

CITY OF MARION, NORTH CAROLINA

Independent Auditor's Report
Financial Statements and
Supplementary Information

June 30, 2014

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**CITY OF MARION, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2014**

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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 and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the City of Marion ABC Board were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, North Carolina, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' 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 statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards are presented for purposes of additional analysis and are 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 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 grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marion's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 28, 2014

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, 2014. 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 and deferred outflows of resources of the City of Marion exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$33,354,493 (*net position*).

The government's total net position decreased by (\$263,118) consisting of increases in the governmental activities net position of \$323,361 and decreases in the business-type activities net position of (586,479).

As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balance of \$3,724,636, an increase of \$192,087 in comparison with the prior year. Approximately 43.55 percent of this total amount, or \$1,621,981, is restricted or in non-spendable form or committed. Approximately 10.57 percent of this total amount, or \$393,702, has been appropriated for subsequent years' expenditures (*assigned fund balance*).

At the end of the current fiscal year, the total fund balance for the General Fund was \$3,424,623, or 62.01 percent, of total General Fund expenditures for the fiscal year. The unassigned fund balance for the General Fund was \$2,102,655, or 38.1 percent, of total General Fund expenditures for the fiscal year and the available fund balance was \$2,733,647, or 49.5 percent of the total General Fund expenditures.

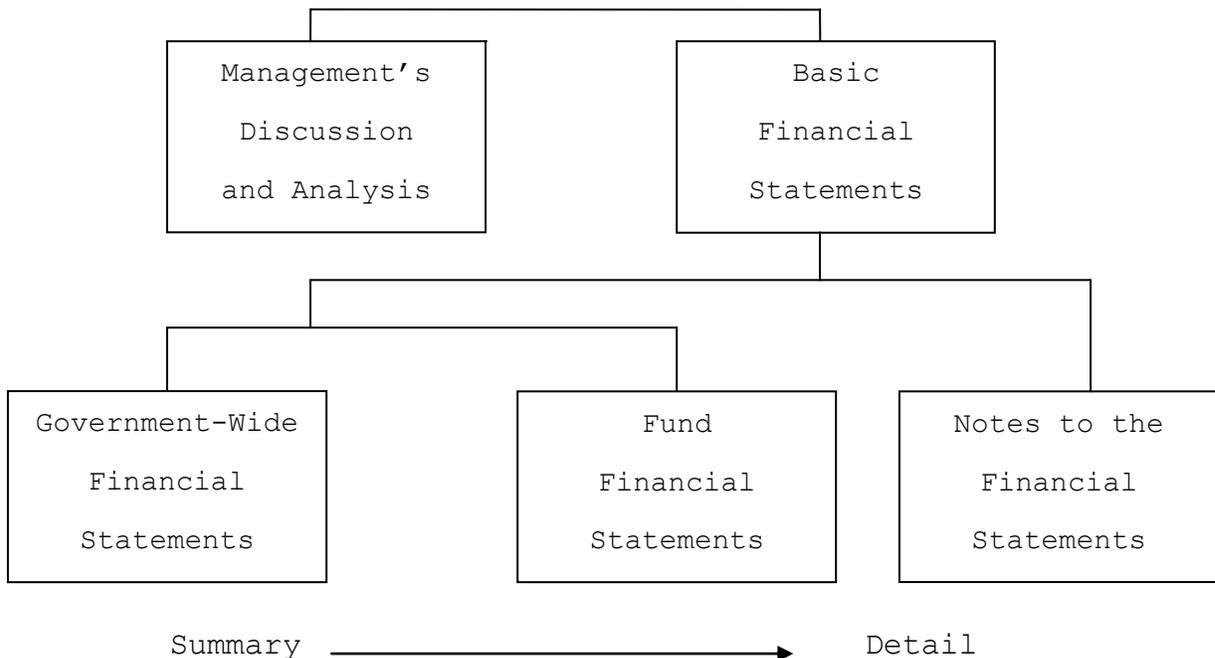
The City of Marion's total debt decreased by (\$242,399), (7.63%) during the current fiscal year due to the City continuing to pay down debt for the aerial ladder truck, Sugar Hill Water and Sewer Improvement Project, and the Wastewater Treatment Plant Improvement Project. The loan for the fire truck was paid in full during the fiscal year.

The City of Marion maintained a stable or declining property tax rate for the 46th consecutive year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to 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 17-18) 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 19-27) 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 position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position 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 Federal and State 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 17-18 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 the 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 Position 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 purchasing and 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 28-55 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 57 of this report.

Interdependence with Other Entities. The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

City of Marion's Net Position Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,008,352	\$ 3,987,641	\$ 1,955,470	\$ 1,910,696	\$ 5,963,822	\$ 5,898,337
Restricted assets	186,574	117,600	221,958	297,785	408,532	415,385
Capital assets	<u>9,326,495</u>	<u>9,204,272</u>	<u>21,180,311</u>	<u>21,912,930</u>	<u>30,506,806</u>	<u>31,117,202</u>
Total assets	<u>13,521,421</u>	<u>13,309,513</u>	<u>23,357,739</u>	<u>24,121,411</u>	<u>36,879,160</u>	<u>37,430,924</u>
Long-term liabilities						
outstanding	926,836	944,679	1,648,924	1,816,987	2,575,760	2,761,666
Current liabilities	445,171	530,782	469,086	481,967	914,257	1,012,749
Deferred inflows of resources	<u>3,007</u>	<u>11,006</u>	<u>31,643</u>	<u>27,892</u>	<u>34,650</u>	<u>38,898</u>
Total liabilities and deferred inflows of resources	<u>1,375,014</u>	<u>1,486,467</u>	<u>2,149,653</u>	<u>2,326,846</u>	<u>3,524,667</u>	<u>3,813,313</u>
Net position:						
Net investment in capital assets	8,589,379	8,388,650	19,372,352	20,021,462	27,961,731	28,410,112
Restricted	827,670	949,918	-	-	827,670	949,918
Unrestricted	<u>2,729,358</u>	<u>2,484,478</u>	<u>1,835,734</u>	<u>1,773,103</u>	<u>4,565,092</u>	<u>4,257,581</u>
Total net position	<u>\$ 12,146,407</u>	<u>\$ 11,823,046</u>	<u>\$ 21,208,086</u>	<u>\$ 21,794,565</u>	<u>\$ 33,354,493</u>	<u>\$ 33,617,611</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Marion exceeded liabilities and deferred inflows by \$33,354,493 as of June 30, 2014. The City's net position decreased by (\$263,118) for the fiscal year ended June 30, 2014. The decrease in net position was due to the City's net loss in the Business-Type Activities. The largest portion, \$27,961,731, (83.83%) of the net position reflects the City's net investment in capital assets (e.g. land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the City of Marion's net investment in capital assets is reported net of debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Marion's net position, \$827,670, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,565,092 is unrestricted.

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

Continued diligence in the collection of property taxes resulted in a tax collection percentage of 98.18% of property other than motor vehicles.

Total capital grant revenues of \$195,665 were received, primarily due to the Yancey/Perry Streets Drainage Project, but also for the Catawba River Greenway.

The City's total revenues were \$8,872,094 for the fiscal year ending June 30, 2014. Charges for service, particularly water and sewer service, makes up 46.15 percent of the City's total revenues, while property taxes contribute 27.20 percent of the total revenues and other taxes and licenses comprise 19.37 percent of total revenues.

Water and sewer revenues are 75.43 percent of the total amount collected for charges for service.

The City's expenses cover a wide range of services. Public safety accounted for 30.38 percent of the total for 2013-2014, with water and sewer operating expenses comprising 39.65 percent of total expenses and transportation accounting for 12.05 percent of total expenses.

City of Marion's Changes in Net Position Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 1,005,892	\$ 978,823	\$ 3,088,810	\$ 3,156,470	\$ 4,094,702	\$ 4,135,293
Operating grants and contributions	345,202	380,884	66,664	51,968	411,866	432,852
Capital grants and contributions	195,665	228,102	-	94,292	195,665	322,394
General revenues:						
Property taxes	2,413,069	2,265,314	-	-	2,413,069	2,265,314
Other taxes	1,718,567	1,692,446	-	-	1,718,567	1,692,446
Investment earnings	7,677	-	4,166	-	11,843	-
Other	<u>25,275</u>	<u>38,480</u>	<u>1,107</u>	<u>10,535</u>	<u>26,382</u>	<u>49,015</u>
Total revenues	<u>5,711,347</u>	<u>5,584,049</u>	<u>3,160,747</u>	<u>3,313,265</u>	<u>8,872,094</u>	<u>8,897,314</u>
Expenses:						
General government	905,002	869,016	-	-	905,002	869,016
Public safety	2,775,367	2,750,899	-	-	2,775,367	2,750,899
Transportation	1,101,112	1,021,322	-	-	1,101,112	1,021,322
Environmental protection	556,267	506,908	-	-	556,267	506,908
Culture and recreation	144,451	249,276	-	-	144,451	249,276
Interest on long-term debt	30,787	36,767	-	-	30,787	36,767
Water and sewer	-	-	<u>3,622,226</u>	<u>3,594,745</u>	<u>3,622,226</u>	<u>3,594,745</u>
Total expenses	<u>5,512,986</u>	<u>5,434,188</u>	<u>3,622,226</u>	<u>3,594,745</u>	<u>9,135,212</u>	<u>9,028,933</u>
Increase (decrease) in net position before transfers	198,361	149,861	(461,479)	(281,480)	(263,118)	(131,619)
Transfers	<u>125,000</u>	<u>200,000</u>	<u>(125,000)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	323,361	349,861	(586,479)	(481,480)	(263,118)	(131,619)
Net position, beginning of year	<u>11,823,046</u>	<u>11,473,185</u>	<u>21,794,565</u>	<u>22,276,045</u>	<u>33,617,611</u>	<u>33,749,230</u>
Net position, end of year	<u>\$ 12,146,407</u>	<u>\$ 11,823,046</u>	<u>\$ 21,208,086</u>	<u>\$ 21,794,565</u>	<u>\$ 33,354,493</u>	<u>\$ 33,617,611</u>

Governmental Activities. Governmental activities had an increased net position of \$323,361, offsetting most of the loss from the business activities. The remaining loss resulted decrease in the growth in the net position of the City of Marion. Key elements are as follows:

Property tax revenues make up 42.25 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 2013-2014 increased \$32,675 or 1.56 percent from 2012-2013 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 continued to increase slightly as a result of slowly recovering retail sales both locally and Statewide.

