

City of Marion, North Carolina

Financial Statements

June 30, 2015

**Marion City Council
(As of June 30, 2015)**

Steve Little, Mayor
Lloyd Cuthbertson, Mayor Pro Tem

Everette Clark
Juanita Doggett
Billy Martin
Don Ramsey

City Manager
Bob Boyette

Prepared under the direction of:
Finance Officer
Harriett Thomas, CPA



**CITY OF MARION, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2015**

CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Financial Section:		
Independent Auditors' Report		1-3
Management's Discussion and Analysis		4-15
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	16
Statement of Activities	2	17
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	3	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	4	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	5	22
Statement of Fund Net Position - Proprietary Funds	6	23-24
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	7	25
Statement of Cash Flows – Proprietary Funds	8	26-27
Notes to the Financial Statements		28-54
Required Supplemental Financial Data:		
Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress and Schedule of Employer Contributions		55

CONTENTS (continued)

	<u>Page</u>
Other Post-Employment Benefits	
Schedule of Funding Progress and Schedule of Employer Contributions	56
Schedule of City's Proportionate Share of Net Pension Liability (Asset) – Local Government Employees' Retirement System	57
Schedule of City's Contributions – Local Government Employees' Retirement System	58
Schedule of City's Proportionate Share of Net Pension Liability – Firefighters' and Rescue Squad Workers' Pension	59
 Combining and Individual Fund Statements and Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	60-64
Combining Balance Sheet – Non-Major Governmental Funds	65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	66
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - From Inception – Downtown Streetscape Project	67
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - From Inception – Catawba River Greenway	68-69
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Capital Reserve Fund	70
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - From Inception – NCDOT Bicycle Plan	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - From Inception – Mt. Ida Wilderness Area Project	72
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) - Water and Sewer Fund	73-75

CONTENTS (continued)

	<u>Page</u>
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) - From Inception – Water and Sewer Capital Project Fund- Automated Meter Reading System Project	76
Schedule of Revenues and Expenditures – Financial Plan and Actual (Non-GAAP) - Internal Service Fund	77
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable – General Fund	78
Analysis of Current Tax Levy – General Fund	79
Compliance Section:	
Report on Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	80-81
Schedule of Expenditures of Federal and State Awards	82



Independent Auditors' 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, 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, 2015, 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 of material misstatement. The financial statements of the City of Marion ABC Board (a component unit) 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, North Carolina, as of June 30, 2015, and the respective changes in financial position and cash flows, where appropriate, thereof and the 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 on pages 4-15, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on pages 55 and 56, respectively, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 57 and 58, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 59 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 basic financial statements of the City of Marion. The combining and individual fund statements, budgetary schedules, other 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 statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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, based on our audit, the combining and individual fund statements, budgetary schedules, other 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 September 23, 2015 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, grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marion's internal control over financial reporting and compliance.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
September 23, 2015

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, 2015. 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 follow this narrative.

