and contributions	304,089	296,912	-	-	304,089	296,912
Capital grants and contributions	312,336	101,565	1,248,054	3,185,779	1,560,390	3,287,344
General revenues:						
Property taxes	1,916,161	1,908,651	-	-	1,916,161	1,908,651
Other taxes	1,524,518	1,514,329	-	-	1,524,518	1,514,329
Grants and contributions, not restricted to specific programs	-	-	-	-	-	-
Other	441,784	48,017	9,062	10,220	450,846	58,237
Total revenues	<u>5,162,107</u>	<u>4,718,568</u>	<u>4,592,832</u>	<u>6,158,583</u>	<u>9,754,939</u>	<u>10,877,151</u>
Expenses:						
General government	697,978	734,905	-	-	697,978	734,905
Public safety	2,714,162	2,490,515	-	-	2,714,162	2,490,515
Transportation	1,035,396	955,829	-	-	1,035,396	955,829
Environmental protection	532,180	548,663	-	-	532,180	548,663
Culture and recreation	134,492	134,303	-	-	134,492	134,303
Water and sewer	-	-	3,159,148	3,107,206	3,159,148	3,107,206
Total expenses	<u>5,114,208</u>	<u>4,864,215</u>	<u>3,159,148</u>	<u>3,107,206</u>	<u>8,273,356</u>	<u>7,971,421</u>
Increase (decrease) in net assets before transfers	47,899	(145,647)	1,433,684	3,051,377	1,481,582	2,905,730
Transfers	100,000	-	(100,000)	-	-	-
Increase (decrease) in net assets	147,899	(145,647)	1,333,684	3,051,377	1,481,583	2,905,730
Net assets, beginning of year	<u>10,817,396</u>	<u>10,963,043</u>	<u>19,873,499</u>	<u>16,822,122</u>	<u>30,690,895</u>	<u>27,785,165</u>
Net assets, end of year	<u>\$ 10,965,295</u>	<u>\$ 10,817,396</u>	<u>\$ 21,207,183</u>	<u>\$ 19,873,499</u>	<u>\$ 32,172,478</u>	<u>\$ 30,690,895</u>

Governmental Activities. Governmental activities increased the City's net assets by \$147,899, resulting in 9.96 percent increase in the total growth in the net assets of the City of Marion. Key elements are as follows:

Property tax revenues make up 37.13 percent of the governmental activity revenue and have traditionally been the single most important revenue source for financing local government operations. The amount of property taxes billed by the City in 2010-11 increased slightly from 2009-10 as development and growth continued in the City.

Other taxes and licenses, particularly sales tax revenues, are another major source of governmental activity revenue and increased slightly as a result of slowly recovering retail sales both locally and Statewide.

Capital assets increased with the costs associated with the Catawba River Greenway Project, the NCSTEP Program, the Downtown Streetscape Project, and the replacement of several vehicles as well as the donation of property for a Clinchfield Park.

Expenditures in the General Fund exceeded revenues by (\$211,335) including transfers being made to the Capital Projects Funds (\$585) and a transfer from the Water and Sewer Fund in the amount of \$100,000.

Expenditures in the Capital Projects Funds exceeded revenues by (\$69,854) as Capital Reserve Funds were used to pay for Capital Project expenditures in the current year.

Investment income for governmental activities decreased (\$5,722) or 1.54 percent from 2009-2010 due to the continued decline in interest rates.

Business-Type Activities. Business-type activities increased the City of Marion's net assets by \$1,333,684 accounting for 90.04 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

Capital assets increased \$1,479,069 due to the on-going Water and Sewer Improvement Projects and equipment additions less current year depreciation.

Revenues in the business-type activities area exceeded expenditures, including a \$100,000 transfer to the General Fund, by \$1,333,684 with the Water and Sewer Fund receiving \$1,248,054 in capital grants for Capital Projects for expenditures made in current and prior years.

Investment income for business-type activities decreased \$1,158 or 1.14 percent from 2009-2010 due to the continued decline in interest rates.

Financial Analysis of the City's Funds

As noted earlier, the City of Marion uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Marion's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Marion's financing requirements. Specifically, available fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. Available fund balance is calculated by taking total fund balance, less non-spendable fund balance, less the restricted for Stabilization by Statute amount. The General Fund is the chief operating fund of the City of Marion. Available fund balance for the General Fund totaled \$2,390,401. Unassigned fund balance of the General Fund was \$1,652,890 while total fund balance reached \$2,958,328. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32.95 percent of total General Fund expenditures, while total fund balance represents 58.99 percent of that same amount.

At June 30, 2011, the governmental funds of the City of Marion reported a combined fund balance of \$3,442,779, a 7.55 percent decrease over last year. Included in this change in fund balance are decreases in fund balance in the General Fund and the Capital Project Funds.

General Fund Budgetary Highlights. During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were less than the budgeted amounts primarily because ad valorem and other taxes actually received were less than the original budget estimates. In addition, each year's expenditures are closely monitored and held in check to ensure that only necessary purchases are made, to compensate for the revenue shortfalls that have occurred in past years and which could reoccur at any time.

Budget Ordinance Amendments in 2010-2011 were approved to increase revenues for: Bullet Proof Vest Grants (\$1,147), Cemetery Revenue (\$2,500), State Controlled Substance Revenue (\$39,974), Refunds and Reimbursements (\$12,993), Property Insurance Reimbursement (\$18,571), COPS Grant Revenue (\$6,657), Restricted Donations (\$3,875), Transfer from Water and Sewer Fund (\$100,000), OJT Revenue (\$3,420), FEMA Storm Damage Reimbursement (\$1,000), Privilege License Revenue (\$7,500), Powell Bill Allocation increase (\$12,614), Mountain Glory Revenue (\$4,673) and Sale of Surplus Equipment Revenue (\$7,000), Sale of Real Estate (\$5,145) to fund additional: Capital Outlay for Downtown Web Cam (\$2,475), Clinchfield Park (\$53,000), Ammo and Guns (\$9,850), Police computers (\$1,874), and Police GIS Software (\$118,784), and to provide additional operating funds for Advertising (\$10,000), Police Vehicle Maintenance (\$6,420), and Fire Equipment Maintenance (\$7,150).

Proprietary Funds. The City of Marion's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,154,058 and those for the Internal Service Fund amounted to \$146,262. The total change in net assets for both funds was \$1,333,684 and (\$71,558), respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Marion's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The City of Marion's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$30,040,037 (net of accumulated depreciation). These assets include buildings, sidewalks, land, water and sewer lines and facilities, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

Construction in progress for proprietary fund capital assets of \$1,743,992. This consisted of work on the Waste Water Treatment Plant Improvements Project (\$985,807), the Sugar Hill Road Improvements Project (\$758,185), and other smaller projects. Water and Sewer major equipment purchases consisted of vehicles (\$64,142), valves, gauges, and pumps (\$104,997). Construction in progress for the governmental funds (\$458,706) consisting of the NCSTEP Project (\$42,845), Downtown Streetscape Project (\$113,259) and the Catawba River Greenway Project (\$241,112). Other governmental fund additions were a tractor, GIS Software and equipment, computers, snow plow and spreader, dumpsters etc. (\$181,917), one parcels of land (\$2,500), and vehicles (\$35,425) in addition to two parcels of land, one for the continuation of the Catawba Greenway and the other for the construction of a park in the Clinchfield Community were donated to the City (\$99,690).

City of Marion's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,481,786	\$ 1,417,296	\$ 101,245	\$ 101,245	\$ 1,583,031	\$ 1,518,541
Buildings and systems	3,426,854	3,527,935	12,486,274	12,415,633	15,913,128	15,943,568
Improvements, other than buildings	914,255	510,136	672,844	702,502	1,587,099	1,212,638
Machinery and equipment	514,633	464,362	764,935	750,042	1,279,568	1,214,404
Infrastructure	589,890	599,462	-	-	589,890	599,462
Vehicles and motorized equipment	916,487	1,155,232	129,765	113,123	1,046,252	1,268,355
Construction in progress	760,178	667,765	7,280,890	5,874,340	8,041,069	6,542,105
Total	<u>\$ 8,604,083</u>	<u>\$ 8,342,188</u>	<u>\$ 21,435,954</u>	<u>\$ 19,956,885</u>	<u>\$ 30,040,037</u>	<u>\$ 28,299,073</u>

Additional information on the City's capital assets can be found in Note B of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2011, the City of Marion had total long-term obligations of \$4,013,043. Of this amount, none is bonded debt. The City's long-term obligations include \$3,685,207 in installment notes payable, with the remaining amount being unfunded pension benefit obligations and compensated absences.

The City of Marion's total debt increased by \$705,933 (21.38%) during the current fiscal year. The key factor in this increase was for the Sugar Hill Road Water and Sewer Improvement Project (\$1,102,225). The City continued paying down debt for the Police Department Expansion, the Automated Water Meter Project, and the US 221 North Water and Sewer Improvements Project.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Marion is \$29,106,991. The City has \$-0- in bonds authorized but un-issued at June 30, 2011.

Additional information regarding the City of Marion's long-term debt can be found in the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the City.

High unemployment. The McDowell County unemployment rate averaged 12.6% for the period of January through July 2011, and averaged 13.2% in 2010, higher than the State average of 11.2% for January - July 2010 and of 10.6% for 2010. However, McDowell County's unemployment rate thus far in 2011 is improving at a rate faster than that of the State as a whole, which is a positive sign. Since 1990, 3,048 manufacturing jobs have been lost in the City of Marion or in the City's utility service area. These industrial losses have cost the City an estimated \$567,000 per year in utility revenues and an estimated \$129,000 per year in property tax revenues.

More manufacturing stability. In 2010-11, no manufacturing closings took place in the City or the City's utility service area, in contrast to recent years in which the City experienced large numbers of manufacturing job losses. In 2010-11, a long-time local manufacturer in the City announced an expansion involving the addition of 124 jobs and 18.5 million in taxable investment. This project should lead to increased property tax, utility franchise tax and water and sewer revenues for the City beginning in 2011-12 and continuing in future years. Another plant in the City's utility service area is planning a major expansion beginning in 2011-12, which should result in increased water and sewer revenues for the City. The City and County have worked on several industrial projects over the past year that may result in new industry or industry expansions in the City and lead to additional job creation and property tax, utility franchise tax and water and sewer revenues for the City in future years.

Economic Factors and Next Year's Budgets and Rates - continued

Occupancy rates on office and retail space. Despite the downturn in the National and State economy over the past two years, the City's occupancy rates have been relatively stable and remained at or near 90 percent for the past year. This rate has remained stable for the recent past and is comparable or above the regional average. Over the past year, commercial building permits in the City have increased and several new commercial projects have occurred or been announced, including the construction of a 190,000 square foot retail shopping center and some smaller commercial projects. These new projects will lead to additional job creation and property tax, sales tax, utility franchise tax, and water and sewer revenues for the City in 2011-12 and future years. Occupancy rates in the downtown area had declined somewhat to around 80 percent for first floor locations. However, several new businesses opened in the downtown area in 2010-11, increasing the first floor occupancy rate to nearly 90 percent. The downtown area has maintained an occupancy rate of more than 90 percent for the past few years, a rate higher than many surrounding downtown areas. While the downtown area has lost some businesses over the past two years, several new businesses, particularly retail stores and restaurants, and bars, have opened downtown, a positive indicator for the future.