Net investment in capital assets increased \$200,729 due to the replacement of several vehicles, various pieces of equipment, streets and sidewalks.

Revenues in the General Fund exceeded expenditures by \$184,328, including a transfer from the Water and Sewer Fund in the amount of \$125,000.

Revenues in the Capital Projects Fund exceeded expenditures by \$7,759 due to the timing of grant revenue in the current year.

Investment income for governmental activities decreased slightly from 2012-2013 due to the continued decline in interest rates.

Business-Type Activities: Business-type activities decreased the City of Marion's net position by (\$586,479) although offset by the increase in the governmental activities, net decline in the government's net position was (\$263,118), or .78 percent. Key elements of this decrease are as follows:

Depreciation expense of \$878,729 increased slightly, \$3,793 or .43 percent over 2012-2013 due to continued depreciation of assets.

Expenditures in the business-type activities area exceeded revenues, including a \$125,000 transfer to the General Fund, by (\$586,479) with the Water and Sewer Fund receiving \$14,696 in non-capital grants for expenditures made in current and prior years.

Investment income for business-type activities decreased (\$2,053), or 33.01 percent, from 2012-2013 due to the continued decline in interest rates and final drawdowns of interest bearing escrow funds for the Sugar Hill Road Water and Sewer Project.

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.

The General Fund is the chief operating fund of the City of Marion. At the end of the current fiscal year, the City of Marion's fund balance available in the General Fund was \$2,733,647, while total fund balance reached \$3,424,623. The Governing Body of the City of Marion has determined that the City should maintain an available fund balance of 25% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 49.5% of General Fund expenditures, while total fund balance represents 62.07% of the same amount.

At June 30, 2014, the governmental funds of the City of Marion reported a combined fund balance of \$3,724,636, a 5.44 percent increase over last year. Included in this change in fund balance are increases 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 more than the budgeted amounts primarily because ad valorem and other taxes actually received were more 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 2013-2014 were approved to increase revenues for: Ad Valorem Taxes - Prior Year - \$9,500, GHSP Grant - \$6,145, Farmer's Market Grant - \$31,515, Inspection Fees - \$3,500, Powell Bill Allocation - \$5,645, City Vehicle License - \$21,000, McDowell Co. Schools - SRO - \$14,000, Refunds and Reimbursements - \$4,500, Property Insurance Reimbursement - \$17,000, COPS Grant Revenue - \$15,238, ABC Revenues - \$30,000, Cemetery Revenues - \$8,500, Privilege License Revenue - \$5,000, Mountain Glory Revenue - \$9,721, and County Vehicle Tax Collected- \$140,000, also to fund fees for County Vehicle Tax Collected - (\$15,700). Additional funds were also needed for Capital Outlay for: Fire Department Radio replacement \$6,800 and SUV for Fire Chief - \$35,000, Downtown WiFi/Webcam - \$20,300, Administration computer - \$2,600, GIS Software - \$3,000, additional Police car and building security - \$38,195, Depot roof - 13,865, Caboose

set-up - \$11,145 and Park improvements - \$25,000 also to provide additional operating funds for Code Enforcement - \$13,000, Police Department Dispatching Fees - \$--,---, Fire Department Maintenance and Repairs - Vehicles - \$21,000, Streets Contracted Services - \$27,000 and Downtown Decorations - \$8,504, Powell Bill Contracted Services - \$64,000, Mountain Glory expenses - \$5,842, Contributions to: McDowell Mission - \$6,000, Family Services - \$3,000 and McDowell Health Coalition - \$1,000; Insurance, Bond, Workers' Compensation - \$7,105, Economic Development Incentive - \$19,626 and Special Projects - \$5,000.

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 position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,835,734, and those for the Internal Service Fund amounted to \$22,866. The total change in net position for both funds was (\$586,479) and \$8,530, 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, 2014 totals \$30,506,806 (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 consisted of extending the Sugar Hill Water and Sewer Improvements Project - \$67,173. Water and Sewer major equipment purchases consisted of generator, computers, meters and pumps - \$57,930, and road repairs - \$11,521. Construction in progress for the governmental funds - consisting of the Yancey/Perry Streets Sidewalk Project - \$126,000, Downtown Streetscape Project - \$21,432, and Catawba Greenway Project - \$35,783. Other governmental fund additions were computers, plotter, miscellaneous equipment, etc. - \$61,940, land - tax foreclosures - \$1,646, and vehicles - \$228,810, streets and sidewalks - \$409,275, and building improvements - \$15,405 and downtown WiFi/webcam - \$19,900.

**City of Marion's Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,521,345	\$ 1,532,849	\$ 101,245	\$ 101,245	\$ 1,622,590	\$ 1,634,094
Buildings and systems	3,266,751	3,362,170	19,729,483	20,092,529	22,996,234	23,454,699
Improvements, other than buildings	952,683	993,715	617,348	632,452	1,570,031	1,626,167
Machinery and equipment	494,984	511,949	665,662	715,630	1,160,646	1,227,579
Infrastructure	1,452,551	879,962	-	-	1,452,551	879,962
Vehicles and motorized equipment	749,101	837,070	66,573	138,091	815,674	975,161
Construction in progress	889,080	1,086,557	-	232,983	889,080	1,319,540
Total	\$ 9,326,495	\$ 9,204,272	\$ 21,180,311	\$ 21,912,930	\$ 30,506,806	\$ 31,117,202

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, 2014, the City of Marion had total long-term obligations of \$2,965,260. Of this amount, none is bonded debt. The City's long-term obligations include \$2,545,075 in installment notes payable, with the remaining amount being unfunded pension benefit obligations and compensated absences.

**City of Marion's Outstanding Debt
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Notes payable	\$ 737,116	\$ 815,622	\$ 1,807,959	\$ 1,971,852	\$ 2,545,075	\$ 2,787,474
Compensated absences	196,772	174,005	39,244	43,161	236,016	217,166
Pension related debt	184,169	172,747	-	-	184,169	172,747
Total	\$ 1,118,057	\$ 1,162,374	\$ 1,847,203	\$ 2,015,013	\$ 2,965,260	\$ 3,177,387

The City of Marion's total long-term obligations decreased by \$212,127 (6.73%) during the current fiscal year. The City paid the debt in full for a fire truck, and continued paying down debt a Tower Fire Truck, Waste Water Treatment Plant Improvements Project, and the Sugar Hill Water and Sewer Improvement 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 City of Marion is \$37,113,519. The City has \$-0- in bonds authorized but unissued at June 30, 2014.

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

Employment Gains. The McDowell County unemployment rate averaged 7.2% for the period of January through July 2014, and averaged 9.7% in 2013, higher than the State average of 6.6% for January-July 2014 and of 8.4% for 2013. However, McDowell County's unemployment rate thus far in 2014 is generally declining and improving at a rate faster than that of the State as a whole, which are positive signs. In July, 2014, McDowell County's unemployment rate was only 0.1% higher than the State average and was lower than virtually every other county in the region, including Burke, Caldwell, Catawba, Cleveland, Mitchell, Rutherford and Yancey Counties, a clear sign of an improving local economy. Since 1990, 3048 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. However, there have been no significant industrial closings in the City since 2008.

More Manufacturing Stability. In 2013-2014, no manufacturing closings took place in the City or the City's utility service area, the continuation of a six year trend in the City with no industrial closings taking place. In 2010-2011, 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 expansion was completed in early 2012, with further investments in machinery and equipment taking place

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

in 2013 and additional employment occurring in 2014. This project has led to increased property tax, utility franchise tax, and water and sewer revenues for the City. Another plant in the City's utility service area completed a major expansion in 2011-2012, which has also resulted in some 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.

Occupancy Rates On Office and Retail Space. Despite the downturn in the National and State economy over the past few 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. In 2013-14, the City had a net gain of eight new businesses. Occupancy rates in the downtown area have declined somewhat in 2013-2014 to around 75-80 percent for first floor locations. However, several new businesses opened or announced in the downtown area in recent months, a record number of Façade Grants were awarded in the downtown area in 2014 and additional renovation projects are planned by property owners, which are all positive signs for the future. In recent years, the downtown area has maintained an occupancy rate of more than 90 percent, a rate higher than many surrounding downtown areas, so there is a reason to believe that downtown occupancy rates will increase over the next year or two.

Retail sales gains/sales tax losses. The fiscal year 2013-2014 gross taxable retail sales for McDowell County were 7.40 percent higher than 2012-2013, with a total of \$291,446,832. For six of the past eight years, County taxable retail sales exceeded that of the State of North Carolina as a whole. The State experienced an increase of only 4.73 percent in taxable retail sales in 2013-14, as compared to 2012-2013. Since 2005, gross taxable retail sales in McDowell County have increased 34.56 percent, a growth rate four times higher than the State increase of only 8.66 percent. Retail sales in the City of Marion comprise 80 percent of the total retail sales in McDowell County. These figures 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 2013-14 to 9.39 percent and will result in an estimated sales tax revenue loss for the City of \$445,000 (or 10 cents on the City's tax rate) for 2014-2015. Due to the increases in the City's property tax levy, the City's share of the County sales tax revenues for 2014-15 will increase to 9.77 percent. In addition, the City entered into a two

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

year Interlocal Agreement with McDowell County in 2014, which will cap the City's sales tax loss for 2014-15 and 2015-16 at \$445,000 per year. The City hopes to enter into a longer term sales tax agreement with McDowell County in the next year or two.

Property Tax Collection. The City of Marion's tax collection percentage for property excluding motor vehicles increased from 97.65 percent in 2012-2013 to 98.18 percent in 2013-2014, a considerable increase. The City 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, 2015

Governmental Activities. Revenue growth in the General Fund is projected to have some modest increases, due to the continued growth of the City. Property taxes (resulting from good commercial growth and industrial development) are projected to be 2.56 percent higher than the budgeted amount for 2013-2014. Sales taxes are expected to increase by 4.35 percent over the 2013-2014 budget, due to good growth in sales tax collections State-wide and locally. As noted above, sales tax collections in the City of Marion and in McDowell County have outpaced the State average in most recent years. Utility franchise tax collections are projected to increase by 2.04 percent over the 2013-2014 budget, due to commercial and industrial growth. Other revenues are expected to have only modest increases or actually decline, as several Federal and State grants and revenue sources have expired or will bring in flat or decreased revenues in 2014-2015. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2014-2015. For the 47th consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 3.59 percent to \$5,722,574. This decrease is due to more need for capital outlay spending for large purchases of equipment in 2014-2015.