Financial Highlights

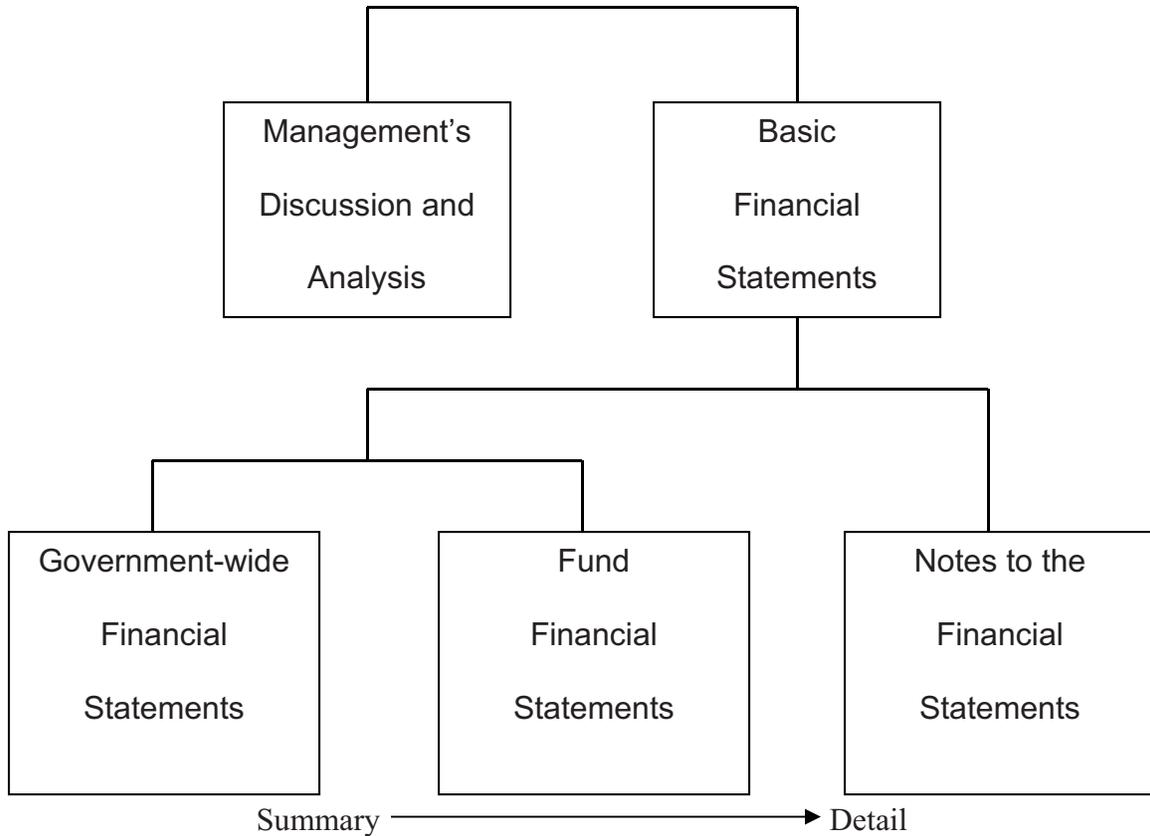
- The assets and deferred outflows of resources of the City of Marion exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$32,954,640 (*net position*).
- The government's total net position increased by \$65,524, consisting of increases in the governmental activities net position of \$363,707 and decreases in the business-type activities net position of (\$298,183).
- As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balances of \$3,723,474 with a net decrease of (\$1,162) in fund balance. Approximately 24.16% of this total amount, or \$899,748, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,109,635, or 35.14% of total general fund expenditures for the fiscal year, total fund balance for the General Fund was \$3,521,255 or 58.66% of the total General Fund expenditures.
- The City of Marion's total debt increased by \$717,645 (28.20%) during the current fiscal year. The key factor in this increase was the issuance of installment notes of \$470,000 for the Water and Sewer Automated Meter Project and \$491,571 for a pumper/tanker fire truck in the General Fund. The City continues to pay down the other existing debt.
- The City of Marion maintained a stable or declining property tax rate for the 48th consecutive year.

Overview of the Financial Statements

This discussion and analysis are 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 (Exhibits 1 and 2) 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 (Exhibits 3 through 8) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 North Carolina 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, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Marion. The final category is the component unit. Although legally separate from the City, the ABC Board is important to the City. 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 Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Marion, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of City of Marion can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 government 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 – 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. City of Marion uses an enterprise fund to account for its water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of City of Marion. The City uses an internal service fund to account for one activity – its central 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 begin on page 28 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.

Government-Wide Financial Analysis

City of Marion's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014 (Restated)	2015	2014 (Restated)	2015	2014 (Restated)
Current and other assets	\$ 4,239,051	\$ 4,008,352	\$ 1,930,074	\$ 1,955,470	\$ 6,169,125	\$ 5,963,822
Restricted assets	109,771	186,574	225,290	221,958	335,061	408,532
Capital assets	10,001,839	9,326,495	21,239,104	21,180,311	31,240,943	30,506,806
Deferred outflows of resources	179,706	-	53,679	-	233,385	-
Total assets and deferred outflows of resources	14,530,367	13,521,421	23,448,147	23,357,739	37,978,514	36,879,160
Long-term liabilities outstanding	1,466,616	926,836	1,931,612	1,648,924	3,398,228	2,575,760
Other liabilities	268,066	445,171	490,952	469,086	759,018	914,257
Deferred inflows of resources	668,277	3,007	198,351	31,643	866,628	34,650
Total liabilities and deferred inflows of resources	2,402,959	1,375,014	2,620,915	2,149,653	5,023,874	3,524,667
Net position:						
Net investment in capital assets	8,829,025	8,589,379	19,149,198	19,372,352	27,978,223	27,961,731
Restricted	865,604	827,670	-	-	865,604	827,670
Unrestricted	2,432,779	2,346,652	1,678,034	1,753,063	4,110,813	4,099,715
Total net position	\$ 12,127,408	\$ 11,763,701	\$ 20,827,232	\$ 21,125,415	\$ 32,954,640	\$ 32,889,116

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 \$32,954,640 as of June 30, 2015. The City's net position increased by \$65,524 for the fiscal year ended June 30, 2015. However, the largest portion (84.9%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Marion 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 the outstanding related 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, \$865,604, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,110,813 is unrestricted. Also, the City of Marion implemented GASB Statement 68 this year. With the new reporting change, the City is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by (\$465,377). Decisions regarding the allocations are made by the administrators of the pension plan, not by the City of Marion's management.