Retail sales gains/sales tax losses. The fiscal year 2010-11 gross taxable retail sales for McDowell County were 4.27 percent higher than 2009-10, with a total of \$248,385,595. For the seventh consecutive year, County taxable retail sales exceeded that of the State of North Carolina as a whole, since the State experienced an increase of only 2.26 percent in taxable retail sales in 2010-11, as compared to 2009-10. As of July 2009, taxable retail sales are no longer reported at the City level. For 2008-09, the last year for which taxable retail sales were reported at the City level, gross taxable retail sales for the City of Marion grew by 9.26 percent over the previous year, with a total of \$162,235,579, a growth percentage that far exceeded McDowell County and the State of North Carolina as a whole. In 2008-09, 75.59 percent of gross taxable retail sales in McDowell County took place in the City, an increase over the 66.71 percent of the gross taxable retail sales in McDowell County in 2007-08 that took place in the City. These numbers show a growing McDowell County retail economy that continues to be primarily driven by commercial growth and development in the City of Marion and also demonstrates that the City and County economy is much healthier and more stable, in relative terms, than the overall State economy. Unfortunately, the action taken by the County in April 2008 to change the method of sales tax distribution in the County from per capita (population) method to the ad valorem (tax levy or tax billing) method reduced the City's share of the County's sales tax revenues for 2010-11 to 9.17 percent and will result in an estimated sales tax revenue loss for the City of \$350,000 (or 9 cents on the City's tax rate) for 2011-12.

Property tax collection. The City of Marion's tax collection percentage for property excluding motor vehicles decreased from 96.16 percent in 2009-10 to 95.99 percent in 2010-11. The City's continues to pursue aggressive enforcement of delinquent property taxes to make sure that budgeted revenues are collected and that all property owners fairly pay their obligations.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities. Revenue growth in the General Fund is projected to have some modest increases, due to the continued growth of the City, but also some decreases as well due to decisions made by McDowell County to shift revenues from the City to the County and due to continued erosion of part of the City's property tax base due to continued plant closings. Property taxes (resulting from modest commercial growth and the recent property tax revaluation) are projected to be 5.03 percent higher than the budgeted amount for 2011-12. Sales taxes are expected to decrease by 2.97 percent over the 2010-11 budget, due to McDowell County changing the method of sales tax distribution in the County from the per capita method to the ad valorem method in April 2008 and continued declines in Statewide retail sales. As noted above, sales tax collections in the City of Marion and in McDowell County continue to outpace the State average, yet the change in the sales tax distribution method will result in further reductions in sales tax revenue for the City in 2011-12 and beyond. Utility franchise tax collections are projected to decrease by 2.13 percent over the 2010-11 budget, due to the effect of plant closings, offset somewhat as the City continues modest residential and commercial growth. Other revenues are expected to have only modest increases or actually decline, as several State and federal grants and revenue sources have expired or will bring in flat or decreased revenues in 2011-12. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2011-12. For the 44th consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 4.76 percent to \$5,392,380. This increase is due to increases in capital outlay spending in the General Fund of 52.20 percent over 2010-11 levels, due to needed large purchases of equipment not being pursued in prior years.

Business-Type Activities. The water and sewer rates in the City will not increase for inside customers and outside customers. General operating expenses in the Water and Sewer Fund will increase by 6.12 percent, mainly due to increased debt service for water and sewer capital projects, offset by reduced capital outlay spending and reduced expenditures in many line items.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Manager, City of Marion, 194 North Main Street, P.O. Drawer 700, Marion, NC 28752.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government			City of Marion
	Governmental Activities	Business-Type Activities	Total	ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,881,992	\$ 1,231,639	\$ 4,113,631	\$ 96,092
Taxes receivable (net)	211,946	-	211,946	-
Accrued interest receivable on taxes	40,163	-	40,163	-
Accounts receivable (net)	73,193	287,550	360,743	-
Due from other governments	506,548	52,397	558,945	-
Internal balances	13,212	(13,212)	-	-
Inventories	83,308	52,513	135,821	266,787
Prepaid expenses	10,048	-	10,048	7,401
Total current assets	3,820,410	1,610,887	5,431,297	370,280
Restricted assets:				
Cash and cash equivalents	193,413	1,308,208	1,501,621	-
Capital assets:				
Land, non-depreciable improvements, and construction in progress	2,241,964	7,382,136	9,624,100	59,832
Other capital assets, net of depreciation	6,362,119	14,053,818	20,415,937	152,553
Total capital assets	8,604,083	21,435,954	30,040,037	212,385
Note receivable	-	86,707	86,707	-
OPEB advance funding	800	-	800	-
Total assets	12,618,706	24,441,756	37,060,462	582,665
LIABILITIES				
Current liabilities:				
Accounts payable	96,871	491,402	588,273	153,453
Unearned revenue	42,202	20,817	63,019	-
Accrued interest payable	6,856	-	6,856	-
Customer deposits	11,260	205,673	216,933	-
Distributions payable	-	-	-	15,265
Long-term liabilities:				
Due within one year	320,945	286,231	607,176	147,561
Due in more than one year	1,175,277	2,230,450	3,405,727	-
Total liabilities	1,653,411	3,234,573	4,887,984	316,279
NET ASSETS				
Invested in capital assets, net of related debt	7,400,508	20,056,487	27,456,995	105,179
Restricted for:				
Working capital	-	-	-	54,908
Stabilization by State Statute	570,602	-	570,602	-
Transportation	177,797	-	177,797	-
Public safety	5,460	-	5,460	-
Unrestricted	2,810,928	1,150,696	3,961,624	106,299
Total net assets	\$ 10,965,295	\$ 21,207,183	\$ 32,172,478	\$ 266,386

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	City of Marion ABC Board
Governmental activities:								
General government	\$ 697,978	\$ 24,622	\$ 16,125	\$ -	\$ (657,231)	\$ -	\$ (657,231)	\$ -
Public safety	2,714,162	403,426	89,723	-	(2,221,013)	-	(2,221,013)	-
Transportation	1,035,396	5,038	198,241	29,851	(802,266)	-	(802,266)	-
Environmental protection	532,180	165,037	-	-	(367,143)	-	(367,143)	-
Cultural and recreation	134,492	65,096	-	282,485	213,089	-	213,089	-
Total governmental activities	5,114,208	663,219	304,089	312,336	(3,834,564)	-	(3,834,564)	-
Business-type activities:								
Water and sewer	3,159,148	3,335,716	-	1,248,054	-	1,424,622	1,424,622	-
Total business-type activities	3,159,148	3,335,716	-	1,248,054	-	1,424,622	1,424,622	-
Total primary government	\$ 8,273,356	\$ 3,998,935	\$ 304,089	\$ 1,560,390	(3,834,564)	1,424,622	(2,409,942)	-
Component unit:								
ABC Board	\$ 1,944,977	\$ 1,889,069	\$ -	\$ -	-	-	-	(55,908)
Total component unit	\$ 1,944,977	\$ 1,889,069	\$ -	\$ -	-	-	-	(55,908)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					1,916,161	-	1,916,161	-
Other taxes					1,524,518	-	1,524,518	-
Unrestricted investment earnings					29,539	9,062	38,601	362
Miscellaneous					412,245	-	411,844	-
Total general revenues not including transfers					3,882,463	9,062	3,891,525	362
Transfers					100,000	(100,000)	-	-
Total general revenues and transfers					3,982,463	(90,938)	3,891,525	362
Change in net assets					147,899	1,333,684	1,481,583	(55,546)
Net assets, beginning of year					10,817,396	19,873,499	30,690,895	321,932
Net assets, end of year					\$ 10,965,295	\$ 21,207,183	\$ 32,172,478	\$ 266,386

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2011

	Total <u>Major Fund</u> General	Total Nonmajor Funds	Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,345,313	\$ 476,901	\$ 2,822,214
Restricted cash	193,413	-	193,413
Receivables, net:			
Taxes	211,946	-	211,946
Other	65,644	-	65,644
Due from other governments	497,408	7,550	504,958
Prepaid items	4,875	-	4,875
Total assets	<u>3,318,599</u>	<u>484,451</u>	<u>3,803,050</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	94,863	-	94,863
Deferred revenue	254,148	-	254,148
Customer deposits	11,260	-	11,260
Total liabilities	<u>360,271</u>	<u>-</u>	<u>360,271</u>
Fund balances:			
Non-spendable:			
Prepaid items	4,875	-	4,875
Restricted:			
Stabilization by State Statute	563,052	7,550	570,602
Streets	177,797	-	177,797
Public safety	5,460	-	5,460
Committed:			
Cemetery	77,727	-	77,727
Future capital outlay	-	476,901	476,901
Assigned:			
Subsequent year's expenditures	476,527	-	476,527
Unassigned	1,652,890	-	1,652,890
Total fund balances	<u>2,958,328</u>	<u>484,451</u>	<u>3,442,779</u>
Total liabilities and fund balances	<u>\$ 3,318,599</u>	<u>\$ 484,451</u>	

Amounts reported for governmental activities in the Statement of Net Assets (page 15) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,604,083
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Other long-term assets are not available to pay for current-period expenditures and are therefore deferred:

Accrued interest receivable from taxes	40,163
OPEB advance funding	800

CITY OF MARION, NORTH CAROLINA

BALANCE SHEET - CONTINUED

GOVERNMENTAL FUNDS

JUNE 30, 2011

Receivables in the Statement of Net Assets that do not provide current resources are not reported as receivables in the fund financial statements.	9,140
Internal service funds are used by management to charge the cost of certain activities, such as providing central supplies to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the Statement of Net Assets.	161,481
Liabilities for earned but deferred revenues in fund statements.	211,946
Some liabilities, including notes payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in governmental funds.	<u>(1,505,096)</u>
Net assets of governmental activities	<u>\$10,965,295</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Major Fund</u> General	Total Nonmajor Funds	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 1,880,587	\$ -	\$ 1,880,587
Other taxes	1,524,518	-	1,524,518
Unrestricted intergovernmental	58,449	12,500	70,949
Restricted intergovernmental	642,787	266,056	908,843
License and permits	226,484	-	226,484
Sales and services	230,794	-	230,794
Investment earnings	21,956	9,491	31,447
Restricted contributions	5,603	46,281	51,884
Miscellaneous	113,428	-	113,428
Total revenues	<u>4,704,606</u>	<u>334,328</u>	<u>5,038,934</u>
Expenditures:			
General government	676,482	-	676,482
Public safety	2,416,491	-	2,416,491
Transportation	1,035,027	120,810	1,155,837
Environmental protection	497,673	-	497,673
Cultural and recreation	141,302	283,957	425,259
Debt service:			
Principal	197,328	-	197,328
Interest and other charges	51,053	-	51,053
Total expenditures	<u>5,015,356</u>	<u>404,767</u>	<u>5,420,123</u>
Revenues over (under) expenditures	<u>(310,750)</u>	<u>(70,439)</u>	<u>(381,189)</u>
Other financing sources (uses):			
Transfers from other funds	100,000	-	100,000
Transfers to other funds	(585)	585	-
Total other financing sources (uses)	<u>99,415</u>	<u>585</u>	<u>100,000</u>
Net change in fund balances	(211,335)	(69,854)	(281,189)
Fund balance – beginning of year	<u>3,169,663</u>	<u>554,305</u>	<u>3,723,968</u>
Fund balance – end of year	<u>\$ 2,958,328</u>	<u>\$ 484,451</u>	<u>\$ 3,442,779</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