Business-Type Activities. The water and sewer rates in the City will increase by three percent for inside customers and outside customers in 2014-2015, the first year of a five year, three percent per year water and sewer rate increase that is needed to maintain adequate Water and Sewer Fund reserves and prepare for anticipated capital outlay needs in the water and wastewater system, particularly at the Water Treatment Plant, in upcoming years. General operating expenses in the Water and Sewer Fund will decrease by .11 percent in 2014-2015, despite increased capital outlay spending.

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 POSITION

JUNE 30, 2014

	Primary Government		Total	City of Marion
	Governmental Activities	Business-Type Activities		ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,097,275	\$ 1,519,065	\$ 4,616,340	\$ 65,420
Taxes receivable (net)	120,994	-	120,994	-
Accrued interest receivable on taxes	23,284	-	23,284	-
Accounts receivable (net)	25,464	274,265	299,729	-
Due from other governments	507,911	27,622	535,533	-
Due from component unit	36,900	-	36,900	-
Internal balances	52,317	(52,317)	-	-
Inventories	104,384	76,827	181,211	363,743
Prepaid expenses	39,823	12,474	52,297	7,000
Total current assets	4,008,352	1,857,936	5,866,288	436,163
Restricted assets:				
Cash and cash equivalents	186,574	221,958	408,532	-
Capital assets:				
Land, non-depreciable improvements, and construction in progress	2,410,425	101,245	2,511,670	59,832
Other capital assets, net of depreciation	6,916,070	21,079,066	27,995,136	126,349
Total capital assets	9,326,495	21,180,311	30,506,806	186,181
Note receivable	-	97,534	97,534	-
Total assets	13,521,421	23,357,739	36,879,160	622,344
LIABILITIES				
Current liabilities:				
Accounts payable	205,901	48,849	254,750	152,101
Accrued interest payable	4,426	-	4,426	-
Prepaid privilege licenses	32,503	-	32,503	-
Due to primary government	-	-	-	36,900
Current portion of long-term liabilities	191,221	198,279	389,500	131,953
Liabilities payable from restricted assets:				
Customer deposits	11,120	221,958	233,078	-
Long-term liabilities:				
Due in more than one year	926,836	1,648,924	2,575,760	-
Total liabilities	1,372,007	2,118,010	3,490,017	320,954
DEFERRED INFLOWS OF RESOURCES	3,007	31,643	34,650	-
NET POSITION				
Net investment in capital assets	8,589,379	19,372,352	27,961,731	62,494
Restricted for:				
Working capital	-	-	-	62,968
Stabilization by State statute	652,216	-	652,216	-
Employee flexible spending account	2,461	-	2,461	-
Cultural and recreation	40,000	-	40,000	-
Streets	57,612	-	57,612	-
Public safety	75,381	-	75,381	-
Unrestricted	2,729,358	1,835,734	4,565,092	175,928
Total net position	\$ 12,146,407	\$ 21,208,086	\$ 33,354,493	\$ 301,390

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, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Business-type Activities	City of Marion ABC Board
		Total	Total	Total	Total	Total	Total
Governmental Activities:							
General government	\$ 905,002	\$ 313,275	\$ 30,156	\$ -	\$ (561,571)	\$ -	\$ (561,571)
Public safety	2,775,367	452,783	55,444	-	(2,267,140)	-	(2,267,140)
Transportation	1,101,112	2,519	228,087	155,665	(714,841)	-	(714,841)
Environmental protection	556,267	166,141	-	-	(390,126)	-	(390,126)
Cultural and recreation	144,451	71,174	31,515	40,000	(1,762)	-	(1,762)
Interest on long-term debt	30,787	-	-	-	(30,787)	-	(30,787)
Total governmental activities	<u>5,512,986</u>	<u>1,005,892</u>	<u>345,202</u>	<u>195,665</u>	<u>(3,966,227)</u>	<u>-</u>	<u>(3,966,227)</u>
Business-Type Activities:							
Water and sewer	3,622,226	3,088,810	66,664	-	-	(466,752)	(466,752)
Total business-type activities	<u>3,622,226</u>	<u>3,088,810</u>	<u>66,664</u>	<u>-</u>	<u>-</u>	<u>(466,752)</u>	<u>(466,752)</u>
Total primary government	<u>\$ 9,135,212</u>	<u>\$ 4,094,702</u>	<u>\$ 411,866</u>	<u>\$ 195,665</u>	<u>(3,966,227)</u>	<u>-</u>	<u>(4,432,979)</u>
Component Unit:							
ABC Board	<u>\$ 2,139,152</u>	<u>\$ 2,139,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component unit	<u>\$ 2,139,152</u>	<u>\$ 2,139,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose	2,413,069
Other taxes	1,718,567
Unrestricted investment earnings	7,677
Miscellaneous	25,275
Total general revenues not including transfers	4,164,588

Transfers

Total general revenues and transfers	(125,000)
Change in net position	323,361

Net Position, beginning of year

Net Position, end of year

Total general revenues and transfers	4,169,861	-	-
Change in net position	(263,118)	-	-
Net Position, beginning of year	11,823,046	21,794,565	33,617,611
Net Position, end of year	<u>\$ 12,146,407</u>	<u>\$ 21,208,086</u>	<u>\$ 33,354,493</u>

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

CITY OF MARION, NORTH CAROLINA

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2014

	Total <u>Major Fund</u> <u>General</u>	Total Nonmajor <u>Funds</u>	Governmental <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,845,262	\$ 252,013	\$ 3,097,275
Restricted cash	138,574	48,000	186,574
Receivables, net:			
Taxes	120,994	-	120,994
Other	25,464	-	25,464
Due from other governments	501,686	-	501,686
Due from component unit	36,900	-	36,900
Due from other funds	88,166	-	88,166
Prepaid items	38,760	-	38,760
Total assets	<u>\$ 3,795,806</u>	<u>\$ 300,013</u>	<u>\$ 4,095,819</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 203,559	\$ -	\$ 203,559
Prepaid privilege licenses	32,503	-	32,503
Liabilities payable from restricted assets:			
Customer deposits	11,120	-	11,120
Total liabilities	<u>247,182</u>	<u>-</u>	<u>247,182</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax receivable	120,994	-	120,994
Prepaid taxes	3,007	-	3,007
Total deferred inflows of resources	<u>124,001</u>	<u>-</u>	<u>124,001</u>
FUND BALANCES			
Non-spendable			
Prepaid items	38,760	-	38,760
Restricted:			
Stabilization by State statute	652,216	-	652,216
Streets	49,612	8,000	57,612
Cultural and recreation	-	40,000	40,000
Employee flexible spending account	2,461	-	2,461
Public safety	75,381	-	75,381
Committed:			
Cemetery	109,836	-	109,836
Future capital outlay	-	252,013	252,013
Assigned:			
Subsequent year's expenditures	393,702	-	393,702
Unassigned	2,102,655	-	2,102,655
Total fund balances	<u>3,424,623</u>	<u>300,013</u>	<u>3,724,636</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,795,806</u>	<u>\$ 300,013</u>	

CITY OF MARION, NORTH CAROLINA

BALANCE SHEET - CONTINUED

GOVERNMENTAL FUNDS

JUNE 30, 2014

Amounts reported for governmental activities in the Statement of Net Position (page 17) are different because:

Total fund balance, Governmental Funds		\$ 3,724,636
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		9,326,495
Other long-term assets are not available to pay for current period expenditures and, therefore, are inflows of resources in the funds:		
Accrued interest receivable from taxes		23,284
Some receivables and payables, including due (to) from other funds, are reported as receivables/payables in the fund financial statements, but are eliminated in the Statement of Net Position.		(88,166)
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 Position.		
Inventory	\$ 104,384	
Due from other governments	6,225	
Prepaid items	1,062	
Accounts payable	(2,341)	
Consolidation adjustment for internal balances between the Internal Service Fund and the Governmental Funds	<u>52,317</u>	161,647
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		120,994
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.		(1,118,057)
Other long-term liabilities, are not due and payable in the current period and, therefore, are not reported in governmental funds.		
Accrued interest		<u>(4,426)</u>
Net position of governmental activities		<u>\$ 12,146,407</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, 2014

	<u>Major Fund</u>	<u>Total</u>	<u>Total</u>
	<u>General</u>	<u>Nonmajor</u>	<u>Governmental</u>
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 2,457,419	\$ -	\$ 2,457,419
Other taxes	1,722,967	-	1,722,967
Unrestricted intergovernmental	31,038	-	31,038
Restricted intergovernmental	704,570	147,665	852,235
License and permits	318,188	-	318,188
Sales and services	222,170	-	222,170
Investment earnings	7,429	690	8,119
Restricted contributions	3,520	-	3,520
Restricted grants - nongovernmental	31,515	48,000	79,515
Miscellaneous	72,678	-	72,678
Total revenues	<u>5,571,494</u>	<u>196,355</u>	<u>5,767,849</u>
Expenditures:			
General government	824,134	-	824,134
Public safety	2,584,743	-	2,584,743
Transportation	1,356,353	147,432	1,503,785
Environmental protection	529,498	-	529,498
Cultural and recreation	112,511	35,783	148,294
Debt service:			
Principal	78,507	-	78,507
Interest and other charges	31,801	-	31,801
Total expenditures	<u>5,517,547</u>	<u>183,215</u>	<u>5,700,762</u>
Revenues over (under) expenditures	<u>53,947</u>	<u>13,140</u>	<u>67,087</u>
Other Financing Sources (Uses):			
Transfers from other funds	125,000	-	125,000
Transfers to (from) other funds	5,381	(5,381)	-
Total other financing sources (uses)	<u>130,381</u>	<u>(5,381)</u>	<u>125,000</u>
Net Change in Fund Balances	184,328	7,759	192,087
Fund Balances – beginning of year	<u>3,240,295</u>	<u>292,254</u>	<u>3,532,549</u>
Fund Balances – end of year	<u>\$ 3,424,623</u>	<u>\$ 300,013</u>	<u>\$ 3,724,636</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, 2014

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

Net changes in fund balances - total governmental funds	\$	192,087
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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.

Capital outlay expenditures which were capitalized	\$ 753,314	
Depreciation expense for governmental assets	<u>(617,355)</u>	135,959

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. In addition, some revenues reported in the fund statements are not reported as revenues in the Statement of Activities.