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 by maintaining a tax collection % of 98.34%.

- The City's total revenues were \$9,151,648 for the fiscal year ending June 30, 2015. Charges for service, particularly water and sewer service, makes up 46.11 % of the City's total revenues, while property taxes contribute 25.04 % of the total revenues and other taxes and licenses comprise 20.16 % of total revenues.
- Water and sewer revenues are 76.39 % of the total amount collected for charges for service.
- The City's expenses cover a wide range of services. Public Safety accounted for 30.71 % of the total for 2014-2015, with water and sewer operating expenses comprising 38.24 % of total expenses and transportation accounting for 12.74 % of total expenses.

City of Marion's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014 (Restated)	2015	2014 (Restated)	2015	2014 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 996,196	\$ 1,005,892	\$ 3,224,047	\$ 3,088,810	\$ 4,220,243	\$ 4,094,702
Operating grants and contributions	313,381	345,202	51,968	66,664	365,349	411,866
Capital grants and contributions	377,525	195,665	-	-	377,525	195,665
General revenues:						
Property taxes	2,291,713	2,413,069	-	-	2,291,713	2,413,069
Other taxes	1,844,733	1,718,567	-	-	1,844,733	1,718,567
Other	47,819	32,952	4,266	5,273	52,085	38,225
Total revenues	5,871,367	5,711,347	3,280,281	3,160,747	9,151,648	8,872,094
Expenses:						
General government	938,584	905,002	-	-	938,584	905,002
Public safety	2,789,977	2,775,367	-	-	2,789,977	2,775,367
Transportation	1,157,205	1,101,112	-	-	1,157,205	1,101,112
Environmental protection	529,410	556,267	-	-	529,410	556,267
Cultural and recreation	157,817	144,451	-	-	157,817	144,451
Interest on long-term debt	38,305	30,787	-	-	38,305	30,787
Water and sewer	-	-	3,474,826	3,622,226	3,474,826	3,622,226
Total expenses	5,611,298	5,512,986	3,474,826	3,622,226	9,086,124	9,135,212
Increase in net position before transfers	260,069	198,361	(194,545)	(461,479)	65,524	(263,118)
Transfers	103,638	125,000	(103,638)	(125,000)	-	-
Increase in net position	363,707	323,361	(298,183)	(586,479)	65,524	(263,118)
Net position, July 1, as previously stated	11,763,701	11,823,046	21,125,415	21,794,565	32,889,116	33,617,611
Restatements	-	(382,706)	-	(82,671)	-	(465,377)
Net position, June 30	\$ 12,127,408	\$ 11,763,701	\$ 20,827,232	\$ 21,125,415	\$ 32,954,640	\$ 32,889,116

Governmental activities. Governmental activities increased the City's net position by \$363,707 offsetting the loss of (\$298,183) from the business activities and resulting in a net increase of \$65,524. Key elements of this increase are as follows:

- Property tax revenues make up 39.03 % 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 2014-2015 increased \$42,334 or 1.99 % from 2013-2014 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 as a result of recovering retail sales, both locally and Statewide.
- Net investment in capital assets increased \$239,646 due to the addition of a pumper/tanker fire truck (partially offset by debt incurred), several vehicles, various pieces of equipment, streets and sidewalks.

Business-type activities. Business-type activities decreased the City of Marion's net position by (\$298,183), however this was offset by the increase in the governmental activities of \$363,707 resulting in a net increase in the government's net position of \$65,524. Key elements of this decrease are as follows:

- The 2014-2015 decrease of (\$298,183) is actually an increase of \$288,296 over the decrease of (\$586,479) of 2013-2014.
- Depreciation expense was \$870,556, a slight decrease, (\$8,173) over 2014-2015 as assets continue to be depreciated.
- The City starting experiencing increased water and sewer billings of \$135,237, due to starting the Automated Meter Reader Project where meters are being replaced Citywide with newer, more efficient meters. At June 30, 2015, this project was approximately 75 % complete.
- The City also decreased operating expenses by (\$147,400) by combining the Water Treatment Plant and Wastewater Treatment Plant superintendent position. Additional costs have been reduced by eliminating overtime incurred and paid.

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, City of Marion's fund balance available in the General Fund was \$2,109,635, while total fund balance reached \$3,521,255. The Governing Body of 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 35.14% of general fund expenditures, and total fund balance represents 58.66% of the same amount.