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

Net changes in fund balances - total governmental funds	\$ (281,189)
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 capital outlays exceeded depreciation in the current period.	163,581
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred revenue for tax revenues	35,574
Receivable due from other government	(12,500)
Cost basis of capital assets disposed of during the year, not recognized on the modified accrual basis.	-
Cost basis of capital assets received as donations during the year, not recognized on the modified accrual basis.	99,690
The issuance of long-term debt 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 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.	197,328
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.	
Compensated absences	10,883
Net pension obligation	(20,364)
Accrued interest payable	1,487
Other postemployment benefits	401
Net income (loss) of internal service funds determined to be governmental-type.	<u>(46,992)</u>
Total changes in net assets of governmental activities	<u>\$ 147,899</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,921,006	\$ 1,921,006	\$ 1,880,587	\$ (40,419)
Other taxes	1,563,400	1,563,400	1,524,518	(38,882)
Unrestricted intergovernmental	64,000	58,248	58,449	201
Restricted intergovernmental	528,585	593,397	642,787	49,390
Licenses and permits	232,100	239,600	226,484	(13,116)
Sales and services	208,600	221,945	230,794	8,849
Investment earnings	21,500	21,500	21,956	456
Restricted contributions	1,700	3,875	5,603	1,728
Miscellaneous	30,755	68,292	113,428	45,136
Total revenues	<u>4,571,646</u>	<u>4,691,263</u>	<u>4,704,606</u>	<u>13,343</u>
Expenditures:				
Current:				
General government	720,796	741,421	676,482	64,939
Public safety	2,368,555	2,479,076	2,416,491	62,585
Transportation	1,171,262	1,171,262	1,035,027	136,235
Environmental protection	518,553	520,073	497,673	22,400
Cultural and recreation	99,800	154,125	141,302	12,823
Debt service:				
Principal retirement	197,132	197,332	197,328	4
Interest and other charges	51,323	51,323	51,053	270
Total expenditures	<u>5,127,421</u>	<u>5,314,612</u>	<u>5,015,356</u>	<u>299,256</u>
Revenues over (under) expenditures	<u>(555,775)</u>	<u>(623,349)</u>	<u>(310,750)</u>	<u>312,599</u>
Other financing sources (uses):				
Fund balance appropriated	575,775	618,349	-	(618,349)
Transfers from (to) other funds	(20,000)	5,000	99,415	94,415
Total other financing sources (uses)	<u>555,775</u>	<u>623,349</u>	<u>99,415</u>	<u>(523,934)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(211,335)</u>	<u>\$ (211,335)</u>
Fund balance - beginning of year			<u>3,169,663</u>	
Fund balance - end of year			<u>\$ 2,958,328</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2011

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,231,639	\$ 59,788
Accounts receivable	287,550	-
Due from other governments	52,397	5,173
Inventories	52,513	83,308
Restricted cash and cash equivalents	1,308,208	-
Total current assets	2,932,307	148,269
Non-current assets:		
Capital assets:		
Land and other non-depreciable assets	7,382,136	-
Other capital assets, net of depreciation	14,053,818	7,870
Capital assets (net)	21,435,954	7,870
Note receivable	86,707	-
Total non-current assets	21,522,661	7,870
Total assets	24,454,968	156,139
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	491,402	2,007
Customer deposits	205,673	-
Deferred revenue	20,817	-
Current portion of long-term liabilities	286,231	-
Total current liabilities	1,004,123	2,007
Non-current liabilities:		
Accrued vacation pay	8,748	-
Non-current portion of long-term debt	2,221,702	-
Total non-current liabilities	2,230,450	-
Total liabilities	3,234,573	2,007
NET ASSETS		
Invested in capital assets, net of related debt	20,056,487	7,870
Unrestricted	1,163,908	146,262
Total net assets	21,220,395	\$ 154,132
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(13,212)	
Net assets of business-type activities	\$ 21,207,183	

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	
Operating revenues:		
Charges for services	\$ 3,017,576	\$ 231,286
Water and sewer taps	224,811	-
Other operating revenue	93,329	-
Total operating revenues	3,335,716	231,286
Operating expenses:		
Utility line maintenance	1,040,583	-
Water filter plant	446,962	-
Waste treatment plant	852,447	-
Operating expenses	-	89,964
Materials	-	211,511
Insurance and bonding	124,757	-
Miscellaneous	10,016	-
Depreciation	640,453	1,369
Total operating expenses	3,115,218	302,844
Operating income (loss)	220,498	(71,558)
Non-operating revenues (expenses):		
Investment earnings	9,062	-
Gain (loss) on disposal of assets	(9,403)	-
Interest and other charges	(9,989)	-
Total non-operating revenues (expenses)	(10,330)	-
Income (loss) before contributions and transfers		
Transfer to General Fund	(100,000)	-
Capital contributions	1,248,054	-
Change in net assets	1,358,222	(71,558)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(24,538)	
Change in net assets - business-type activities	1,333,684	
Net assets - beginning of year	19,873,499	225,690
Net assets - end of year	\$ 21,207,183	\$ 154,132

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2011

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	
Cash flows from operating activities:		
Cash received from customers	\$ 3,238,661	\$ 231,286
Cash paid for goods and services	(1,103,929)	(229,604)
Cash paid to or on behalf of employees for services	(1,045,751)	(72,890)
Customer deposits returned	(2,525)	-
Other operating revenue received	93,329	-
Net cash provided (used) by operating activities	1,179,785	(71,208)
Cash flows from non-capital financing activities:		
Transfers to other funds	(100,000)	-
Due to (from) other governments	482,220	-
Net cash provided (used) by non-capital financing activities	382,220	-
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,134,418)	-
Proceeds from capital debt	1,102,225	-
Proceeds from disposal of assets	5,503	-
Principal payment on long-term debt	(198,904)	-
Capital contributions	1,248,054	-
Interest on long-term debt	(9,954)	-
Net cash provided (used) by capital and related financing activities	12,506	
Cash flows from investing activities:		
Interest and dividends	9,062	-
Net increase (decrease) in cash and cash equivalents	1,583,573	(71,208)
Balances – beginning of year	956,274	130,996
Balances – end of year	\$ 2,539,847	\$ 59,788

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 220,498	\$ (71,558)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	640,452	1,369
Provision for uncollectible accounts	(4,000)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	274	-
(Increase) decrease in inventory	(7,462)	(3,257)
Increase (decrease) in accounts payable and accrued vacation pay	219,141	865
(Increase) decrease in due from other governments	113,407	1,373
Increase (decrease) in customer deposits	(2,525)	-
Total adjustments	959,287	350
Net cash provided (used) by operating activities	\$ 1,179,785	\$ (71,208)

The accompanying notes are an integral part of these financial statements.

CITY OF MARION, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity:

The accounting policies of the City of Marion and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments.

The following is a summary of the more significant accounting policies:

(a) Reporting Entity

The City of Marion is a municipal corporation which is governed by an elected Mayor and a five-member Council. As required by generally accepted accounting principles, these financial statements present the City and its component unit, a legally-separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Marion ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Marion ABC Board, 2961 U.S. Highway 221 North, Marion, North Carolina 28752.

(b) Basis of Presentation

Government-Wide Statements. The Statement of Net Assets and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds. Separate statements for each fund category - *governmental and proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State and federal grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The City reports the following nonmajor governmental funds:

Capital Project Funds. These funds are used to account for the construction of the Catawba River Greenway, Yancey/Perry Streets Drainage Project, Streetscape Project, Mt. Ida Wilderness Project, NCSTEP Project, and the Capital Reserve Fund.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

The City reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the City's water and sewer operations.

The City reports the following fund type:

Internal Service Fund. The Central Stores Fund, which stores and sells supplies to the other funds maintained by the City.

(c) Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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 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 City enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenues the

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, McDowell County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Marion. For motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in McDowell County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

(d) Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the capital projects funds (except for the Capital Reserve Fund which adopts an annual budget), and the Enterprise Fund Capital Projects Funds, which are consolidated with the operating funds for reporting purposes. The City's Central Stores Fund, an internal service fund, operates under a financial plan that was adopted by the governing board at the time the City's budget ordinance was approved, as is required by the General Statutes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

(e) Assets, Liabilities, and Fund Equity

Deposits and Investments

All deposits of the City and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and The North Carolina Capital Management Trust (NCCMT).

The City and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

All cash and investments of the City are essentially demand deposits and are considered cash and cash equivalents.

The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Assets

The unexpended balances of grants are classified as restricted assets for the general fund because their use is completely restricted to the purpose for which the grants were intended. The unexpended loan proceeds of the Water and Sewer Fund are classified as a restricted asset for the Enterprise Fund because their use is completely restricted to the purpose for which the proceeds were originally intended. In addition, customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables written off in prior years.

Inventory and Prepaid Items

The inventories of the City and the ABC Board are valued at cost (first-in, first-out), which approximates market. The City does not maintain a General Fund inventory of expendable supplies; instead, these supplies are recorded as expenditures when purchased.

The inventories of the City's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed as the inventories are consumed. The inventory of the City of Marion ABC Board consists of items held for resale.

The prepaid items in the General Fund consist of prepaid postage and prepaid information technology services. These items will be expensed when used by the various departments.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$1,000 for all assets. Purchased or constructed capital assets are reported at cost or estimated

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Certain items acquired before July 1, 1987 are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when fixed assets are considered as a whole. 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.

Plant assets of the City are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 2% annual rate. Other capital assets are depreciated on a class life basis at the following rates:

<u>Asset Class</u>	<u>Rate</u>
Infrastructure	3%
Maintenance and construction equipment	12%
Vehicles - medium and heavy duty	16%
Furniture and office equipment	10%
Vehicles - automobile and light duty	30%

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	31
Equipment	2-10
Land improvements	3-15

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. In the fund financial statements for governmental fund types, the face amount of debt issued is reported in other financing sources.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

Compensated Absences

The vacation policies of the City and the ABC Board provide for the accumulation of up to fifteen days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

Both the City and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in determination of length of service for retirement benefit purposes. Since neither the City nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance - this classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in tact.

Prepaid items - portion of fund balance this is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

Restricted Fund Balance - this classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by State Statute G.S. 159-8(a).

Restricted for Streets - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill Funds.