Amount of donated assets	998	
Gross proceeds on sale of assets	(8,910)	
Loss on disposal of assets	(4,240)	
Change in accrued interest receivable on taxes	(2,955)	
Change in unavailable revenue for tax revenues	<u>(41,394)</u>	(56,501)

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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	78,506	
Decrease in accrued interest payable	<u>1,014</u>	79,520

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	(21,960)	
Net pension obligation	(8,912)	
Other post-employment benefits	<u>(2,510)</u>	(33,382)

Consolidation adjustment for the Internal Service Fund and the Governmental Funds

Net income of Internal Service Fund	8,529	
Portion of net income allocated to business - type activities	<u>(2,851)</u>	<u>5,678</u>

Total changes in net position of governmental activities	\$	<u><u>323,361</u></u>
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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, 2014

	Original Budget	Final Budget	Actual	Variance With Final Over/Under
Revenues:				
Ad valorem taxes	\$ 2,198,288	\$ 2,332,088	\$ 2,457,419	\$ 125,331
Other taxes	1,681,300	1,681,300	1,722,967	41,667
Unrestricted intergovernmental	3,200	31,606	31,038	(568)
Restricted intergovernmental	593,324	649,084	704,570	55,486
Licenses and permits	234,100	293,600	318,188	24,588
Sales and services	210,220	225,225	222,170	(3,055)
Investment earnings	8,000	8,000	7,429	(571)
Restricted contributions	2,000	3,025	3,520	495
Restricted grants-nongovernmental	-	31,515	31,515	-
Miscellaneous	33,200	69,571	72,678	3,107
Total revenues	<u>4,963,632</u>	<u>5,325,014</u>	<u>5,571,494</u>	<u>246,480</u>
Expenditures:				
Current:				
General government	755,271	888,067	824,134	63,933
Public safety	2,603,066	2,729,169	2,584,743	144,426
Transportation	1,362,517	1,463,021	1,356,353	106,668
Environmental protection	587,427	588,127	529,498	58,629
Cultural and recreation	105,511	165,063	112,511	52,552
Debt service:				
Principal retirement	78,490	78,490	78,507	(17)
Interest and other charges	31,904	31,904	31,801	103
Total expenditures	<u>5,524,186</u>	<u>5,943,841</u>	<u>5,517,547</u>	<u>426,294</u>
Revenues over (under) expenditures	<u>(560,554)</u>	<u>(618,827)</u>	<u>53,947</u>	<u>672,774</u>
Other Financing Sources (Uses):				
Fund balance appropriated	410,554	471,486	-	(471,486)
Transfers from (to) other funds	150,000	147,341	130,381	(16,960)
Total other financing sources (uses)	<u>560,554</u>	<u>618,827</u>	<u>130,381</u>	<u>(488,446)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	184,328	<u>\$ 184,328</u>
Fund Balance - beginning of year			<u>3,240,295</u>	
Fund Balance - end of year			<u>\$ 3,424,623</u>	

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

CITY OF MARION, NORTH CAROLINA

STATEMENT OF FUND NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2014

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,519,065	\$ -
Accounts receivable	274,265	-
Due from other governments	27,622	6,225
Inventories	76,827	104,384
Prepaid items	12,474	1,062
Restricted cash and cash equivalents	221,958	-
Total current assets	<u>2,132,211</u>	<u>111,671</u>
Non-current assets:		
Capital assets:		
Land and other non-depreciable assets	101,245	-
Other capital assets, net of depreciation	21,079,066	3,818
Capital assets (net)	<u>21,180,311</u>	<u>3,818</u>
Note receivable	97,534	-
Total non-current assets	<u>21,277,845</u>	<u>3,818</u>
 Total assets	 <u>23,410,056</u>	 <u>115,489</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	48,849	4,457
Due to other funds	-	88,166
Customer deposits	221,958	-
Current portion of long-term liabilities	198,279	-
Total current liabilities	<u>469,086</u>	<u>92,623</u>
Non-current liabilities:		
Accrued vacation pay	7,848	-
Non-current portion of long-term debt	1,641,076	-
Total non-current liabilities	<u>1,648,924</u>	<u>-</u>
 Total liabilities	 <u>2,118,010</u>	 <u>92,623</u>
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows of resources	<u>31,643</u>	<u>-</u>
NET POSITION		
Net invested in capital assets	19,372,352	3,818
Unrestricted	1,888,051	19,048
 Total net position	 21,260,403	 <u>\$ 22,866</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds	<u>(52,317)</u>	
Net position of business-type activities	<u>\$ 21,208,086</u>	

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 POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2014

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Fund
Operating Revenues		
Charges for services	\$ 3,024,042	\$ 347,097
Water and sewer taps	47,919	-
Other operating revenue	16,849	-
Total operating revenues	3,088,810	347,097
Operating Expenses		
Utility line maintenance	1,067,045	-
Water filter plant	559,313	-
Waste treatment plant	990,240	-
Operating expenses	-	48,950
Materials	-	288,031
Insurance and bonding	94,731	-
Miscellaneous	6,153	-
Depreciation	878,729	1,586
Total operating expenses	3,596,211	338,567
Operating income (loss)	(507,401)	8,530
Non-Operating Revenues (Expenses)		
County reimbursements - Sugar Hill	51,968	-
Rural Center Grant	14,696	-
Investment earnings	4,166	-
Gain on disposal of assets	1,107	-
Interest and other charges	(28,870)	-
Total non-operating revenue (expense)	43,067	-
Income (loss) before contributions and transfers	(464,334)	-
Transfer to General Fund	(125,000)	-
Change in Net Position	(589,334)	8,530
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds	2,855	-
Change in net position - business-type activities	(586,479)	8,530
Net Position - beginning of year	21,794,565	14,336
Net Position - end of year	\$ 21,208,086	\$ 22,866

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, 2014

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	
Cash Flows from Operating Activities:		
Cash received from customers	\$ 3,076,063	\$ 347,097
Cash paid for goods and services	(1,546,310)	(244,073)
Cash paid to or on behalf of employees for services	(1,199,470)	(88,855)
Customer deposits received	4,557	-
Other operating revenue received	16,849	-
Net cash provided (used) by operating activities	351,689	14,169
Cash Flows from Non-Capital Financing Activities:		
Transfers to other funds	(125,000)	-
Due to (from) other funds	-	(14,169)
Non-capital grant and reimbursement	66,664	-
Net cash provided (used) by non-capital financing activities	(58,336)	(14,169)
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(146,109)	-
Proceeds from disposal of assets	1,107	-
Principal payment on long-term debt	(163,893)	-
Interest on long-term debt	(28,870)	-
Net cash provided (used) by capital and related financing activities	(337,765)	-
Cash Flows from Investing Activities:		
Interest and dividends	4,166	-
Net decrease in cash and cash equivalents	(40,246)	-
Balances – beginning of year	1,781,269	-
Balances – end of year	\$ 1,741,023	\$ -

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, 2014

	Major Enterprise Fund	Internal Service Fund
	Water and Sewer Fund	Fund
Reconciliation of Operating Income to Net		
Cash Provided (Used) by Operating Activities		
Operating income (loss)	\$ (507,401)	\$ 8,530
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	878,729	1,586
Provision for uncollectible accounts	6,000	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,896)	586
(Increase) decrease in inventory	2,588	5,572
(Increase) decrease in prepaid items	(12,474)	(1,062)
Increase (decrease) in accounts payable and accrued vacation pay	(21,609)	-
(Increase) decrease in due from other governments	3,195	(1,043)
Increase (decrease) in customer deposits	4,557	-
	859,090	5,639
Total adjustments		
Net cash provided (used) by operating activities	\$ 351,689	\$ 14,169

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

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CITY OF MARION, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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

The accounting policies of the City of Marion (the "City") 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 Position 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 those that are specifically associated with a

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

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

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, Federal and State 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 Streetscape Project, Catawba River Greenway, and the Yancey/Perry Streets Drainage Project. The Capital Reserve Fund is also considered a Capital Project Fund.

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.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

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. Non-exchange 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 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.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

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 September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as receivable in these financial statements and are offset by deferred inflows of resources.

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. 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 position 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.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

(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.

(e) Assets, Liabilities, Deferred Outflows/Inflows of Resources 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).

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

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. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. In addition, the Employee Flexible spending account, withheld from employees' wages and held for payment of medical claims is a restricted asset. Powell Bill funds are also classified 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.

City of Marion Restricted Cash

Governmental Activities

General Fund:

Streets	\$	49,612
Public Safety		75,381
Customer deposits		11,120
Employee Flex Account		<u>2,461</u>
		<u>138,574</u>

General Fund Capital Projects:

Cultural and recreation -		
Greenway Phase II		40,000
Streets - NCDOT Bicycle Plan		<u>8,000</u>
		<u>48,000</u>

Total governmental activities \$ 186,574

Business Type Activities

Water and Sewer Fund:

Customer deposits		<u>221,958</u>
Total business type activities		<u>221,958</u>
Total Restricted Cash	\$	<u><u>408,532</u></u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

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 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.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

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 years
Equipment	2-10 years
Land improvements	3-15 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City does not have any items meeting the criterion for this category. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category -property taxes receivable and prepaid taxes.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. 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, 2014

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 twenty and fifteen days, respectively, 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 Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, 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 intact.

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, 2014

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 - includes Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures and grant received for bicycle plan. This amount represents the balance of the total unexpended Powell Bill and grant funds.

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

Restricted for Cultural and Recreation - portion of fund balance that is restricted by revenue source for greenway construction.

Restricted for Employee Flexible Spending Account - portion of fund balance that is restricted for reimbursement of eligible expenses to participants in the flexible spending account.

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

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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

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 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 also adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to, or greater than, 25% of budgeted expenditures. Any portion of the General Fund balance in excess of 25% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the City in a future budget.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the Statement of Net Position date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

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

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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 undercollateralization, 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.

At June 30, 2014, the City's deposits had a carrying amount of \$4,389,535 and a bank balance of \$4,498,602. Of the bank balance, \$1,000,728 was covered by Federal depository insurance and \$3,497,874 was covered by collateral held under the pooling method. At June 30, 2014, the City's petty cash fund totaled \$1,502. The carrying amount of deposits for the ABC Board was \$62,195, and the bank balance was \$79,188. All of the bank balance was covered by Federal depository insurance. At June 30, 2014, the Board's petty cash fund totaled \$3,225.

Investments

At June 30, 2014 the City of Marion had \$633,835 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, 2014.

Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	
General Fund: Taxes receivable	\$ 62,600
Enterprise Funds	\$ 79,000

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

Due from Other Governments

Due from other governments consisted of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Local option sales tax	\$ 303,122	\$ -	\$ 303,122
Sales tax refund	29,897	27,622	57,519
Vehicle taxes/tag fees	28,367	-	28,367
Fire district tax	16,516	-	16,516
Franchise/video programming tax	122,000	-	122,000
Solid waste tax	1,100	-	1,100
Miscellaneous reimbursements	<u>6,909</u>	<u>-</u>	<u>6,909</u>
Total	<u>\$ 507,911</u>	<u>\$ 27,622</u>	<u>\$ 535,533</u>

Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2014 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,532,849	\$ 1,646	\$ 13,150	\$ 1,521,345
Construction in progress	<u>1,086,557</u>	<u>127,252</u>	<u>324,729</u>	<u>889,080</u>
Total capital assets not being depreciated	<u>2,619,406</u>	<u>128,898</u>	<u>337,879</u>	<u>2,410,425</u>
Capital assets being depreciated:				
Building improvements	2,892,638	15,405	-	2,908,043
Buildings	1,538,113	-	-	1,538,113
Equipment	1,862,322	88,032	-	1,950,354
Equipment - ISF	11,601	-	-	11,601
Furniture and fixtures	210,752	11,145	-	221,897
Land improvements	1,164,541	-	-	1,164,541
Vehicles	3,900,487	228,810	27,971	4,101,326
Infrastructure	<u>1,038,818</u>	<u>606,753</u>	<u>-</u>	<u>1,645,571</u>
Total capital assets being depreciated	<u>12,619,272</u>	<u>950,145</u>	<u>27,971</u>	<u>13,541,446</u>
Less accumulated depreciation for:				
Building improvements	495,283	78,745	-	574,028
Buildings	573,298	32,079	-	605,377
Equipment	1,375,653	103,445	-	1,479,098
Equipment - ISF	6,197	1,586	-	7,783
Furniture and fixtures	190,876	11,111	-	201,987
Land improvements	170,826	41,032	-	211,858
Infrastructure	158,856	34,164	-	193,020
Vehicles	<u>3,063,417</u>	<u>316,779</u>	<u>27,971</u>	<u>3,352,225</u>
Total accumulated depreciation	<u>6,034,406</u>	<u>\$ 618,941</u>	<u>\$ 27,971</u>	<u>6,625,376</u>
Total capital assets being depreciated, net	<u>6,584,866</u>			<u>6,916,070</u>
Governmental activity capital assets, net	<u>\$ 9,204,272</u>			<u>\$ 9,326,495</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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

General government	\$ 104,038
Public safety	319,316
Transportation	66,808
Environmental protection	61,262
Culture and recreation	<u>67,517</u>
Total depreciation expense	<u><u>\$ 618,941</u></u>

	<u>Beginning</u>			<u>Ending</u>
	<u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 101,245	\$ -	\$ -	\$ 101,245
Construction in progress	<u>232,983</u>	<u>67,173</u>	<u>300,156</u>	<u>-</u>
Total capital assets not being depreciated	<u>334,228</u>	<u>-</u>	<u>300,156</u>	<u>101,245</u>
Capital assets being depreciated:				
Building improvements	596,144	3,097	-	599,241
Buildings	6,891,369	-	-	6,891,369
Water and sewer mains, fittings, and lines	23,064,582	305,045	-	23,369,627
Equipment	1,692,405	57,930	4,970	1,745,365
Furniture and fixtures	646,678	-	-	646,678
Land improvements	1,131,883	13,021	-	1,144,904
Vehicles	<u>476,446</u>	<u>-</u>	<u>15,972</u>	<u>460,474</u>
Total capital assets being depreciated	<u>34,499,507</u>	<u>379,093</u>	<u>20,942</u>	<u>34,857,658</u>
Less accumulated depreciation for:				
Building improvements	513,770	4,923		518,693
Buildings	3,804,341	126,538	-	3,930,879
Water and sewer mains, fittings, and lines	6,141,455	539,727	-	6,681,182
Equipment	1,313,050	95,106	4,970	1,403,186
Furniture and fixtures	310,403	12,792	-	323,195
Land improvements	499,431	28,125	-	527,556
Vehicles	<u>338,355</u>	<u>71,518</u>	<u>15,972</u>	<u>393,901</u>
Total accumulated depreciation	<u>12,920,805</u>	<u>\$ 878,729</u>	<u>\$ 20,942</u>	<u>13,778,592</u>
Total capital assets being depreciated, net	<u>21,578,702</u>			<u>21,079,066</u>
Business-type activities capital assets, net	<u>\$21,912,930</u>			<u>\$21,180,311</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B- Detail Notes on All Funds - continued:

Discretely Presented Component Units:

Activity for the ABC Board for the year ended June 30, 2014 was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<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	154,954	-	-	154,954
Leasehold improvements	45,942	-	-	45,942
Land improvements	19,493	-	-	19,493
Equipment	<u>206,620</u>	<u>-</u>	<u>-</u>	<u>206,620</u>
Total capital assets being depreciated	<u>427,009</u>	<u>-</u>	<u>-</u>	<u>427,009</u>
Less accumulated depreciation for:				
Buildings	97,986	6,107	-	104,093
Leasehold improvements	15,375	4,539	-	19,914
Land improvements	19,493	-	-	19,493
Equipment	<u>146,596</u>	<u>10,564</u>	<u>-</u>	<u>157,160</u>
Total accumulated depreciation	279,450	<u>\$ 21,210</u>	<u>\$ -</u>	300,660
Total capital assets being depreciated, net	<u>147,559</u>			<u>126,349</u>
ABC Board capital assets, net	<u>\$ 207,391</u>			<u>\$ 186,181</u>

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, 2014, the loan has been discounted to the present value of \$97,534.

Liabilities

Accounts Payable - Disaggregate Information

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Trade payables	\$ 88,984	\$ 13,452	\$ 102,436
Accrued salaries and expenses	<u>116,917</u>	<u>35,397</u>	<u>152,314</u>
Total	<u>\$ 205,901</u>	<u>\$ 48,849</u>	<u>\$ 254,750</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

Pension Plan Obligations

Local Governmental Employees' Retirement System Plan Description. The City of Marion and the ABC Board contribute to the State-wide 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 7.07% and 7.28%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.07% 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, 2014, 2013, and 2012 were \$421,066, \$397,603, and \$385,556, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$20,023, \$17,777, and \$14,715, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

(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

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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, 2013, 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>26</u>
Total	<u><u>27</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'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, 2012 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 4.25% to 7.85% per year. The inflation component was 3.00%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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, 2012 was 18 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	\$ 35,062
Interest on net pension obligation	8,572
Adjustment to annual required contribution	<u>(13,968)</u>
Annual pension cost	29,666
Contributions made	<u>20,754</u>
Increase in net pension obligation	8,912
Net pension obligation at beginning of year	<u>171,444</u>
 Net pension obligation at end of year	 <u><u>\$ 180,356</u></u>

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension Obligation - <u>End of Year</u>
6/30/12	\$ 31,619	11.49%	\$ 149,438
6/30/13	29,995	26.63%	171,444
6/30/14	29,666	69.96%	180,356

As of December 31, 2013, 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 \$304,566. The covered payroll (annual payroll of active employees covered by the plan) was \$842,818 and the ratio of the UAAL to the covered payroll was 36.14%.

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

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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, 2014 were \$47,178 which consisted of \$44,233 from the City and \$2,945 from the law enforcement officers.

(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. 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 \$2,324,145. Total contributions for the year ended June 30, 2014 were \$150,542, which consisted of \$116,207 from the City and \$34,335 from the employees. The City's required contributions and the employees' voluntary contributions represented 5.00 percent and 1.48 percent of the covered payroll amount, respectively.

(e) Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the City of Marion, to the Firefighter's Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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 Firefighter'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.

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. A separate report was not issued for the plan. This plan was rescinded as of July 1, 2014 and no longer offered to employees.

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 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

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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, 2012, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement</u>
Retirees and dependents receiving benefits	4	-
Terminated plan members entitled to, but not yet receiving, benefits	1	-
Active plan members	66	25
Total	71	25

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 .51% of annual covered payroll. For the current year, the City contributed \$13,836, or .43% 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 .60% and 0% of covered payroll, respectively. The City's obligation to contribute to the plans is established and may be amended by City Council.

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:

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

Annual required contribution	\$ 16,344
Valuation discount rate	4.00%
Interest on net OPEB obligation	52
Amortization factor	26.1695
Adjustment to annual required contribution	<u>50</u>
Annual OPEB cost	16,346
Employer contributions made for fiscal year	<u>13,836</u>
Increase (decrease) in net OPEB obligation	2,510
Net OPEB obligation (asset) beginning of fiscal year	<u>1,303</u>
Net OPEB obligation (asset) end of fiscal year	<u><u>\$ 3,813</u></u>

Trend Information			
Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/12	\$ 13,627	102.9%	\$ (1,299)
6/30/13	16,342	84.1%	1,303
6/30/14	16,346	84.6%	3,813

Funded Status and Funding Progress. As of December 31, 2012, 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 \$337,250. The covered payroll (annual payroll of employees covered by the plan) was \$3,209,151 and the ratio of the UAAL to the covered payroll was 10.5 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

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

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, 2012 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 8.50 to 5.00 percent annually. The investment rate included a 3.00 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, 2012 was 30 years.

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. Because all death benefit payments are made from the Death Benefit Plan, and not by the City, the City does not determine the number of eligible participants. The City has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. 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. The City considers these contributions to be immaterial.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

For the fiscal year ended June 30, 2014, the City made contributions to the State for death benefits of \$0. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No.Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
Less than 10	1	2014
10 - 20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The City of Marion will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

Deferred Outflows and Inflows of Resources

The City does not have deferred outflows of resources.

Deferred inflows of resources at year-end are comprised of the following:

	<u>General Fund</u>		<u>Water and Sewer</u>	
	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Prepaid taxes	\$ -	\$ 3,007	\$ -	\$ -
Taxes receivable (net)	120,995	-	-	-
Deferred revenue - Note Rec.	-	-	31,643	-
Total	<u>\$ 120,995</u>	<u>\$ 3,007</u>	<u>\$ 31,643</u>	<u>\$ -</u>

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 workers' compensation coverage up to statutory limits, and employee health coverage. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits stop loss policies purchased by the Board of Trustees can be obtained by contacting

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B- Detail Notes on All Funds - continued:

the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request. The City carries commercial coverage for general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy and 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.

Long-Term Obligations

During the year ended June 30, 2011, the City issued a note payable for the construction of a water and sewer extension for \$1,102,225. Forty quarterly payments of \$32,480, including interest at 3.31% began July 14, 2011. The note is secured by the equipment being installed. The balance of this note payable was \$808,799 at June 30, 2014.