At June 30, 2015, the governmental funds of City of Marion reported a combined fund balance of \$3,723,474 with a net decrease in fund balance of (\$1,162). Included in this change in fund balance is a decrease in fund balance in the Capital Projects Fund.

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. There were several reasons the City revised its budget throughout the year. The major budget ordinance amendments in 2014-2015 were to increase revenues for: Fire Truck - \$491,471, Governor's Highway Safety Grant - \$22,361, ABC Net Revenue - \$40,000, Property Insurance Reimbursement - \$22,750, as well as several smaller amounts. Although expenditures were held in check overall to comply with its budgetary requirements, the City did amend the budget in the General Fund in General Government to account for the purchase of : pumper/tanker fire truck - \$491,471, server for City Hall - \$12,400, Community Building Park restrooms, gazebo, floors & ceiling - \$64,507, replacement police cars - \$82,000, insurance premium increase - \$13,100, computer replacements - \$10,800 and other miscellaneous smaller amounts.

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 \$1,723,445 and the total change in net position for the Water and Sewer and the Internal Service Funds was (\$298,183) and \$18,174, respectively.

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, 2015, totals \$31,240,943 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Construction in progress for water and sewer capital assets of \$702,595, this includes \$690,338 for the Automated Meter Reading System, \$3,120 for sewer line extensions and \$9,137 for building improvements.
- Other major assets purchased or constructed for the water and sewer fund were: building improvements - \$17,708, equipment - \$172,566, land improvements - \$31,125 and pump line to reservoir - \$5,366.
- The internal service fund purchased capital assets of a phone system - \$2,100 and a computer - \$915.
- Assets purchased by governmental-type activities were : building improvements - \$40,739, equipment - \$55,667, office furniture - \$1,287, land (through tax foreclosure) - \$13,105, Community Building Park improvements - \$49,948, streets, curbs & sidewalks - \$147,548, police vehicles - \$144,699, pumper/tanker fire truck - \$515,313, street department truck - \$43,435 and completion of Catawba River Greenway Phase II - \$449,276.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,570,001	\$ 1,521,345	\$ 101,245	\$ 101,245	\$ 1,671,246	\$ 1,622,590
Buildings and system	3,195,588	3,266,751	19,071,354	19,729,483	22,266,942	22,996,234
Improvements other than buildings	1,454,361	952,683	619,741	617,348	2,074,102	1,570,031
Equipment and furniture	438,866	494,984	725,294	665,651	1,164,160	1,160,635
Infrastructure	1,960,978	1,452,551	-	-	1,960,978	1,452,551
Vehicles and motorized equipment	1,053,749	749,101	18,875	66,573	1,072,624	815,674
Construction in progress	328,296	889,080	702,595	-	1,030,891	889,080
Total	\$ 10,001,839	\$ 9,326,495	\$ 21,239,104	\$ 21,180,300	\$ 31,240,943	\$ 30,506,795

Additional information on the City's capital assets can be found in Note 2 - 5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2015, the City of Marion had total installment debt outstanding of \$3,262,720. Of this, \$936,712 is debt backed by the full faith and credit of the City. The remainder of the City's debt is secured by the equipment purchased.

City of Marion's Outstanding Debt

The City of Marion's total installment debt increased by \$717,645 (28.2%) during the past fiscal year, primarily due to the \$491,571 installment debt issued to purchase a pumper/tanker fire truck and due to \$470,000 installment debt issue for the installation of the automated meter reading system.

City of Marion's Outstanding Debt
Figure 5

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Installment debt	\$ 1,172,814	\$ 737,116	\$ 2,089,906	\$ 1,807,959	\$ 3,262,720	\$ 2,545,075
Net Pension Liability (LGERS)	-	558,744	-	166,897	-	725,641
Net Pension Obligation (LEO)	200,084	180,356	-	-	200,084	180,356
Unfunded OPEB	10,371	3,813	-	-	10,371	3,813
Compensated absences	192,384	196,772	40,188	39,244	232,572	236,016
Total	\$ 1,575,653	\$ 1,676,801	\$ 2,130,094	\$ 2,014,100	\$ 3,705,747	\$ 3,690,901

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Marion is \$33,488,782. The City has \$-0- in bonds authorized but unissued at June 30, 2015.

Additional information regarding the City of Marion's long-term debt can be found in Note 2 - 7 of this report.