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for certain public safety activities.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority of vote by quorum of City of Marion's governing body (highest level of decision-making authority). Any changes or remove of specific purpose requires majority action by the governing body.

Committed for Cemetery - portion of fund balance committed by the Board for future maintenance and operation of the City owned cemetery.

Committed for Future Capital Outlay - portion of fund balance committed by the Board for future capital outlay expenditures.

Assigned Fund Balance - portion of fund balance that the City of Marion intends to use for specific purposes.

Subsequent Year's Expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

Unassigned Fund Balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The City of Marion has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note A - Summary of Significant Accounting Policies and Reporting Entity - continued:

Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-City funds, and City funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

The City has not formally adopted a fund balance policy.

Note B - Detail Notes on All Funds:

Assets

Deposits

All the deposits of the City and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or the ABC Board's agents in these units' names.

Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in their names.

The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

At June 30, 2011, the City's deposits had a carrying amount of \$4,509,610 and a bank balance of \$4,770,775. Of the bank balance, \$750,000 was covered by federal depository insurance and \$4,020,775 was covered by collateral held under the pooling method. At June 30, 2011, the City's petty cash fund totaled \$1,400. The carrying amount of deposits for the ABC Board was \$96,092 and the bank balance was \$83,520. All of the bank balance was covered by federal depository insurance.

Investments

At June 30, 2011 the City of Marion had \$1,104,242 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAM by Standard & Poor's. The City had no policy regarding credit risk at June 30, 2011.

Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

<u>Fund</u>		
General Fund: Taxes receivable		\$ <u>92,900</u>
Enterprise Funds		\$ <u>53,000</u>

Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2011 was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,417,296	\$ 64,490	\$ -	\$ 1,481,786
Construction in progress	<u>667,765</u>	<u>458,706</u>	<u>366,293</u>	<u>760,178</u>
Total capital assets not being depreciated	<u>2,085,061</u>	<u>523,196</u>	<u>366,293</u>	<u>2,241,964</u>
Capital assets being depreciated:				
Building improvements	2,824,329	2,847	-	2,827,176
Buildings	1,451,646	1,424	-	1,453,070
Equipment	1,665,332	186,435	-	1,851,767
Equipment - ISF	10,949	-	-	10,949
Furniture and fixtures	214,392	-	-	214,392
Land improvements	601,109	424,422	-	1,025,531
Vehicles	3,469,901	35,425	-	3,505,326
Infrastructure	<u>686,642</u>	<u>11,275</u>	<u>-</u>	<u>697,917</u>
Total capital assets being depreciated	<u>10,924,300</u>	<u>661,828</u>	<u>-</u>	<u>11,586,128</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011
YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Less accumulated depreciation for:				
Building improvements	264,381	76,274	-	340,656
Buildings	483,655	29,081	-	512,736
Equipment	1,267,732	122,019	-	1,389,750
Equipment - ISF	1,711	1,369	-	3,080
Furniture and fixtures	156,868	12,777	-	169,645
Land improvements	90,973	20,303	-	111,276
Infrastructure	87,180	20,847	-	108,027
Vehicles	<u>2,314,669</u>	<u>274,170</u>	-	<u>2,588,839</u>
Total accumulated depreciation	<u>4,667,169</u>	<u>\$ 556,840</u>	<u>\$ -</u>	<u>5,224,009</u>
Total capital assets being depreciated, net	<u>6,257,131</u>			<u>6,062,119</u>
Governmental activity capital assets, net	<u>\$ 8,342,192</u>			<u>\$ 8,604,083</u>

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

General government	\$ 34,413
Public safety	353,254
Transportation	74,509
Environmental protection	24,767
Culture and recreation	69,897
Total depreciation expense	<u>\$ 556,840</u>

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 101,245	\$ -	\$ -	\$ 101,245
Construction in progress	<u>5,874,340</u>	<u>1,743,992</u>	<u>337,441</u>	<u>7,280,891</u>
Total capital assets not being depreciated	<u>5,975,585</u>	<u>1,743,992</u>	<u>337,441</u>	<u>7,382,136</u>
Capital assets being depreciated:				
Building improvements	596,144	-	-	596,144
Buildings	6,871,969	-	-	6,871,969
Water & sewer mains, fittings, and lines	13,750,955	558,729	-	14,309,684
Equipment	1,459,628	104,997	28,300	1,536,325
Furniture and fixtures	646,678	-	-	646,678
Land improvements	1,111,978	-	-	1,111,978
Vehicles	<u>385,405</u>	<u>64,142</u>	<u>61,498</u>	<u>388,049</u>
Total capital assets being depreciated	<u>24,822,757</u>	<u>727,868</u>	<u>89,798</u>	<u>25,460,827</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Capital Assets - continued

	Beginning			Ending
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Less accumulated depreciation for:				
Building improvements	496,321	6,662	-	502,983
Buildings	3,424,352	126,617	-	3,550,969
Water & sewer mains, fittings, and lines	4,882,762	354,809	-	5,237,571
Equipment	1,084,237	77,321	28,309	1,133,249
Furniture and fixtures	272,027	12,792	-	284,819
Land improvements	409,476	29,658	-	439,134
Vehicles	<u>272,282</u>	<u>32,593</u>	<u>46,591</u>	<u>258,284</u>
Total accumulated depreciation	<u>10,841,457</u>	<u>\$ 640,452</u>	<u>\$ 74,900</u>	<u>11,407,009</u>
Total capital assets being depreciated, net	<u>13,981,300</u>			<u>14,053,818</u>
Business-type activities capital assets, net				<u>\$ 21,435,954</u>

Discretely Presented Component Units:

Activity for the ABC Board for the year ended June 30, 2011, was as follows:

	Beginning			Ending
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Capital assets not being depreciated:				
Land	\$ 59,832	\$ -	\$ -	\$ 59,832
Total capital assets not being depreciated	<u>59,832</u>	<u>-</u>	<u>-</u>	<u>59,832</u>
Capital assets being depreciated:				
Buildings	115,730	12,442	-	128,172
Leasehold improvements	44,293	1,225	-	45,518
Land improvements	19,493	-	-	19,493
Equipment	<u>187,848</u>	<u>-</u>	<u>-</u>	<u>187,848</u>
Total capital assets being depreciated	<u>367,364</u>	<u>13,667</u>	<u>-</u>	<u>381,031</u>
Less accumulated depreciation for:				
Buildings	86,613	2,962	-	89,575
Leasehold improvements	2,032	4,532	-	6,564
Land improvements	19,493	-	-	19,493
Equipment	<u>90,809</u>	<u>22,037</u>	<u>-</u>	<u>112,846</u>
Total accumulated depreciation	<u>198,947</u>	<u>\$ 29,531</u>	<u>\$ -</u>	<u>228,478</u>
Total capital assets being depreciated, net	<u>168,417</u>			<u>152,553</u>
ABC Board capital assets, net	<u>\$ 228,249</u>			<u>\$ 212,385</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B- Detail Notes on All Funds - continued:

Liabilities

Pension Plan Obligations

- (a) Local Governmental Employees' Retirement System Plan Description. The City of Marion and the ABC Board contribute to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.49% and 6.41%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.35% of annual covered payroll. The contribution requirements of members and of the City of Marion and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$378,945, \$327,186, and \$317,514 respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$20,216, \$16,367, and \$15,475, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

(b) Law Enforcement Officers' Special Separation Allowance

(1) Plan Description

The City of Marion administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>24</u>
Total	<u><u>25</u></u>

A separate report was not issued for the plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting. The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

(3) Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations in the General Fund operating budget. The

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

- (b) Law Enforcement Officers Special Separation Allowance - continued:

City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. The inflation component was 3.75%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2009 was 21 years

- (4) Annual Pension Cost And Net Pension Obligation

The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 24,355
Interest on net pension obligation	5,054
Adjustment to annual required contribution	<u>(5,412)</u>
Annual pension cost	23,997
Contributions made	<u>3,633</u>
Increase in net pension obligation	20,364
Net pension obligation, beginning of year	<u>101,088</u>
Net pension obligation, end of year	<u><u>\$ 121,452</u></u>

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation - End of Year</u>
6/30/09	\$ 16,990	3.30%	\$ 84,161
6/30/10	18,441	8.21%	101,088
6/30/11	23,997	15.14%	121,452

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

- (b) Law Enforcement Officers Special Separation Allowance - continued:

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$241,761. The covered payroll (annual payroll of active employees covered by the plan) was \$885,663, and the ratio of the UAAL to the covered payroll was 27.3%.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

- (c) Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Plan is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$43,040 which consisted of \$41,130 from the City and \$1,910 from the law enforcement officers.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

- (d) Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Effective October of 1992, all non-law enforcement employees of the City participate in the 401(K) Supplemental Retirement Income Plan of North Carolina. Participation begins when the employee becomes eligible for participation in the Local Government Employees Retirement System. As of June 30, 2010, the City contributes five percent of each participant's compensation, while participants may also make voluntary contributions. All amounts are vested immediately.

The City's contributions were calculated using a covered payroll amount of \$2,216,962. Total contributions for the year ended June 30, 2011 were \$143,192, which consisted of \$151,978 from the City and \$32,344 from the employees. The City's required contributions and the employees' voluntary contributions represented 5.00 percent and 1.46 percent of the covered payroll amount, respectively.

- (e) Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the City of Marion, to the Firemen's Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Post-Employment Healthcare Benefits

According to a City resolution, the City provides post-retirement healthcare benefits to retirees of the City, through a single employer defined benefit plan, provided they participate in the North Carolina Local Government Employees' Retirement System (System) and have at least twenty years of creditable service with the City. The City pays \$100 toward the cost of coverage for these benefits. Also, the City retirees can purchase coverage for their dependents at the City's group rates. The City Council may amend the benefit provisions.

In addition, during the fiscal year ended June 30, 2005, the City introduced a Retirement Medicare Supplement Incentive Plan for a limited period. Any full time employee eligible to receive an early, service or disability retirement benefit from the North Carolina Local Government Employees' Retirement System was eligible for this benefit which consists of Medicare eligible retirees receiving monthly Medicare Supplement Plan J coverage through the City's insurance carrier or a monthly payment of \$375 to purchase such a supplement for the remainder of the retiree's life. The plan was effective from May 1, 2005 to December 31, 2005 and required those accepting the offer to retire on or before December 31, 2005. A separate report was not issued for the plan.