During the year ended June 30, 2010, the City issued a note payable for the construction of a sanitary sewer project for \$2,503,072, which is immediately reduced by one half as part of

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

the American Recovery and Reinvestment Act of 2009. One annual payment of \$65,034 and nineteen annual payments of \$62,447 at 0% interest began on May 1, 2011. The note is secured by a pledge of faith and credit to the City. The balance of this note payable was \$999,160 on June 30, 2014.

During the year ended June 30, 2010, the City issued a note payable for the purchase of an 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 \$737,116 at June 30, 2014.

At June 30, 2014, the City of Marion had a legal debt margin of \$37,113,519. 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
2015	\$ 33,803	\$ 29,485	\$ 166,883	\$ 25,484
2016	35,155	28,133	170,383	21,984
2017	36,562	26,726	174,001	18,366
2018	38,024	25,264	177,739	14,628
2019	39,545	23,743	181,603	10,764
2020-2030	554,027	141,515	937,350	9,415
Total	<u>\$ 737,116</u>	<u>\$ 274,866</u>	<u>\$ 1,807,959</u>	<u>\$ 100,641</u>

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

	Balance 07/01/13	Increases	Decreases	Balance 06/30/14	Current Portion of Balance
Governmental Activities:					
Notes payable	\$ 815,622	\$ -	\$ 78,506	\$ 737,116	\$ 33,803
Unfunded pension benefit obligations	171,444	29,666	20,754	180,356	-
Unfunded OPEB	1,303	16,346	13,836	3,813	-
Compensated absences	174,005	216,885	194,118	196,772	157,418
Total	<u>\$ 1,162,374</u>	<u>\$ 262,897</u>	<u>\$ 307,214</u>	<u>\$ 1,118,057</u>	<u>\$ 191,221</u>
Business-Type Activities:					
Notes payable	\$ 1,971,852	\$ -	\$ 163,893	\$ 1,807,959	\$ 166,883
Compensated absences	43,161	43,966	47,883	39,244	31,396
Total	<u>\$ 2,015,013</u>	<u>\$ 43,966</u>	<u>\$ 211,776</u>	<u>\$ 1,847,203</u>	<u>\$ 198,279</u>

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

Note B - Detail Notes on All Funds - continued:

Transfers to/from Other Funds:

Transfer to/from other funds at June 30, 2014 consist of the following:

To the General Fund Capital Projects Fund to the General Fund to fund capital projects	\$ 6,048
To the General Fund Capital Projects Fund to the General Fund to close capital projects	(11,429)
From the Water and Sewer Fund to the General Fund to repay prior years loans from General Fund	125,000
Total	<u>\$ 119,619</u>

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

For the fiscal year ended June 30, 2014, the City of Marion has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$8,586 for the eighteen volunteer firefighters and six employed firefighters who perform firefighting duties for the City's fire department. The volunteers and employees elected to be members of the Firefighter's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina.

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 payments for fringe benefits and salaries of \$9,130 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, 2014. 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.

Note C - Summary Disclosure of Significant Contingencies:

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.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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 \$2,447 to the Commission during the fiscal year ended June 30, 2014.

Note E - Subsequent Events:

On September 15, 2014, the City issued a note payable for the purchase of a fire truck for \$491,571. Twenty semi-annual payments of \$27,55, including interest at 2.24%, are due beginning March 15, 2015. The note is secured by the equipment purchased.

Note F - 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 Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightening insurance premiums which insurers remit to the State.

The State passes these monies to the local Board of the Firefighter's Relief Fund. The funds are used to assist firefighters 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, 2014, the City reported revenue and expenditures for the payments of \$9,130 made through the Firefighter'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, 2014. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Raleigh, North Carolina 27603.

CITY OF MARION, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2014

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	\$ 3,424,623
Less:	
Prepaid items	38,760
Stabilization by State statute	652,216
Streets - Powell Bill	49,612
Employee flexible spending plan	2,461
Public safety	75,381
Cemetery	109,836
Appropriated fund balance in 2015 Budget	393,702
Working Capital/Fund Balance Policy	<u>1,381,047</u>
Remaining Fund Balance	<u>\$ 721,608</u>

The City of Marion has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to, or greater than, 25% of budgeted expenditures.

Note H – Claims, Judgments and Contingent Liabilities:

At June 30, 2014, the City was a defendant to one lawsuit. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

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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 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%
12/31/11	-	227,895	227,895	0.00%	853,491	26.70%
12/31/12	-	253,274	253,274	0.00%	897,133	28.23%
12/31/13	-	304,566	304,566	0.00%	842,818	36.14%

CITY OF MARION, NORTH CAROLINA

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

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%
2012	32,791	11.08%
2013	31,823	25.10%
2014	35,062	59.19%

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	12/31/13
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay closed
Remaining amortization period	17 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases*	4.25 - 7.85%
*Includes inflation at	3.00%
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 Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a % of Covered Payroll (b-a) / c)
12/31/09	\$ -	\$ 277,760	\$ 277,760	0.00%	\$ 2,927,250	9.50%
12/31/12	-	337,250	337,250	0.00%	3,209,151	10.50%

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>
2012	\$ 13,629	102.9%
2013	16,344	86.4%
2014	16,344	84.6%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2012. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/12
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Amortization factor	26.1695
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return	4.00%
Medical trend assumptions	
Pre-Medicare trend rate	8.50% - 5.00%
Post-Medicare trend rate	6.25% - 5.00%
Year of ultimate trend rate	2018
*Includes inflation at	3.00%

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 may be increased.

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

Revenue	Budget	Actual	Variance Positive (Negative)
Ad valorem taxes:			
Current year taxes	\$ 1,985,588	\$ 2,072,730	\$ 87,142
Prior year taxes	54,500	54,774	274
Motor vehicle taxes	272,000	292,332	20,332
Penalties and interest	20,000	37,583	17,583
Total	<u>2,332,088</u>	<u>2,457,419</u>	<u>125,331</u>
Other taxes:			
Sales and use tax	1,150,000	1,160,245	10,245
Utilities franchise tax	490,000	522,536	32,536
Solid waste disposal tax	5,300	4,400	(900)
Wine tax	36,000	35,786	(214)
Total	<u>1,681,300</u>	<u>1,722,967</u>	<u>41,667</u>
Unrestricted intergovernmental revenue:			
Hold Harmless revenue	28,406	28,406	-
Court revenue	3,200	2,632	(568)
Total	<u>31,606</u>	<u>31,038</u>	<u>(568)</u>
Restricted intergovernmental revenue:			
Powell Bill allocation	227,645	227,645	-
ABC officer revenues	1,600	2,716	1,116
Parking violations	6,000	5,684	(316)
County fire protection	310,000	351,270	41,270
County recycling	9,500	7,939	(1,561)
NCDOT reimbursements	2,500	2,519	19
Federal drug asset revenue	-	2,801	2,801
State Controlled Substance revenue	12,132	12,454	322
State of NC - fire protection	1,824	1,772	(52)
McDowell County Schools officer	39,000	35,846	(3,154)
NCLM Wellness Grant	1,750	1,750	-
NCLM EAP Grant	1,750	-	(1,750)
NCLM Bullet-Proof Vest Grant	1,000	250	(750)
Governor's Highway Safety Grant	6,145	6,145	-
USDOPJ COPS Grant	27,238	27,238	-
USDOJ Bullet-Proof Vest Grants	1,000	825	(175)
On-behalf payments -			
Fire and Rescue	-	17,716	17,716
Total	<u>649,084</u>	<u>704,570</u>	<u>55,486</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Licenses and permits:			
Privilege licenses	60,100	60,678	578
City vehicle licenses	43,000	47,508	4,508
ABC revenues	90,000	109,681	19,681
Zoning and inspections	30,500	31,333	833
Cable TV revenue	70,000	68,988	(1,012)
Total	<u>293,600</u>	<u>318,188</u>	<u>24,588</u>
Sales and services:			
Rents and concessions	38,420	37,753	(667)
Cemetery revenues	16,500	16,464	(36)
Garbage fees	158,200	157,997	(203)
Copies/fingerprints	600	600	-
Sale of real estate	6,505	6,505	-
Sale of surplus equipment	5,000	2,851	(2,149)
Total	<u>225,225</u>	<u>222,170</u>	<u>(3,055)</u>
Investment earnings	<u>8,000</u>	<u>7,429</u>	<u>(571)</u>
Miscellaneous	<u>69,571</u>	<u>72,678</u>	<u>3,107</u>
Restricted contributions:			
Contributions - Police	<u>3,025</u>	<u>3,520</u>	<u>495</u>
Restricted grants - nongovernmental:			
Kate B. Reynolds Trust	<u>31,515</u>	<u>31,515</u>	<u>-</u>
Total revenue	<u>5,325,014</u>	<u>5,571,494</u>	<u>246,480</u>
Expenditures			
General government:			
Administration:			
Salaries and benefits		562,921	
Operating expenditures		106,392	
Capital outlay		27,038	
Allocation to Water and Sewer		(269,414)	
	<u>457,176</u>	<u>426,937</u>	<u>30,239</u>
Cemetery:			
Operating expenditures		26,598	
	<u>28,850</u>	<u>26,598</u>	<u>2,252</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Non-departmental:			
Operating expenditures		370,599	
	<u>402,041</u>	<u>370,599</u>	<u>31,442</u>
Total general government	<u>888,067</u>	<u>824,134</u>	<u>63,933</u>
Public Safety:			
Inspection Department:			
Salaries and benefits		194,347	
Operating expenditures		43,801	
Capital outlay		3,000	
	<u>254,521</u>	<u>241,148</u>	<u>13,373</u>
Police Department:			
Salaries and benefits		1,353,012	
Operating expenditures		331,949	
Capital outlay		109,991	
	<u>1,925,623</u>	<u>1,794,952</u>	<u>130,671</u>
Fire Department:			
Salaries and benefits		329,717	
Operating expenditures		182,270	
Capital outlay		36,656	
	<u>549,025</u>	<u>548,643</u>	<u>382</u>
Total public safety	<u>2,729,169</u>	<u>2,584,743</u>	<u>144,426</u>
Transportation:			
Street Department:			
Salaries and benefits		457,036	
Operating expenditures		369,493	
Capital outlay		98,186	
	<u>977,130</u>	<u>924,715</u>	<u>52,415</u>
Powell Bill:			
Operating expenditures		48,492	
Capital outlay		217,901	
	<u>311,240</u>	<u>266,393</u>	<u>44,847</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Works Administration:			
Salaries and benefits		138,872	
Operating expenditures		20,027	
Allocation to Water and Sewer		(61,627)	
	<u>103,423</u>	<u>97,272</u>	<u>6,151</u>
Fleet Maintenance:			
Salaries and benefits		96,344	
Operating expenditures		6,569	
Capital outlay		8,039	
Allocation to Water and Sewer		(42,979)	
	<u>71,228</u>	<u>67,973</u>	<u>3,255</u>
Total transportation	<u>1,463,021</u>	<u>1,356,353</u>	<u>106,668</u>
Environmental protection:			
Sanitation Department:			
Salaries and benefits		293,104	
Operating expenditures		202,602	
Capital outlay		33,792	
Total environmental protection	<u>588,127</u>	<u>529,498</u>	<u>58,629</u>
Cultural and recreation:			
Community Building and Recreation:			
Operating expenditures		77,013	
Capital outlay		35,498	
Total cultural and recreation	<u>165,063</u>	<u>112,511</u>	<u>52,552</u>
Debt service:			
Principal retirement		78,507	
Interest and fees		31,801	
Total debt service	<u>110,394</u>	<u>110,308</u>	<u>86</u>
Total expenditures	<u>5,943,841</u>	<u>5,517,547</u>	<u>426,294</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	<u>(618,827)</u>	<u>53,947</u>	<u>672,774</u>
Other Financing Sources (Uses)			
Fund balance appropriated	471,486	-	(471,486)
Transfer from Water & Sewer Fund	150,000	125,000	(25,000)
Transfer (to) from Capital Projects	<u>(2,659)</u>	<u>5,381</u>	<u>8,040</u>
Total other financing sources (uses)	<u>618,827</u>	<u>130,381</u>	<u>(488,446)</u>
 Net change in fund balance	 <u>\$ -</u>	 184,328	 <u>\$ 184,328</u>
Fund Balance - beginning of year		<u>3,240,295</u>	
Fund Balance - end of year		<u>\$ 3,424,623</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2014