Economic Factors and Next Year's Budgets and Rates

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

Declining Unemployment. The McDowell County unemployment rate has shown rapid decline in recent years and was down to 5.9% in July 2015, a rate below the State average of 6.3% and below most counties in the region, including Burke (6.3%), Caldwell (6.9%), Catawba (6.3%), Cleveland (7.0%), Mitchell (7.2%), Rutherford (8.6%) and Yancey (6.5%). As of July 2015, only 20 of North Carolina's 100 counties had unemployment rates lower than McDowell County. The declining unemployment rate is a very welcome sign. Since 1990, 3,048 manufacturing jobs have been lost in the City of Marion or in the City's utility service area. These industrial losses have cost the City an estimated \$567,000 per year in utility revenues and an estimated \$129,000 per year in property tax revenues.

More Manufacturing Stability. For the past six Fiscal Years, no manufacturing closings have taken place in the City or the City's utility service area, in contrast to prior years in which the City experienced large numbers of manufacturing job losses. 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. This project 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 of Office and Retail Space. 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 significantly and several new commercial projects have occurred or been announced. Occupancy rates in the downtown area have remained stable at between 80-90 percent for the past few years, a rate higher than many surrounding downtown areas. Several new businesses, including restaurants and retail stores have opened in the past year or have been announced for the downtown area, which should increase the downtown occupancy rate to 90 percent or greater, a positive indicator for the future.

Retail sales gains/sales tax losses. The fiscal year 2014-2015 gross taxable retail sales for McDowell County were 5.22 percent higher than 2013-2014, with a total of \$306,649,351. For six of the past nine years, County taxable retail sales exceeded that of the State of North Carolina as a whole. Since 2005, gross taxable retail sales in McDowell County have increased by 41.58 percent, compared to only 18.47 percent growth for the State as a whole. Retail sales in the City of Marion comprise approximately 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 2014-15 to 9.77 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 2015-2016.

Property Tax Collection. The City of Marion's tax collection percentage for property excluding motor vehicles increased from 98.18 percent in 2013-2014 to 98.34 percent in 2014-2015, continuing a pattern of significant increases in collections in recent years. 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, 2016

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 0.71 percent higher than the budgeted amount for 2014-2015. Sales taxes are expected to increase by 4.17 percent over the 2014-2015 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 be flat in 2015-2016, but this is likely a very conservative estimate, due to recent commercial 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 2015-2016. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2015-2016. For the 48th consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 0.58 percent to \$5,755,737. This increase is mainly due to increases in personnel expenses and targeted capital outlay spending for large purchases of equipment in 2015-2016.

Business-type Activities:

The water and sewer rates for inside the City and outside customers will increase by three percent, the second year of five years of planned three percent rate increase. General operating expenses in the Water and Sewer Fund will decrease by 0.28 percent, mainly due to decreased 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 Finance Director, City of Marion, 194 N. Main Street, Marion, NC 28752. One can also call (828)-652-3551, visit our website www.marionnc.org or send an email to hthomas@marionnc.org for more information.

BASIC FINANCIAL STATEMENTS

CITY OF MARION, NORTH CAROLINA

Exhibit 1

Statement of Net Position
June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Marion ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,964,218	\$ 1,298,289	\$ 4,262,507	\$ 67,707
Taxes receivable, net	102,302	-	102,302	-
Accrued interest receivable	20,826	-	20,826	-
Accounts receivable, net	26,432	363,289	389,721	-
Internal balances	45,411	(45,411)	-	-
Due from other governments	626,524	61,652	688,176	-
Due from component unit	55,147	-	55,147	-
Inventories	95,354	58,829	154,183	367,131
Prepaid items	35,279	12,071	47,350	10,907
Restricted:				
Cash and cash equivalents	109,771	225,290	335,061	-
Total current assets	4,081,264	1,974,009	6,055,273	445,745
Noncurrent assets:				
Net pension asset	267,558	79,920	347,478	-
Note receivable	-	101,435	101,435	-
Capital assets:				
Land and construction in progress	1,898,297	803,840	2,702,137	-
Other capital assets, net	8,103,542	20,435,264	28,538,806	185,241
Total capital assets	10,001,839	21,239,104	31,240,943	185,241
Total assets	14,350,661	23,394,468	37,745,129	630,986
DEFERRED OUTFLOWS OF RESOURCES	179,706	53,679	233,385	-
LIABILITIES				
Current liabilities:				
Accounts payable	141,147	62,019	203,166	157,265
Due to primary government	-	-	-	55,147
Accrued interest payable	7,751	5,161	12,912	-
Liabilities payable from restricted assets:				
Customer deposits	10,131	225,290	235,421	-
Current portion of long-term liabilities	109,037	198,482	307,519	115,100
Total current liabilities	268,066	490,952	759,018	327,512
Long-term liabilities:				
Due in more than one year	1,466,616	1,931,612	3,398,228	-
Total liabilities	1,734,682	2,422,564	4,157,246	327,512
DEFERRED INFLOWS OF RESOURCES	668,277	198,351	866,628	-
NET POSITION				
Net investment in capital assets	8,829,025	19,149,198	27,978,223	70,141
Restricted for:				
Stabilization by State statute	766,794	-	766,794	-
Streets	19,582	-	19,582	-
Public safety	79,228	-	79,228	-
Working capital	-	-	-	68,073
Unrestricted	2,432,779	1,678,034	4,110,813	165,260
Total net position	\$ 12,127,408	\$ 20,827,232	\$ 32,954,640	\$ 303,474