Membership of these plans consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

	General <u>Employees</u>	Law <u>Enforcement</u>
Retirees and dependents receiving benefits	4	-
Terminated plan members entitled to but not yet receiving benefits	1	-
Active plan members	<u>63</u>	<u>21</u>
Total	<u><u>68</u></u>	<u><u>21</u></u>

Funding Policy. Funding is as outlined above for each plan. The City has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is .47% of annual covered payroll. For the current year, the City contributed \$13,884 or .46% of annual covered payroll. The City obtains healthcare coverage through private insurers. The City's required contributions, under a City resolution, for employees not engaged in law enforcement and for law enforcement officers represented .46% and 0% of covered payroll, respectively. The City's obligation to contribute to the plans is established and may be amended by City Council.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Post-Employment Healthcare Benefits - continued

Summary of Significant Accounting Policies. Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 13,629
Valuation discount rate	4.00%
Interest on net OPEB obligation	(16)
Amortization Factor	28.9774
Adjustment to annual required contribution	<u>14</u>
Annual OPEB cost	\$ 13,627
Employer contributions made for fiscal year	<u>14,028</u>
Increase (decrease) in net OPEB obligation	(401)
Net OPEB obligation (asset), beginning of year	<u>(399)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (800)</u></u>

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of APC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 13,629	102.9%	\$ (399)
6/30/11	13,627	102.9%	(800)

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan is not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$277,760. The covered payroll (annual payroll of employees covered by the plan) was

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Post-Employment Health Care Benefits - continued

\$2,927,250, and the ratio of the UAAL to the covered payroll was 9.5 percent. 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 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities or 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 the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members at 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 assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.75 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009 was 30 years.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Other Employment Benefit

The City has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions.

Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2011, the City made contributions to the State for death benefits of \$4,255. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .14% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

Deferred/Unearned Revenues

The balance in deferred and unearned revenues at year-end is composed of the following elements:

	<u>General Fund</u>		<u>Water and Sewer</u>	
	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
Prepaid privilege licenses	\$ 34,906	\$ 34,906	\$ -	\$ -
Taxes collected in advance	2,445	2,445	-	-
Police special fund	4,851	4,851	-	-
Taxes receivable (net)	211,946	-	-	-
Deferred revenue-Spaulding Woods	-	-	20,817	-
	<u>\$ 254,148</u>	<u>\$ 42,202</u>	<u>\$ 20,817</u>	<u>\$ -</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B- Detail Notes on All Funds - continued:

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the City has worker's compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The City carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year. Claims have not exceeded coverage in any of the last three fiscal years.

The City has elected not to carry flood insurance through the National Flood Insurance Plan. Because the City is located in a mountainous region with a limited number of properties in a designated "A" area by the Federal Emergency Management Agency, management elects to forego this coverage. The City is covered by an exclusion amendment to the general insurance policy to cover flood in all but area "A" up to \$500,000 per occurrence.

In accordance with G.S. 159-29, City employees that have access to \$100 or more at any given time of City funds are performance bonded through a commercial surety bond. The Finance Director and Tax Collector are each individually bonded for \$50,000 each, the City Manager is bonded for \$65,000. The remaining employees that have access to fund are bonded under a blanket bond for \$50,000.

The City of Marion ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The ABC Board has property, general liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three years.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Note Receivable:

In October 2000, the City entered into an agreement with a partnership to loan \$178,000 of a CDBG Grant to build an apartment facility. The partnership will repay the loan over a ten year period, in annual installments of \$17,800 at zero percent (0%) interest beginning June 28, 2024. At June 30, 2011, the loan has been discounted to the present value of \$86,707.

Construction commitments

The City has active construction projects as of June 30, 2011. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant		
Improvements Project	\$ 6,473,486	\$ 174,074
Sugar Hill Road Improvements Project	807,403	1,147,344
Total	<u>\$ 7,280,889</u>	<u>\$ 1,321,418</u>

Long-Term Obligations

During the year ended June 30, 2003, the City issued a note payable on the installation of a water meter reading system for \$900,000. Twenty semi-annual payments of \$53,095, including interest at 3.26%, began November 15, 2003. The balance of this note payable was \$203,861 at June 30, 2011.

During the year ended June 30, 2003, the City issued a note payable on the construction of a new police station for \$1,200,000. Twenty semi-annual payments of \$60,000, plus interest at 3.26%, began November 15, 2003. The note is secured by the facility constructed. The balance of this note payable was 240,000 at June 30, 2011

During the year ended June 30, 2004, the City issued a note payable for the construction of a water and sewer extension for \$231,800. Fourteen semi-annual payments of \$18,772, including interest at 3.44%, began December 14, 2004. The note is secured by the equipment being installed. This note payable was paid in full during the year ended June 30, 2011.

During the year ended June 30, 2006, the City issued a note payable for the purchase of a Street Sweeper for \$137,000. Sixty monthly payments of \$2,465, plus interest at 3.06%, began September 16, 2005. The note is secured by the equipment purchased. This note payable was paid in full during the year ended June 30, 2011.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Long-Term Obligations - continued:

During the year ended June 30, 2006, the City issued a note payable for the purchase of a fire truck for \$321,181. Thirty-two quarterly payments of \$11,755, including interest at 3.87%, are due beginning July 31, 2006. The note is secured by the equipment purchased. The balance of this note payable was \$132,652 at June 30, 2011.

During the year ended June 30, 2010, the City issued a note payable for the purchase of a aerial ladder truck for \$860,000. Twenty annual payments of \$63,288, including interest at 4.00%, are due beginning April 30, 2011. The note is secured by the equipment purchased. The balance of this note payable was \$830,924 at June 30, 2011.

During the year ended June 30, 2010, the City issued a note payable for the construction of a sanitary sewer project for \$2,601,364, which is immediately reduced by one half as part of the American Recovery and Reinvestment Act of 2009. Twenty annual payments of \$62,032, at 0% interest will begin May 1, 2011. The note is secured by a pledge of faith and credit of the City. The balance of this note payable was \$1,175,606 at June 30, 2011.

At June 30, 2011, the City of Marion had a legal debt margin of \$29,106,991. Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 192,549	\$ 44,605	\$ 259,989	\$ 41,156
2013	195,420	27,822	266,316	34,688
2014	78,491	31,904	166,084	28,870
2015	33,803	29,485	169,470	25,484
2016	35,155	28,132	172,970	21,984
2017-2030	668,157	217,248	1,446,863	53,174
Total	\$ 1,203,575	\$ 379,196	\$ 2,481,692	\$ 205,356

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note B - Detail Notes on All Funds - continued:

Long-Term Obligations - continued:

A summary of all long-term obligations presented in the government-wide statement of activities is as follows:

	Balance			Balance	Current
	07/01/10	Increases	Decreases	06/30/11	Portion of
					Balance
Governmental activities:					
Notes payable	\$ 1,400,903	\$ -	\$ 197,328	\$ 1,203,575	\$ 192,549
Unfunded pension benefit obligations	101,088	23,997	3,633	121,452	-
Compensated absences	182,078	188,806	199,689	171,195	128,396
	<u>\$ 1,684,069</u>	<u>\$ 212,803</u>	<u>\$ 400,650</u>	<u>\$ 1,496,222</u>	<u>\$ 320,945</u>
Business-type activities:					
Notes payable	\$ 1,578,371	\$ 1,102,225	\$ 198,904	\$ 2,481,692	\$ 259,989
Compensated absences	40,609	37,181	42,801	34,989	26,242
	<u>\$ 1,618,980</u>	<u>\$ 1,139,406</u>	<u>\$ 241,705</u>	<u>\$ 2,516,681</u>	<u>\$ 286,231</u>

Transfers to/from Other Funds:

Transfer to/from other funds at June 30, 2011, consist of the following:

From the General Fund to the General Fund Capital Projects Fund for capital projects expenditures	\$	(585)
From the Water and Sewer Fund to the General Fund to supplement operating income		100,000
		<u>\$ 99,415</u>

Note C - Summary Disclosure of Significant Contingencies:

Revenues, Expenditures, and Expenses On-Behalf of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2011, the City of Marion has recognized on-behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$11,702 for the thirty-four volunteer firemen and six employed firemen who perform fire fighting duties for the City's Fire Department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note C - Summary Disclosure of Significant Contingencies - continued:

Revenues, Expenditures, and Expenses On-Behalf of Payments for Fringe Benefits and Salaries-continued:

The plan is funded by a \$10 monthly contribution paid by the City, investment income, and a State appropriation. Also, the City has recognized as a revenue and an expenditure on-behalf of payments for fringe benefits and salaries of \$16,000 for the salary supplement and stipend benefits paid to eligible firemen by the local Board of Trustees of the Firemen's Relief Fund, during the fiscal year ended June 30, 2010. Under State law, the local Board of Trustees for the Fund receives an amount each year which the Board may use at its own discretion for eligible firemen or their dependents.

Federal and State Assisted Programs

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Note D - Jointly Governed Organization:

The City, in conjunction with four counties and twenty other municipalities established the Isothermal Planning and Development Commission. Participating governments established the commission to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Commission's governing board. The City paid membership fees of \$2,043 to the Commission during the fiscal year ended June 30, 2011.

Note E - Joint Ventures:

The City and the members of the City's Fire Department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2011

Note E - Joint Ventures -continued:

The State passes these moneys to the local Board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's Fire Department by the Board of Trustees.

During the fiscal year ended June 30, 2011, the City reported revenue and expenditures for the payments of \$16,000 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2011. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Raleigh, North Carolina 27603.

Note G – Fund Balance:

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 2,958,328
Less:	
Prepaid items	4,875
Stabilization by State Statute	563,052
Streets - Powell Bill	177,797
Public Safety	5,460
Cemetery	77,727
Appropriated Fund Balance in 2012 Budget	<u>476,527</u>
Fund balance remaining - General Fund	<u>\$ 1,652,890</u>

CITY OF MARION, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/95	\$ -	\$ 33,096	\$ 33,096	0.00%	\$ 389,267	8.50%
12/31/96	-	27,655	27,655	0.00%	351,872	7.86%
12/31/97	-	29,167	29,167	0.00%	398,136	7.33%
12/31/98	-	37,248	37,248	0.00%	485,408	7.67%
12/31/99	-	49,645	49,645	0.00%	414,364	11.98%
12/31/00	-	59,639	59,639	0.00%	426,407	13.99%
12/31/01	-	64,854	64,854	0.00%	494,327	13.12%
12/31/02	-	64,596	64,596	0.00%	501,963	12.87%
12/31/03	-	70,651	70,651	0.00%	570,379	12.39%
12/31/04	-	87,617	87,617	0.00%	517,910	16.92%
12/31/05	-	74,774	74,774	0.00%	595,274	12.56%
12/31/06	-	86,611	86,611	0.00%	730,594	11.85%
12/31/07	-	101,524	101,524	0.00%	780,152	13.01%
12/31/08	-	111,833	111,833	0.00%	804,915	13.89%
12/31/09	-	157,435	157,435	0.00%	801,004	19.65%
12/31/10	-	241,761	241,761	0.00%	885,663	27.30%

CITY OF MARION, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2002	\$ 9,470	45.00%
2003	10,324	41.20%
2004	9,921	76.90%
2005	11,621	94.00%
2006	12,821	88.80%
2007	12,226	57.40%
2008	15,689	14.25%
2009	16,990	3.30%
2010	17,641	8.21%
2011	24,355	14.92%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/09
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases*	4.5 - 12.3%
*Includes inflation at	3.75%
Cost of living adjustments	N/A

CITY OF MARION, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/09	\$ -	\$ 277,760	\$ 277,760	0.00%	\$ 2,927,250	9.50%

CITY OF MARION, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION

<u>Year Ending June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2010	\$ 13,629	102.9%
2011	13,629	102.9%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2009. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/09
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	4.00%
Medical cost trend rate	10.50% - 5.00%
Year of Ultimate trend rate	2017
*Includes inflation at	3.75%

The assumed investment rate of return reflects the fact that no assets are set aside within the City of Marion that are legally held exclusively for retiree health benefits. If a trust or equivalent arrangement were set up for this purpose, the investment rate of return can be increased.