	<u>Downtown Streetscape Project</u>	<u>Capital Reserve Fund</u>	<u>Catawba River Greenway</u>	<u>NCDOT Bicycle Plan</u>	<u>Total</u>
Assets					
Cash and investment	\$ 83,886	\$ 163,224	\$ 4,903	\$ -	\$ 252,013
Restricted cash and investments	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>8,000</u>	<u>48,000</u>
Total assets	<u>83,886</u>	<u>163,224</u>	<u>44,903</u>	<u>8,000</u>	<u>300,013</u>
Liabilities and Fund Balances					
Fund Balances:					
Restricted:					
Cultural and Recreation	-	-	40,000	-	40,000
Streets	-	-	-	8,000	8,000
Committed for future capital outlay	<u>83,886</u>	<u>163,224</u>	<u>4,903</u>	<u>-</u>	<u>252,013</u>
Total fund balances	<u>83,886</u>	<u>163,224</u>	<u>44,903</u>	<u>8,000</u>	<u>300,013</u>
Total liabilities and fund balances	<u>\$ 83,886</u>	<u>\$ 163,224</u>	<u>\$ 44,903</u>	<u>\$ 8,000</u>	<u>\$ 300,013</u>

CITY OF MARION, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2014

	Downtown Streetscape Project	NCDOT Bicycle Plan	Catawba River Greenway	Capital Reserve Fund	Yancey/Perry Street CDBG Project	Total
Revenue						
Restricted intergovernmental:						
CDBG revenue	\$ -	-	\$ -	\$ -	\$ 147,665	\$ 147,665
Other revenue:						
Kate B. Reynolds Trust Grant	-	8,000	40,000	-	-	48,000
Donations/reimbursements	-	-	-	-	-	-
Interest income	-	-	-	690	-	690
	-	8,000	40,000	690	-	48,690
Total revenue	-	8,000	40,000	690	147,665	196,355
Expenditures						
Construction costs	21,432	-	35,783	-	125,760	182,975
Land acquisition	-	-	-	-	240	240
Total expenditures	21,432	-	35,783	-	126,000	183,215
Revenues over (under) expenditures	(21,432)	8,000	4,217	690	21,665	13,140
Other Financing Sources (Uses)						
Transfers in (out)	2,659	-	3,389	-	(11,429)	(5,381)
Net change in fund balance	(18,773)	8,000	7,606	690	10,236	7,759
Fund Balance-beginning of year	102,659	-	37,297	162,534	(10,236)	292,254
Fund Balance-end of year	\$ 83,886	\$ 8,000	\$ 44,903	\$ 163,224	\$ -	\$ 300,013

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - DOWNTOWN STREETScape PROJECT
 STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenue				
NCSTEP allocation	\$ 62,672	\$ 21,551	\$ -	\$ 21,551
Donations	-	3,150	-	3,150
NCDOT grant	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>112,672</u>	<u>24,701</u>	<u>-</u>	<u>24,701</u>
Expenditures				
Construction costs	<u>455,923</u>	<u>387,341</u>	<u>21,432</u>	<u>408,773</u>
Total expenditures	<u>455,923</u>	<u>387,341</u>	<u>21,432</u>	<u>408,773</u>
Revenues over (under) expenditures	<u>(343,251)</u>	<u>(362,640)</u>	<u>(21,432)</u>	<u>(384,072)</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>343,251</u>	<u>465,299</u>	<u>2,659</u>	<u>467,958</u>
Total other financing sources (uses)	<u>343,251</u>	<u>465,299</u>	<u>2,659</u>	<u>467,958</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 102,659</u>	<u>(18,773)</u>	<u>\$ 83,886</u>
Fund Balance - beginning of year			<u>102,659</u>	
Fund Balance - end of year			<u>\$ 83,886</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, 2014

	Total Project Budget	Prior Years	Current Year	Total
Revenue				
Phase I:				
Restricted intergovernmental:				
PARTF Grant	\$ 167,300	\$ 167,300	\$ -	\$ 167,300
RTP Grant	75,000	75,000	-	75,000
	<u>242,300</u>	<u>242,300</u>	<u>-</u>	<u>242,300</u>
Donations:				
In-kind	31,100	31,100	-	31,100
Other	34,550	35,050	-	35,050
	<u>65,650</u>	<u>66,150</u>	<u>-</u>	<u>66,150</u>
Total revenue-Phase I	<u>307,950</u>	<u>308,450</u>	<u>-</u>	<u>308,450</u>
Phase II:				
Restricted intergovernmental				
PARTF Grant	238,800	-	-	-
RTP Grant	75,000	-	-	-
McDowell County	45,000	-	-	-
	<u>358,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:				
Kate B. Reynolds Trust Grant	40,000	-	40,000	40,000
	<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>40,000</u>
Donations:				
In-kind	36,100	37,700	-	37,700
Other	37,700	-	-	-
	<u>73,800</u>	<u>37,700</u>	<u>-</u>	<u>37,700</u>
Total revenue-Phase II	<u>432,600</u>	<u>37,700</u>	<u>40,000</u>	<u>77,700</u>
Total Revenue	<u>740,550</u>	<u>346,150</u>	<u>40,000</u>	<u>386,150</u>
Expenditures				
Phase I:				
Construction costs	384,200	379,705	-	379,705
In-kind costs	31,100	31,100	-	31,100
Total expenditures- Phase I	<u>415,300</u>	<u>410,805</u>	<u>-</u>	<u>410,805</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 - CONTINUED

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Phase II:				
Construction costs	439,900	7,703	35,783	43,486
In-kind costs	<u>37,700</u>	<u>37,700</u>	<u>-</u>	<u>37,700</u>
Total expenditures Phase II	<u>477,600</u>	<u>45,403</u>	<u>35,783</u>	<u>81,186</u>
Total expenditures	<u>892,900</u>	<u>456,208</u>	<u>35,783</u>	<u>491,991</u>
Revenues over (under) expenditures	<u>(152,350)</u>	<u>(110,058)</u>	<u>4,217</u>	<u>(105,841)</u>
Other Financing Sources (Uses)				
Transfers in:				
Phase I	107,350	102,355	-	102,355
Phase II	<u>45,000</u>	<u>45,000</u>	<u>3,389</u>	<u>48,389</u>
Total other financing sources (uses)	<u>152,350</u>	<u>147,335</u>	<u>3,389</u>	<u>150,744</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 37,297</u>	7,606	<u>\$ 44,903</u>
Fund Balance - beginning of year			<u>37,297</u>	
Fund Balance - end of year			<u>\$ 44,903</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - CAPITAL RESERVE FUND
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue			
Interest income	\$ 1,100	\$ 690	\$ (410)
Total revenue	<u>1,100</u>	<u>690</u>	<u>(410)</u>
Expenditures			
Future expenditures	<u>153,088</u>	<u>-</u>	<u>153,088</u>
Total expenditures	<u>153,088</u>	<u>-</u>	<u>153,088</u>
Revenues over (under) expenditures	<u>(151,988)</u>	<u>690</u>	<u>152,678</u>
Other Financing Sources (Uses)			
Fund balance appropriated	<u>151,988</u>	<u>-</u>	<u>151,988</u>
Total other financing sources (uses)	<u>151,988</u>	<u>-</u>	<u>151,988</u>
Net change in fund balance	<u>\$ -</u>	<u>690</u>	<u>\$ 690</u>
Fund Balance - beginning of year		<u>162,534</u>	
Fund Balance - end of year		<u>\$ 163,224</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - NCDOT BICYCLE PLAN
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Current Year</u>	<u>Total</u>
Revenue			
NCDOT Grant	\$ 32,000	\$ -	\$ -
Kate B. Reynolds Trust Grant	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>
Total revenue	<u>40,000</u>	<u>8,000</u>	<u>8,000</u>
Expenditures			
Bicycle Plan - Engineering & Construction	<u>40,000</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>40,000</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>8,000</u>	<u>8,000</u>
Net change in fund balance	<u>\$ -</u>	<u>8,000</u>	<u>\$ 8,000</u>
Fund Balance - beginning of year		<u>-</u>	
Fund Balance - end of year		<u>\$ 8,000</u>	