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

CITY OF MARION, NORTH CAROLINA

Exhibit 2

Statement of Activities
For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	City of Marion ABC Board
Primary government:								
Governmental Activities:								
General government	\$ 938,584	\$ 366,452	\$ 4,990	\$ 18,725	\$ (548,417)	\$ -	\$ (548,417)	
Public safety	2,789,977	429,703	54,282	-	(2,305,992)	-	(2,305,992)	
Transportation	1,157,205	-	230,364	-	(926,841)	-	(926,841)	
Environmental protection	529,410	164,839	7,110	-	(357,461)	-	(357,461)	
Cultural and recreation	157,817	35,202	16,635	358,800	252,820	-	252,820	
Interest on long-term debt	38,305	-	-	-	(38,305)	-	(38,305)	
Total governmental activities	<u>5,611,298</u>	<u>996,196</u>	<u>313,381</u>	<u>377,525</u>	<u>(3,924,196)</u>	<u>-</u>	<u>(3,924,196)</u>	
Business-type activities:								
Water and sewer	3,474,826	3,224,047	51,968	-	-	(198,811)	(198,811)	
Total business-type activities	<u>3,474,826</u>	<u>3,224,047</u>	<u>51,968</u>	<u>-</u>	<u>-</u>	<u>(198,811)</u>	<u>(198,811)</u>	
Total primary government	<u>\$ 9,086,124</u>	<u>\$ 4,220,243</u>	<u>\$ 365,349</u>	<u>\$ 377,525</u>	<u>(3,924,196)</u>	<u>(198,811)</u>	<u>(4,123,007)</u>	
Component unit:								
City of Marion ABC Board	<u>\$ 2,307,341</u>	<u>\$ 2,309,425</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ 2,084</u>
Total component unit	<u>\$ 2,307,341</u>	<u>\$ 2,309,425</u>	<u>\$ -</u>	<u>\$ -</u>				<u>2,084</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					2,291,713	-	2,291,713	-
Other taxes					1,844,733	-	1,844,733	-
Unrestricted investment earnings					-	4,266	4,266	-
Miscellaneous					47,819	-	47,819	-
Total general revenues					4,184,265	4,266	4,188,531	-
Transfers					103,638	(103,638)	-	-
Total general revenues and transfers					4,287,903	(99,372)	4,188,531	-
Changes in net position					363,707	(298,183)	65,524	2,084
Net position, beginning, as previously stated					12,146,407	21,208,086	33,354,493	301,390
Restatements (Note 4)					(382,706)	(82,671)	(465,377)	-
Net position, beginning, as restated					11,763,701	21,125,415	32,889,116	301,390
Net position, ending					<u>\$ 12,127,408</u>	<u>\$ 20,827,232</u>	<u>\$ 32,954,640</u>	<u>\$ 303,474</u>

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

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2015

	<u>Major Fund</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Total Non-Major Funds</u>	
ASSETS			
Cash and cash equivalents	\$ 2,761,999	\$ 202,219	\$ 2,964,218
Restricted cash and cash equivalents	109,771	-	109,771
Taxes receivable, net	102,302	-	102,302
Accounts receivable, net	26,432	-	26,432
Due from other governments	520,747	99,518	620,265
Due from other funds	164,468	-	164,468
Due from component unit	55,147	-	55,147
Prepaid items	34,144	-	34,144
Total assets	<u>\$ 3,775,010</u>	<u>\$ 301,737</u>	<u>\$ 4,076,747</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 137,091	\$ -	\$ 137,091
Due to other funds	-	99,518	99,518
Liabilities payable from restricted assets:			
Customer deposits	10,131	-	10,131
Total liabilities	<u>147,222</u>	<u>99,518</u>	<u>246,740</u>
DEFERRED INFLOWS OF RESOURCES	<u>106,533</u>	<u>-</u>	<u>106,533</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	34,144	-	34,144
Restricted for:			
Stabilization by State statute	766,794	-	766,794
Streets	19,582	-	19,582
Public safety	79,228	-	79,228
Committed for:			
Cemetery	112,581	-	112,581
Future capital projects	-	202,219	202,219
Assigned - subsequent year's expenditures	399,291	-	399,291
Unassigned	2,109,635	-	2,109,635
Total fund balances	<u>3,521,255</u>	<u>202,219</u>	<u>3,723,474</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,775,010</u>	<u>\$ 301,737</u>	<u>\$ 4,076,747</u>