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Current year taxes	\$ 1,698,306	\$ 1,708,992	\$ 10,686
Prior year taxes	50,000	31,137	(18,863)
Motor vehicle taxes	147,700	124,210	(23,490)
Penalties and interest	25,000	16,248	(8,752)
Total	<u>1,921,006</u>	<u>1,880,587</u>	<u>(40,419)</u>
Other taxes:			
Sales and use tax	1,024,000	1,015,762	(8,238)
Utilities franchise tax	500,000	470,380	(29,620)
Solid Waste Disposal Tax	34,600	33,320	(1,280)
Wine tax	4,800	5,056	256
Total	<u>1,563,400</u>	<u>1,524,518</u>	<u>(38,882)</u>
Unrestricted intergovernmental revenues:			
Hold Harmless revenue	55,248	55,248	-
Court revenue	3,000	3,201	201
Total	<u>58,248</u>	<u>58,449</u>	<u>201</u>
Restricted intergovernmental revenues:			
Powell Bill allocation	196,333	196,333	-
ABC officer revenues	6,000	2,932	(3,068)
Parking violations	5,000	4,894	(106)
County fire protection	300,000	311,417	11,417
County recycling	3,750	5,250	1,500
NCDOT reimbursements	2,500	5,038	2,538
State of NC - Fire Protection	2,700	2,706	6
McDowell County Schools officer	23,166	24,722	1,556
Controlled substance revenue	39,974	39,974	-
Bulletproof vest grants:			
US Department of Justice	917	917	-
NC League of Municipalities	230	230	-
NCLM Wellness Grant	1,750	1,750	-
OJT Grant	3,420	3,420	-
Community Oriented Policing grant	6,657	14,502	7,845
FEMA - Winter Storm	1,000	1,000	-
On-behalf of payments -			
Fire and Rescue	-	27,702	27,702
Total	<u>593,397</u>	<u>642,787</u>	<u>49,390</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Licenses and permits:			
Privilege licenses	\$ 43,600	\$ 43,583	\$ (17)
City vehicle licenses	15,000	14,745	(255)
ABC revenues	75,000	51,826	(23,174)
Zoning and inspections	26,000	45,001	19,001
Cable TV revenue	80,000	71,329	(8,671)
Total	<u>239,600</u>	<u>226,484</u>	<u>(13,116)</u>
Sales and services: 670			
Rents and concessions	36,500	40,421	3,921
Cemetery revenues	8,500	9,810	1,310
Garbage fees	153,800	158,982	5,182
Sale of real estate	8,145	8,332	187
Sale of surplus equipment	15,000	13,249	(1,751)
Total	<u>221,945</u>	<u>230,794</u>	<u>8,849</u>
Investment earnings	<u>21,500</u>	<u>21,956</u>	<u>456</u>
Miscellaneous	<u>68,292</u>	<u>113,428</u>	<u>45,136</u>
Restricted contributions:			
Contributions - Police	1,700	2,978	1,278
Contributions - Williams Marker	2,175	2,625	450
	<u>3,875</u>	<u>5,603</u>	<u>1,728</u>
Total revenue	<u>4,691,263</u>	<u>4,704,606</u>	<u>13,343</u>
Expenditures:			
General government:			
Administration:			
Salaries and benefits		552,581	
Operating expenditures		106,622	
Capital outlay		5,070	
Allocation to Water and Sewer		(278,995)	
	<u>417,446</u>	<u>385,278</u>	<u>32,168</u>
Cemetery:			
Operating expenditures	\$ <u>23,500</u>	\$ <u>19,161</u>	\$ <u>4,339</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Non-departmental:			
Operating expenditures	\$ <u>300,475</u>	\$ <u>272,043</u>	\$ <u>28,432</u>
Total general government	<u>741,421</u>	<u>676,482</u>	<u>64,939</u>
Public Safety:			
Inspection Department:			
Salaries and benefits		176,173	
Operating expenditures		14,838	
Capital outlay		908	
	<u>209,321</u>	<u>191,919</u>	<u>17,402</u>
Police Department:			
Salaries and benefits		1,428,778	
Operating expenditures		219,197	
Capital outlay		139,878	
	<u>1,818,197</u>	<u>1,787,853</u>	<u>30,344</u>
Fire Department:			
Salaries and benefits		292,459	
Operating expenditures		138,252	
Capital outlay		6,008	
	<u>451,558</u>	<u>436,719</u>	<u>14,839</u>
Total public safety	<u>2,479,076</u>	<u>2,416,491</u>	<u>62,585</u>
Transportation:			
Street Department:			
Salaries and benefits		439,899	
Operating expenditures		197,993	
Capital outlay		66,995	
	<u>790,002</u>	<u>704,887</u>	<u>85,115</u>
Powell Bill:			
Operating expenditures		189,733	
	<u>233,719</u>	<u>189,733</u>	<u>43,986</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Works Administration:			
Salaries and benefits	\$	\$ 126,564	\$
Operating expenditures		15,888	
Allocation to Water and Sewer		(59,830)	
	<u>87,640</u>	<u>82,622</u>	<u>5,018</u>
Fleet Maintenance:			
Salaries and benefits		93,930	
Operating expenditures		5,699	
Allocation to Water and Sewer		(41,844)	
	<u>59,901</u>	<u>57,785</u>	<u>2,116</u>
Total transportation	<u>1,171,262</u>	<u>1,035,027</u>	<u>136,235</u>
Environmental protection:			
Sanitation Department:			
Salaries and benefits		261,167	
Operating expenditures		231,988	
Capital outlay		4,518	
Total environmental protection	<u>520,073</u>	<u>497,673</u>	<u>22,400</u>
Cultural and recreation:			
Community Building and Recreation:			
Operating expenditures		64,180	
Capital outlay		77,122	
Total cultural and recreation	<u>154,125</u>	<u>141,302</u>	<u>12,823</u>
Debt service:			
Principal retirement		197,328	
Interest and fees		51,053	
Total debt service	<u>248,655</u>	<u>248,381</u>	<u>274</u>
Total expenditures	<u>5,314,612</u>	<u>5,015,356</u>	<u>299,256</u>
Revenues over (under) expenditures	<u>(623,349)</u>	<u>(310,750)</u>	<u>312,599</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Fund balance appropriated	618,349	-	(618,349)
Transfer from Water & Sewer Fund	100,000	100,000	-
Transfer to Capital Projects	<u>(95,000)</u>	<u>(585)</u>	<u>94,415</u>
Total other financing sources (uses)	<u>623,349</u>	<u>99,415</u>	<u>(523,934)</u>
Net change in fund balance	<u>\$ -</u>	<u>(211,335)</u>	<u>\$ (211,335)</u>
Fund balance - beginning of year		<u>3,169,663</u>	
Fund balance - end of year		<u>\$ 2,958,328</u>	

CITY OF MARION, NORTH CAROLINA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

	<u>Capital Reserve Fund</u>	<u>Yancey/Perry Streets CDBG Project</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 476,901	\$ -	\$ 476,901
Due from other governments	<u>-</u>	<u>7,550</u>	<u>7,550</u>
Total assets	<u>476,901</u>	<u>7,550</u>	<u>484,451</u>
 Liabilities and fund balances:			
Liabilities:			
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances:			
Restricted for Stabilization by State Statute	-	7,550	7,550
Committed for future capital outlay	<u>476,901</u>	<u>-</u>	<u>476,901</u>
Total fund balances	<u>476,901</u>	<u>7,550</u>	<u>484,451</u>
 Total liabilities and fund balances	 <u>\$ 476,901</u>	 <u>\$ 7,550</u>	 <u>\$ 484,451</u>

CITY OF MARION, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2011

	Streetscape Project	Mt. Ida Wilderness Area	Catawba River Greenway	Capital Reserve Fund	NCSTEP Implementation Project	Yancey/Perry Street CDBG Project	Total
Revenues:							
Restricted intergovernmental:							
PARTF Grant	\$ -	\$ -	\$ 141,954	\$ -	\$ -	\$ -	\$ 141,954
RTP Grant	-	-	75,000	-	-	-	75,000
CDBG revenue	-	-	-	-	-	7,550	7,550
NCSTEP Grant/allocation	<u>21,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>41,551</u>
	21,551	-	216,954	-	20,000	7,550	266,055
Unrestricted intergovernmental	-	-	-	12,500	-	-	12,500
Donations/reimbursements	750	20,481	25,050	-	-	-	46,281
Interest income	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,491</u>	<u>-</u>	<u>-</u>	<u>9,491</u>
Total revenues	<u>22,301</u>	<u>20,481</u>	<u>242,004</u>	<u>21,991</u>	<u>20,000</u>	<u>7,550</u>	<u>334,327</u>
Expenditures:							
Administrative costs	-	-	-	-	-	7,550	7,550
Construction costs	113,259	-	241,112	-	-	-	354,371
Project costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,845</u>	<u>-</u>	<u>42,845</u>
Total expenditures	<u>113,259</u>	<u>-</u>	<u>241,112</u>	<u>-</u>	<u>42,845</u>	<u>7,550</u>	<u>404,766</u>
Revenues over (under) expenditures	<u>(90,958)</u>	<u>20,481</u>	<u>892</u>	<u>21,991</u>	<u>(22,845)</u>	<u>-</u>	<u>(70,439)</u>
Other financing sources (uses):							
Transfers in (out)	<u>90,958</u>	<u>(20,481)</u>	<u>1,631</u>	<u>(71,014)</u>	<u>(8,059)</u>	<u>7,550</u>	<u>585</u>
Net change in fund balances	-	-	2,523	(49,023)	(30,904)	7,550	(69,854)
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>(2,523)</u>	<u>525,924</u>	<u>30,904</u>	<u>-</u>	<u>554,305</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 476,901</u>	<u>\$ -</u>	<u>\$ 7,550</u>	<u>\$ 484,451</u>