CITY OF MARION, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUND - YANCEY/PERRY STREETS DRAINAGE PROJECT
 STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenue				
CDBG revenue	\$ 606,970	\$ 289,681	\$ 147,665	\$ 437,346
Total revenue	<u>606,970</u>	<u>289,681</u>	<u>147,665</u>	<u>437,346</u>
Expenditures				
Construction costs	549,445	249,494	125,760	375,254
Land acquisition	7,525	8,151	240	8,391
Administration costs	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total expenditures	<u>606,970</u>	<u>307,645</u>	<u>126,000</u>	<u>433,645</u>
Revenues over (under) expenditures	<u>-</u>	<u>(17,964)</u>	<u>21,665</u>	<u>3,701</u>
Other Financing Sources (Uses)				
Transfers from General Fund	<u>-</u>	<u>7,728</u>	<u>(11,429)</u>	<u>(3,701)</u>
Total other financing sources (uses)	<u>-</u>	<u>7,728</u>	<u>(11,429)</u>	<u>(3,701)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (10,236)</u>	10,236	<u>\$ -</u>
Fund Balance - beginning of year			<u>(10,236)</u>	
Fund Balance - end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue			
Water sales	\$ 965,400	\$ 933,391	\$ (32,009)
Sewer sales	637,000	624,164	(12,836)
Sewer taps	20,000	21,100	1,100
Water taps	51,000	26,819	(24,181)
Cut-on fees/penalties	90,500	99,860	9,360
Water service charges	889,000	892,400	3,400
Sewer service charges	472,000	474,227	2,227
Other operating income	13,974	16,849	2,875
Total operating income	<u>3,138,874</u>	<u>3,088,810</u>	<u>(50,064)</u>
Non-Operating Income			
Interest	4,500	4,112	(388)
County reimbursements - Sugar Hill	51,968	51,968	-
Rural Center Grant	14,696	14,696	-
Sales of surplus equipment	4,000	1,107	(2,893)
Total non-operating income	<u>75,164</u>	<u>71,883</u>	<u>(3,281)</u>
Total revenue	3,214,038	3,160,693	(53,345)
Appropriated Fund Balance	<u>345,050</u>	<u>-</u>	<u>(345,050)</u>
Total revenue and appropriated fund balance	<u>3,559,088</u>	<u>3,160,693</u>	<u>(398,395)</u>
Expenditures			
Utility Line Maintenance:			
Salaries and benefits		474,587	
Operating expenditures		157,941	
Repairs and maintenance		40,618	
Capital outlay		14,706	
Overhead allocation		394,713	
	<u>1,355,485</u>	<u>1,082,565</u>	<u>272,920</u>
Water Filter Plant:			
Salaries and benefits		272,590	
Operating expenditures		250,134	
Repairs and maintenance		41,171	
Capital outlay		32,984	
	<u>688,345</u>	<u>596,879</u>	<u>91,466</u>

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND
 STATEMENT OF REVENUE AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP) - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Waste Treatment Plant:			
Salaries and benefits		492,115	
Operating expenditures		407,175	
Repairs and maintenance		86,101	
Capital outlay		31,247	
	<u>1,065,186</u>	<u>1,016,638</u>	<u>48,548</u>
Miscellaneous	<u>12,500</u>	<u>6,153</u>	<u>6,347</u>
Debt service:			
Interest and fees		28,870	
Principal retirement		163,893	
	<u>192,367</u>	<u>192,763</u>	<u>(396)</u>
Insurance, bonding and workmen's compensation		94,731	
	<u>95,205</u>	<u>94,731</u>	<u>474</u>
Total expenditures	<u>3,409,088</u>	<u>2,989,729</u>	<u>419,359</u>
Other Financing Sources (Uses)			
Transfer from Water and Sewer Capital Projects	-	9,991	9,991
Transfer to General Fund	<u>(150,000)</u>	<u>(125,000)</u>	<u>25,000</u>
	<u>(150,000)</u>	<u>(115,009)</u>	<u>34,991</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 55,955</u>	<u>\$ 55,955</u>

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Actual</u>
Reconciliation of budgetary basis (modified accrual) to full accrual:	
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ 55,955</u>
Reconciling items:	
Principal retirement of debt	163,893
Increase (decrease) in inventory	(2,588)
(Increase) decrease in vacation pay	3,917
(Increase) decrease in accrued payroll	(782)
Transfer from Water and Sewer Capital Project Fund	(9,991)
Capital outlay	78,937
Interest income from Water and Sewer Capital Projects Fund	54
Depreciation	<u>(878,729)</u>
Total reconciling items	<u>(645,289)</u>
Change in net position	<u><u>\$ (589,334)</u></u>

CITY OF MARION, NORTH CAROLINA

CAPITAL OUTLAY FUND - WATER/SEWER
 SUGAR HILL ROAD WATER AND SEWER IMPROVEMENTS PROJECT
 STATEMENT OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
Revenue				
ARC Grant	\$ 300,000	\$ 131,845	\$ -	\$ 131,845
McDowell County funding	30,520	30,520	-	30,520
Rural Center Grant	977,100	977,100	-	977,100
Interest income	<u>-</u>	<u>1,159</u>	<u>54</u>	<u>1,213</u>
Total revenue	<u>1,307,620</u>	<u>1,140,624</u>	<u>54</u>	<u>1,140,678</u>
Expenditures				
Construction costs	<u>2,409,845</u>	<u>2,168,878</u>	<u>67,173</u>	<u>2,236,051</u>
Total expenditures	<u>2,409,845</u>	<u>2,168,878</u>	<u>67,173</u>	<u>2,236,051</u>
Revenues over (under) expenditures	<u>(1,102,225)</u>	<u>(1,028,254)</u>	<u>(67,119)</u>	<u>(1,095,373)</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>6,412</u>	<u>(9,991)</u>	<u>(3,579)</u>
Total other financing sources (uses)	<u>1,102,225</u>	<u>1,108,637</u>	<u>(9,991)</u>	<u>1,098,646</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 80,383</u>	<u>\$ (77,110)</u>	<u>\$ 3,273</u>

CITY OF MARION, NORTH CAROLINA

INTERNAL SERVICE FUND
STATEMENT OF REVENUE AND EXPENDITURES
FINANCIAL PLAN AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2014

	Financial Plan	Actual	Variance Favorable (Unfavorable)
Revenue			
Sales to other funds	\$ 342,000	\$ 347,097	\$ 5,097
Total operating income	342,000	347,097	5,097
Appropriated Fund Balance	11,531	-	(11,531)
Total revenue and appropriated fund balance	353,531	347,097	(6,434)
Expenditures			
Salaries and benefits		88,379	
Operating expenditures		243,030	
Total expenditures	353,531	331,409	22,122
Revenue over (under) expenditures	\$ -	\$ 15,688	\$ 15,688
Reconciliation of budgetary basis (modified accrual) to full accrual:			
Revenues and other financing sources (uses) over (under) expenditures		\$ 15,688	
Reconciling items:			
Increase (decrease) in inventory		(5,572)	
Depreciation		(1,586)	
Total reconciling items		(7,158)	
Change in net position		\$ 8,530	

CITY OF MARION, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2014

Year of Levy	Uncollected Balance July 1, 2013	Additions	Collections and Adjustments	Uncollected Balance June 30, 2014
2013	\$ -	\$ 2,414,906	\$ 2,361,735	\$ 53,171
2012	90,702	-	60,046	30,656
2011	27,453	-	10,719	16,734
2010	22,919	-	7,226	15,693
2009	18,514	-	4,984	13,530
2008	15,371	-	3,340	12,031
2007	12,119	-	1,830	10,289
2006	13,817	-	1,232	12,585
2008	12,845	-	1,672	11,173
2004	8,145	-	413	7,732
2003	10,303	-	10,303	-
	<u>\$ 232,188</u>	<u>\$ 2,414,906</u>	<u>\$ 2,463,500</u>	183,594
Less allowance for uncollectible ad valorem taxes				(62,600)
Ad Valorem taxes receivable - net				<u>\$ 120,994</u>
Reconciliation with revenues:				
Taxes - Ad Valorem:				
General Fund				\$ 2,457,419
Releases				10,801
Discount				7,795
Amounts written off for the 2003 levy per the statute of limitations				10,303
Other adjustments				14,765
				2,501,083
Less interest collected				(37,583)
Total collections and adjustments				<u>\$ 2,463,500</u>

CITY OF MARION, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2014

	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	\$ 402,583,618	\$.51	\$ 2,053,177	\$ 2,053,177	\$ -
Registered motor vehicles taxed at prior year's rate	57,351,868	.51	292,495	-	292,495
Penalties	-		1,926	1,749	177
	<u>459,935,486</u>		<u>2,347,598</u>	<u>2,054,926</u>	<u>292,672</u>
Discoveries					
Current year taxes	<u>24,836,131</u>	.51	<u>126,664</u>	<u>126,664</u>	<u>-</u>
Total	484,771,617		2,474,262	2,181,590	292,672
Abatements	<u>(11,638,675)</u>		<u>(59,356)</u>	<u>(59,356)</u>	<u>-</u>
Total property valuation	<u>\$ 473,132,942</u>				
Net levy			2,414,906	2,122,234	292,672
Uncollected taxes at June 30, 2014			<u>53,171</u>	<u>38,603</u>	<u>14,568</u>
Current Year's Taxes Collected			<u>\$ 2,361,735</u>	<u>\$ 2,083,631</u>	<u>\$ 278,104</u>
Current levy Collection Percentage			<u>97.80%</u>	<u>98.18%</u>	<u>95.02%</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*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements 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 and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Marion's basic financial statements, and have issued our report thereon dated October 28, 2014. The financial statements of Marion ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Marion's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions¹ on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Marion's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marion's financial statements are free from 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*.

Purpose of This Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 28, 2014

CITY OF MARION, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

GRANTOR	FEDERAL CFDA NUMBER	STATE 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	825	\$ -	\$ -
NC Dept. of Trans- portation, Powell Bill Funding	N/A	N/A	N/A	-	227,645	-
US Dept. of Justice Office of Comm. Oriented Policing Services (COPS) Hiring Program Grant	16.710	2010UMWX0199	N/A	27,238	-	-
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	147,665	-	-
US Dept of Transportation State & Comm. Hwy. Safety NC Governor's Highway Safety Program	20.600	PT-14-03-09	-	6,145	-	-
				<u>\$ 181,873</u>	<u>\$ 227,645</u>	<u>\$ -</u>

CITY OF MARION, NORTH CAROLINA

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

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. 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, 2014.

<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	\$ 737,116
US EPA - ARRA Passed through NC Dept. of Environment & Natural Resources, Div. Of Water Quality Clean Water State Rev. Fund Corpening Crk. WWTP and Catawba River Pump Station/ Force Main Improvement	66.458	2W370406-02	999,160