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

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2015

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Fund balances of governmental funds	\$ 3,723,474	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		10,001,839
Net pension asset		267,558
Contributions to the pension plan in the current fiscal year are deferred outflows of resources in the statement of net position.		179,706
Other long-term assets are not available to pay for current-period expenditures and, therefore, are inflows of resources in the funds.		20,826
The current assets and current liabilities of the internal service fund are included in governmental activities in the statement of net position. (Noncurrent portions reported elsewhere.)		
Current assets	\$ 102,748	
Current liabilities	(69,006)	
Portion allocated to the enterprise fund	<u>45,411</u>	79,153
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		102,302
Some liabilities, including notes payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.		(1,583,404)
Pension related deferrals		<u>(664,046)</u>
Net position of governmental activities		<u><u>\$ 12,127,408</u></u>

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

GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2015

	<u>Major Fund</u>		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 2,310,405	\$ -	\$ 2,310,405
Other taxes and licenses	1,844,733	-	1,844,733
Unrestricted intergovernmental	192,945	-	192,945
Restricted intergovernmental	733,634	358,800	1,092,434
Licenses and permits	111,864	-	111,864
Sales and services	213,732	-	213,732
Investment earnings	2,275	53	2,328
Restricted contributions	8,280	-	8,280
Restricted grants - nongovernmental	16,635	-	16,635
Miscellaneous	80,436	-	80,436
Total revenues	<u>5,514,939</u>	<u>358,853</u>	<u>5,873,792</u>
EXPENDITURES			
Current:			
General government	840,876	-	840,876
Public safety	3,172,670	-	3,172,670
Transportation	1,249,767	-	1,249,767
Environmental protection	488,006	-	488,006
Cultural and recreation	160,605	-	160,605
Capital outlay	-	467,386	467,386
Debt service:			
Principal	55,873	-	55,873
Interest	34,980	-	34,980
Total expenditures	<u>6,002,777</u>	<u>467,386</u>	<u>6,470,163</u>
Revenues under expenditures	<u>(487,838)</u>	<u>(108,533)</u>	<u>(596,371)</u>
Other financing sources (uses):			
Installment obligations issued	491,571	-	491,571
Transfers from other funds	103,638	94,625	198,263
Transfers to other funds	<u>(10,739)</u>	<u>(83,886)</u>	<u>(94,625)</u>
Total other financing sources (uses)	<u>584,470</u>	<u>10,739</u>	<u>595,209</u>
Net change in fund balances	96,632	(97,794)	(1,162)
Fund balances, beginning of year	<u>3,424,623</u>	<u>300,013</u>	<u>3,724,636</u>
Fund balances, end of year	<u>\$ 3,521,255</u>	<u>\$ 202,219</u>	<u>\$ 3,723,474</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net changes in fund balances - total governmental funds \$ (1,162)

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 was more than depreciation in the current period, including amounts relating to the internal service fund.

Capital outlay expenditures which were capitalized	\$ 1,393,408	
Depreciation expense for governmental assets	<u>(715,915)</u>	677,493

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (20,874)

Contributions to the pension plan in the current fiscal year are not included in the statement of activities. This amount includes contributions reported in the internal service fund. 179,706

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.

Donated assets	18,725	
Change in accrued interest receivable on taxes	(2,458)	
Change in unavailable tax revenues	<u>(18,692)</u>	(2,425)

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.

New long-term debt issued	(491,571)	
Principal payments on long-term debt	55,873	
Accrued interest expense	<u>(3,325)</u>	(439,023)

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. These include amounts consolidated from the internal service fund.

Compensated absences	4,388	
Pension expense	(13,782)	
Net pension obligation	(19,728)	
Other postemployment benefits	<u>(6,558)</u>	(35,680)

Remaining consolidation adjustment for the internal service fund and the governmental funds, not included elsewhere. 5,672