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - MT. IDA WILDERNESS AREA PROJECT
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues:				
Restricted				
intergovernmental:				
PARTF Grant	\$ 131,442	\$ 131,442	\$ -	\$ 131,442
LWCF Grant	82,500	82,500	-	82,500
Tower reimbursements	<u>20,481</u>	<u>-</u>	<u>20,481</u>	<u>20,481</u>
Total revenues	<u>234,423</u>	<u>213,942</u>	<u>20,481</u>	<u>234,423</u>
Expenditures:				
Planning costs	30,000	13,339	-	13,339
Acquisition costs	<u>300,000</u>	<u>276,133</u>	<u>-</u>	<u>276,133</u>
Total expenditures	<u>330,000</u>	<u>289,472</u>	<u>-</u>	<u>289,472</u>
Revenues over (under) expenditures	<u>(95,577)</u>	<u>(75,530)</u>	<u>20,481</u>	<u>(55,049)</u>
Other financing sources (uses):				
Transfers in (out)	<u>95,577</u>	<u>75,530</u>	<u>(20,481)</u>	<u>55,049</u>
Total other financing sources (uses)	<u>95,577</u>	<u>75,530</u>	<u>(20,481)</u>	<u>55,049</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - beginning of year			<u>-</u>	
Fund balance - end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - CATAWBA RIVER GREENWAY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues:				
Phase I:				
Restricted				
intergovernmental:				
PARTF Grant	\$ 167,300	\$ 25,346	\$ 141,954	\$ 167,300
RTP Grant	75,000	-	75,000	75,000
	<u>242,300</u>	<u>25,346</u>	<u>216,954</u>	<u>242,300</u>
Donations:				
In-kind	31,100	31,100	-	31,100
Other	34,550	10,000	25,050	35,050
	<u>65,650</u>	<u>41,100</u>	<u>25,050</u>	<u>66,150</u>
Total revenues- Phase I	<u>307,950</u>	<u>66,446</u>	<u>242,004</u>	<u>308,450</u>
Expenditures:				
Phase I:				
Construction costs	384,200	143,562	236,143	379,705
In-kind costs	31,100	31,100	-	31,100
Total expenditures- Phase I	<u>415,300</u>	<u>174,662</u>	<u>236,143</u>	<u>410,805</u>
Phase II:				
Construction costs	300,000	475	4,969	5,444
Total expenditures- Phase II	<u>300,000</u>	<u>475</u>	<u>4,969</u>	<u>5,444</u>
Total expenditures	<u>715,300</u>	<u>175,137</u>	<u>241,112</u>	<u>416,249</u>
Revenues over(under) expenditures	<u>(407,350)</u>	<u>(108,691)</u>	<u>892</u>	<u>(107,799)</u>
Other financing sources(uses):				
Transfers in	407,350	106,168	1,631	107,799
Total other financing sources (uses)	<u>407,350</u>	<u>106,168</u>	<u>1,631</u>	<u>107,799</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (2,523)</u>	2,523	<u>\$ -</u>
Fund balance - beginning of year			<u>(2,523)</u>	
Fund balance - end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - CAPITAL RESERVE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Interest income	\$ 17,000	\$ 9,491	\$ (7,509)
Intergovernmental revenues	<u>12,500</u>	<u>12,500</u>	<u>-</u>
Total revenues	<u>29,500</u>	<u>21,991</u>	<u>(7,509)</u>
Expenditures:			
Future expenditures	<u>451,296</u>	<u>-</u>	<u>451,296</u>
Total expenditures	<u>451,296</u>	<u>-</u>	<u>451,296</u>
Revenues over (under) expenditures	<u>(421,796)</u>	<u>21,991</u>	<u>443,787</u>
Other financing sources (uses):			
Transfer to General Fund: Capital Projects	(75,000)	(71,014)	3,986
Fund balance appropriated	<u>496,796</u>	<u>-</u>	<u>(496,796)</u>
Total other financing sources (uses)	<u>421,796</u>	<u>(71,014)</u>	<u>(492,810)</u>
Net change in fund balance	<u>\$ -</u>	<u>(49,023)</u>	<u>\$ (49,023)</u>
Fund balance - beginning of year		<u>525,924</u>	
Fund balance - end of year		<u>\$ 476,901</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - YANCEY/PERRY STREETS DRAINAGE PROJECT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Total</u>
Revenues:			
CDBG revenue	\$ 606,970	\$ 7,550	\$ 7,550
Total revenues	<u>606,970</u>	<u>7,550</u>	<u>7,550</u>
Expenditures:			
Construction costs	556,970	-	-
Administration costs	<u>50,000</u>	<u>7,550</u>	<u>7,550</u>
Total expenditures	<u>606,970</u>	<u>7,550</u>	<u>7,550</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):			
Transfer from General Fund	<u>-</u>	<u>7,550</u>	<u>7,550</u>
Total other financing sources (uses)	<u>-</u>	<u>7,550</u>	<u>7,550</u>
Net change in fund balance	<u>\$ -</u>	<u>7,550</u>	<u>\$ 7,550</u>
Fund balance - beginning of year		<u>-</u>	
Fund balance - end of year		<u>\$ 7,550</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - DOWNTOWN STREETScape PROJECT
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Total</u>
Revenues:			
NCSTEP allocation	\$ 62,672	\$ 21,551	\$ 21,551
Donations	-	750	750
NCDOT Grant	<u>50,000</u>	<u>-</u>	<u>-</u>
Total revenues	<u>112,672</u>	<u>22,301</u>	<u>22,301</u>
Expenditures:			
Construction costs	<u>455,923</u>	<u>113,259</u>	<u>113,259</u>
Total expenditures	<u>455,923</u>	<u>113,259</u>	<u>113,259</u>
Revenues over (under) expenditures	<u>(343,251)</u>	<u>(90,958)</u>	<u>(90,958)</u>
Other financing sources (uses):			
Transfers in (out)	<u>343,251</u>	<u>90,958</u>	<u>90,958</u>
Total other financing sources (uses)	<u>343,251</u>	<u>90,958</u>	<u>90,958</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - beginning of year		<u>-</u>	
Fund balance - end of year		<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND – NCSTEP IMPLEMENTATION GRANT
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues:				
Restricted				
intergovernmental:				
NCSTEP Grant	\$ 200,000	\$ 180,000	\$ 20,000	\$ 200,000
Donations	34,000	34,000	-	34,000
Total revenues	<u>234,000</u>	<u>214,000</u>	<u>20,000</u>	<u>234,000</u>
Expenditures:				
Project costs	<u>234,000</u>	<u>191,155</u>	<u>42,845</u>	<u>234,000</u>
Total expenditures	<u>234,000</u>	<u>191,155</u>	<u>42,845</u>	<u>234,000</u>
Revenues over (under)				
expenditures	<u>-</u>	<u>22,845</u>	<u>(22,845)</u>	<u>-</u>
Other financing sources (uses):				
Transfers in (out)	<u>-</u>	<u>8,059</u>	<u>(8,059)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>8,059</u>	<u>(8,059)</u>	<u>-</u>
Net change in fund balance	<u><u>-</u></u>	<u><u>\$ 30,904</u></u>	<u><u>(30,904)</u></u>	<u><u>\$ -</u></u>
Fund balance - beginning of year			<u>30,904</u>	
Fund balance - end of year			<u><u>\$ -</u></u>	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$ 1,002,900	\$ 985,137	\$ (17,763)
Sewer sales	586,600	624,383	37,783
Sewer taps	61,000	72,811	11,811
Water taps	151,000	152,000	1,000
Cut-on fees/penalties	67,000	72,973	5,973
Water service charges	896,000	876,153	(19,847)
Sewer service charges	466,000	458,930	(7,070)
Other operating income	88,667	93,329	4,662
Total operating income	3,319,167	3,335,716	16,549
Non-operating income:			
Interest	8,000	8,752	752
Total revenues	3,327,167	3,344,468	17,301
Appropriated fund balance	140,218	-	(140,218)
Total revenues and Appropriated fund balance	3,467,385	3,344,468	(122,917)
Expenditures:			
Utility Line Maintenance:			
Salaries and benefits		359,803	
Operating expenditures		305,749	
Capital outlay		227,044	
Overhead allocation		380,669	
	1,354,365	1,273,265	81,100
Water Filter Plant:			
Salaries and benefits		222,916	
Operating expenditures		223,733	
Capital outlay		64,324	
	627,395	510,973	116,422

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP) - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Waste Treatment Plant:			
Salaries and benefits		462,918	
Operating expenditures		387,098	
Capital outlay		99,059	
	<u>1,043,604</u>	<u>949,075</u>	<u>94,529</u>
Debt service:			
Interest and fees		9,954	
Principal retirement		198,804	
	<u>208,969</u>	<u>208,858</u>	<u>111</u>
Insurance, bonding, and workmen's compensation		124,757	
	<u>124,757</u>	<u>124,757</u>	<u>-</u>
Total expenditures	<u>3,359,090</u>	<u>3,066,928</u>	<u>292,162</u>
Other financing sources (uses):			
Miscellaneous	(11,800)	(10,052)	1,748
Sales of surplus equipment	3,505	5,505	2,000
Transfer to General Fund	(100,000)	(100,000)	-
Transfer (to)from Water and Sewer Capital Projects Fund	-	156,459	156,459
	<u>(108,295)</u>	<u>51,912</u>	<u>160,207</u>
Revenues and other financing sources (uses) over (under)expenditures	<u>\$ -</u>	<u>\$ 329,452</u>	<u>\$ 329,452</u>

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Actual</u>
Reconciliation of budgetary basis (modified accrual) to full accrual:	
Revenues and other financing sources (uses) over (under) expenditures	 \$ 329,452
Reconciling items:	
Principal retirement of debt	198,904
Increase (decrease) in inventory	7,462
(Increase) decrease in vacation pay	5,619
(Increase) decrease in accrued payroll	(10,186)
Capital outlay	390,427
Capital contributions	1,248,054
Depreciation	(640,452)
Cost basis of property sold	(14,909)
Transfer to (from) Water and Sewer Capital Projects Fund	 (156,459)
Interest income from Water and Sewer Capital Projects Fund	 310
Total reconciling items	<u>1,028,770</u>
Change in net assets	<u>\$ 1,358,222</u>

CITY OF MARION, NORTH CAROLINA

CAPITAL OUTLAY FUND - WATER/SEWER
 SUGAR HILL ROAD WATER AND SEWER IMPROVEMENTS PROJECT
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues:				
ARC Grant	\$ 300,000	\$ -	\$ -	\$ -
McDowell County funding	30,520	19,783	10,737	30,520
Rural Center Grant	977,100	-	-	-
Interest income	<u>-</u>	<u>-</u>	<u>310</u>	<u>310</u>
Total revenues	<u>1,307,620</u>	<u>19,783</u>	<u>11,047</u>	<u>30,830</u>
Expenditures:				
Construction costs	<u>2,409,845</u>	<u>49,218</u>	<u>758,185</u>	<u>807,403</u>
Total expenditures	<u>2,409,845</u>	<u>49,218</u>	<u>758,185</u>	<u>807,403</u>
Revenues over (under) expenditures	<u>(1,102,225)</u>	<u>(29,435)</u>	<u>(747,138)</u>	<u>(776,573)</u>
Other financing sources (uses):				
Debt issued	1,102,225	-	1,102,225	1,102,225
Transfer from (to) Water and Sewer Fund	<u>-</u>	<u>29,435</u>	<u>314,617</u>	<u>344,052</u>
Total other financing sources (uses)	<u>1,102,225</u>	<u>29,435</u>	<u>1,416,842</u>	<u>1,446,277</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 669,704</u>	<u>\$ 669,704</u>

CITY OF MARION, NORTH CAROLINA

CAPITAL OUTLAY FUND - WATER/SEWER
 WASTEWATER TREATMENT PLANT IMPROVEMENTS PROJECT
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenues:				
Clean Water Management				
Trust Fund Grant	\$ 3,000,000	\$ 2,315,330	\$ 484,670	\$ 2,800,000
Rural Center Grant	1,000,000	147,064	752,647	899,711
Clean Water State				
Revolving Fund	1,300,682	1,240,640	-	1,240,640
Interest earned	-	196	-	196
Total revenues	<u>5,300,682</u>	<u>3,703,230</u>	<u>1,237,317</u>	<u>4,940,547</u>
Expenditures:				
Wastewater Treatment				
Plant improvements:				
SOC action items	600,000	593,584	6,045	599,629
Corpening Creek capital improvements	3,402,030	3,332,063	856,455	4,188,518
Catawba River Basin improvements	1,463,546	1,504,053	121,248	1,625,301
Miscellaneous	853,187	36,451	2,059	38,510
Engineering / grant assistance	<u>442,100</u>	<u>21,527</u>	<u>-</u>	<u>21,527</u>
Total expenditures	<u>6,760,863</u>	<u>5,487,678</u>	<u>985,807</u>	<u>6,473,485</u>
Revenues over (under) expenditures	<u>(2,100,000)</u>	<u>(1,784,448)</u>	<u>251,510</u>	<u>(1,532,938)</u>
Other financing sources (uses):				
Transfer from (to) Water and Sewer Fund	-	760,150	(471,076)	289,074
Debt issued	<u>1,300,682</u>	<u>1,240,640</u>	<u>-</u>	<u>1,240,640</u>
Total other financing sources (uses)	<u>1,300,682</u>	<u>2,000,790</u>	<u>(471,076)</u>	<u>1,529,714</u>
Revenues and other sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 216,342</u>	<u>\$ (219,566)</u>	<u>\$ (3,224)</u>

CITY OF MARION, NORTH CAROLINA

INTERNAL SERVICE FUND
STATEMENT OF REVENUES AND EXPENDITURES
FINANCIAL PLAN AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Sales to other funds	\$ 215,000	\$ 231,286	\$ 16,286
Total operating income	<u>215,000</u>	<u>231,286</u>	<u>16,286</u>
Appropriated fund balance	<u>88,949</u>	<u>-</u>	<u>(88,949)</u>
Total revenue and appropriated fund balance	<u>303,949</u>	<u>231,286</u>	<u>(72,663)</u>
Expenditures:			
Salaries and benefits		82,892	
Operating expenditures		<u>196,521</u>	
Total expenditures	<u>303,949</u>	<u>279,413</u>	<u>24,536</u>
Revenue over (under) expenditures	<u>\$ -</u>	<u>\$ (48,127)</u>	<u>\$ (48,127)</u>
Reconciliation of budgetary basis (modified accrual) to full accrual:			
Revenues and other financing sources (uses) over (under) expenditures		<u>\$ (48,127)</u>	
Reconciling items:			
Increase (decrease) in inventory		(21,190)	
(Increase) decrease in accrued payroll		(872)	
Depreciation		<u>(1,369)</u>	
Total reconciling items		<u>(23,431)</u>	
Net income (loss)		<u>\$ (71,558)</u>	

CITY OF MARION, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2011

Year of Levy	Uncollected Balance July 1, 2010	Additions	Collections and Adjustments	Uncollected Balance June 30, 2011
2010	\$ -	\$ 1,934,518	\$ 1,829,295	\$ 105,223
2009	98,826	-	42,380	56,446
2008	35,983	-	6,936	29,047
2007	22,175	-	2,221	19,954
2006	20,563	-	1,001	19,562
2005	18,645	-	979	17,666
2004	11,382	-	572	10,810
2003	13,539	-	382	13,157
2002	16,854	-	38	16,816
2001	15,497	-	232	15,265
2000	11,099	-	11,099	-
	<u>\$ 264,563</u>	<u>\$ 1,934,518</u>	<u>\$ 1,895,135</u>	<u>303,946</u>
Less allowance for uncollectible ad valorem taxes				<u>(92,900)</u>
Ad Valorem taxes receivable - net				<u>\$ 211,946</u>
 Reconciliation with Revenues:				
Taxes - Ad Valorem:				
General Fund				\$ 1,880,587
Releases				8,830
Discount				6,341
Amounts written off for the 2000 levy per the Statute of Limitations				10,894
Other adjustments				4,012
				1,910,664
Less interest collected				<u>(15,529)</u>
Total collections and adjustments				<u>\$ 1,895,135</u>

CITY OF MARION, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2011

	City-Wide		Total Levy		
	Property	Rate	Total	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Valuation		Levy		
Original levy:					
Property taxed at current year's rate	\$ 359,630,175	\$.51	\$ 1,834,115	\$ 1,742,665	\$ 91,450
Registered motor vehicles taxed at prior year's rate	10,395,645	.51	53,018	-	53,018
Penalties	-		1,355	1,355	-
Total	<u>370,025,820</u>		<u>1,888,488</u>	<u>1,744,020</u>	<u>144,468</u>
Discoveries:					
Current year taxes	16,242,575	.51	82,837	82,837	-
Penalties	-		812	812	-
Total	<u>16,242,575</u>		<u>83,649</u>	<u>83,649</u>	<u>144,468</u>
Abatements	<u>(7,376,303)</u>		<u>(37,618)</u>	<u>(37,618)</u>	
Total property valuation	<u>\$ 378,892,092</u>				
Net levy			1,934,519	1,790,051	144,468
Uncollected taxes at June 30, 2011			105,223	71,921	33,302
Current year's taxes collected			<u>\$ 1,829,296</u>	<u>\$ 1,718,130</u>	<u>\$ 111,166</u>
Current levy collection percentage			<u>94.56%</u>	<u>95.99%</u>	<u>76.95%</u>

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Marion, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, as of and for the year ended June 30, 2011, which collectively comprise the City of Marion's basic financial statements and have issued our report thereon dated October 14, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the City of Marion ABC Board as described in our report on the City of Marion's financial statements. The financial statements of the City of Marion ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 14, 2011

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance With Requirements That Could Have a Direct and Report On Compliance With Requirements That Could Have a Direct and Material Effect on Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A- 133 And The State Single Audit Implementation Act

To the Honorable Mayor and
Members of the City Council
City of Marion, North Carolina

Compliance

We have audited the City of Marion's compliance with the types of compliance requirements described in the applicable sections of OMB Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Marion's major State programs for the year ended June 30, 2011. The City of Marion's major State programs are identified in the summary of auditors' 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 State programs is the responsibility of the City of Marion's management. Our responsibility is to express an opinion on the City 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*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Marion's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Marion's compliance with those requirements. In our opinion, the City 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 State programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Marion is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the City of Marion's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Act, 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 City 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, non-compliance with a type of compliance requirement of a State 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 non-compliance with a type of compliance requirement of a State 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 for the information and use of management, others within the organization, members of the Marion City Council, federal and State awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 14, 2011

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Non-compliance material to financial statements noted? _____ Yes X No

State Awards

Internal control over major State programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X No

- Type of auditors' report issued on compliance for major State programs Unqualified

Any findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? _____ Yes X No

Identification of major State programs:

NC Rural Economic Development Center- Corpening Crk.WWTP & Catawba River Pump Station/Force Main Improvements Grant

Clean Water Management Trust Fund-Catawba River Basin Grant

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

2. Financial Statement Findings

None reported.

3. Findings Related to the Audit of State Awards

None reported.

CITY OF MARION, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

There were no prior year findings.

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

GRANTOR	FEDERAL CFDA NUMBER	CONTRACT NUMBER	STATE PASS- THROUGH GRANTORS NUMBER	FEDERAL DIRECT/ PASS- THROUGH EXPENDITURES	STATE EXPENDITURES	LOCAL EXPENDITURES
US Dept. of Justice Office of Justice Programs-Bulletproof Vest Partnership Grant	16.607	N/A	N/A	\$ 917	\$ -	\$ -
US Dept. of Labor Workforce Invest.Act(WIA) On the Job Training passed through Isothermal Planning & Development Commission	17.277	N/A	N/A	3,420	-	-
NC Rural Economic Dev. Center NC Small Towns Economic Prosperity NCSTEP Implementation	N/A	2009-091- 60401-107	N/A	-	42,845	-
NC Rural Economic Dev. Center - Corpening Crk.WWTP & Catawba River Pump Station/ Force Main Improvements	N/A	2008-322- 40101-112	N/A	-	752,647	-
NC Dept. of Trans- portation, Powell Bill Funding	N/A	N/A	N/A	-	189,733	-
US Dept of Justice Office of Comm. Oriented Policing Services (COPS) Hiring Program Grant	16.710	2010UMWX0199	N/A	14,502	-	-

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2011

GRANTOR	FEDERAL CFDA NUMBER	CONTRACT NUMBER	STATE PASS- THROUGH GRANTORS NUMBER	FEDERAL DIRECT/ PASS- THROUGH EXPENDITURES	STATE EXPENDITURES	LOCAL EXPENDITURES
NC Dept. of Environment & Natural Resources Clean Water Management Trust Fund - Catawba River Basin Grant	N/A	N/A	2006B-512	-	484,670	-
US Dept. of Homeland Security - FEMA passed through NC Dept of Crime Control & Public Safety Winter Storm & Flooding	97.088	FEMA-1871-DR-NC	N/A	750	250	-
NC Dept. of Environment & Natural Resources, Div. of Parks and Recreation NC Parks and Recreation Trust Fund (PARTF) Catawba River Greenway	N/A	1346	N/A	-	141,954	4,158
NC Dept. of Environment & Natural Resources, Div. of Parks and Recreation NC 2008 Recreational Trails Program (RTP) Catawba River Greenway	20.219	2216	N/A	75,000	-	20,000

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

GRANTOR	FEDERAL CFDA NUMBER	CONTRACT NUMBER	STATE PASS- THROUGH GRANTORS NUMBER	FEDERAL DIRECT/ PASS- THROUGH EXPENDITURES	STATE EXPENDITURES	LOCAL EXPENDITURES
NC Dept. of Commerce Community Investment and Assistance Div. Community Development Block Grant-Economic Recovery (CDBG - ER) Yancey/Perry Streets Drainage Project	14.253	10-C-2148	N/A	7,551	-	-
				\$ 102,140	\$ 1,612,099	\$ 24,158

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Notes to the Schedule of Expenditures of Federal and State Financial Awards

1. The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Marion and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Loans Outstanding

The City of Marion had the following loan balances outstanding at June 30, 2011.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Amount Outstanding</u>
US Dept. of Agriculture - ARRA, Communities Facilities Loans & Grants, Aerial Fire Truck Loan	10.780	N/A	\$ 830,924
US EPA - ARRA Passed through NC Dept.of Environment & Natural Resources, Div. Of Water Quality Clean Water State Rev. Fund Corpening Crk.WWTP & Catawba River Pump Station/ Force Main Improvement	66.458	2W370406-02	1,175,606