Total changes in net position of governmental activities \$ 363,707

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

CITY OF MARION, NORTH CAROLINA

Exhibit 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – GENERAL FUND
 For the year ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 2,291,153	\$ 2,291,153	\$ 2,310,405	\$ 19,252
Other taxes	1,740,000	1,744,109	1,844,733	100,624
Unrestricted intergovernmental	151,000	192,000	192,945	945
Restricted intergovernmental	632,924	676,988	733,634	56,646
Licenses and permits	114,100	116,100	111,864	(4,236)
Sales and services	211,300	219,700	213,732	(5,968)
Investment earnings	7,160	7,160	2,275	(4,885)
Restricted contributions	4,600	8,490	8,280	(210)
Restricted grants - nongovernmental	16,635	16,635	16,635	-
Miscellaneous	35,000	77,332	80,436	3,104
Total revenues	<u>5,203,872</u>	<u>5,349,667</u>	<u>5,514,939</u>	<u>165,272</u>
Expenditures:				
Current:				
General government	843,436	911,536	840,876	70,660
Public safety	2,716,315	3,313,653	3,172,670	140,983
Transportation	1,345,374	1,371,374	1,249,767	121,607
Environmental protection	629,080	629,280	488,006	141,274
Cultural and recreation	97,093	167,800	160,605	7,195
Debt service:				
Principal retirement	55,102	55,873	55,873	-
Interest and other charges	36,174	34,980	34,980	-
Total expenditures	<u>5,722,574</u>	<u>6,484,496</u>	<u>6,002,777</u>	<u>481,719</u>
Revenues over (under) expenditures	<u>(518,702)</u>	<u>(1,134,829)</u>	<u>(487,838)</u>	<u>646,991</u>
Other financing sources (uses):				
Fund balance appropriated	443,702	551,622	-	(551,622)
Installment obligations issued	-	491,571	491,571	-
Transfer from water and sewer fund	75,000	103,636	103,638	2
Transfer to capital projects fund	-	(12,000)	(10,739)	1,261
Total other financing sources (uses)	<u>518,702</u>	<u>1,134,829</u>	<u>584,470</u>	<u>(550,359)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	96,632	<u>\$ 96,632</u>
Fund balance, beginning of year			<u>3,424,623</u>	
Fund balance, end of year			<u>\$ 3,521,255</u>	

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

PROPRIETARY FUNDS
Statement of Fund Net Position
For the year ended June 30, 2015

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,298,289	\$ -
Accounts receivable	363,289	-
Due from other governments	61,652	6,259
Inventories	58,829	95,354
Prepaid items	12,071	1,135
Restricted cash and cash equivalents	225,290	-
Total current assets	<u>2,019,420</u>	<u>102,748</u>
Noncurrent assets:		
Net pension asset	79,920	6,949
Note receivable	101,435	-
Capital assets:		
Land and other non-depreciable assets	803,840	-
Other capital assets, net of depreciation	<u>20,435,264</u>	<u>4,700</u>
Capital assets, net	<u>21,239,104</u>	<u>4,700</u>
Noncurrent assets	<u>21,420,459</u>	<u>11,649</u>
Total assets	<u>23,439,879</u>	<u>114,397</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>53,679</u>	<u>4,667</u>

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

PROPRIETARY FUNDS
Statement of Fund Net Position
For the year ended June 30, 2015

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	62,019	4,056
Accrued interest payable	5,161	-
Due to general fund	-	64,950
Liabilities payable from restricted assets:		
Customer deposits	225,290	-
Compensated absences, current	6,700	-
Current portion of long-term debt	191,782	-
Total current liabilities	<u>490,952</u>	<u>69,006</u>
Noncurrent liabilities:		
Compensated absences, net	33,488	1,711
Long-term debt, net of current portion	1,898,124	-
Total noncurrent liabilities	<u>1,931,612</u>	<u>1,711</u>
Total liabilities	<u>2,422,564</u>	<u>70,717</u>
DEFERRED INFLOWS OF RESOURCES	<u>198,351</u>	<u>17,248</u>
NET POSITION		
Net investment in capital assets	19,149,198	4,700
Unrestricted	1,723,445	26,399
Total net position	<u>\$ 20,872,643</u>	<u>\$ 31,099</u>
Reconciliation with Statement of Net Position - Business-type Activities:		
Total net position - proprietary fund presentation	\$ 20,872,643	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(45,411)</u>	
Net position of business-type activities	<u>\$ 20,827,232</u>	

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

PROPRIETARY FUNDS
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended June 30, 2015

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 3,166,810	\$ 309,981
Water and sewer taps	39,267	-
Other operating revenue	17,970	-
Total operating revenues	<u>3,224,047</u>	<u>309,981</u>
OPERATING EXPENSES		
Utility line maintenance	1,112,503	-
Water filter plant	467,092	-
Waste treatment plant	889,448	-
Operating expenses	-	44,102
Materials	-	245,572
Insurance and bonding	97,233	-
Miscellaneous	9,155	-
Depreciation	870,556	2,133
Total operating expenses	<u>3,445,987</u>	<u>291,807</u>
Operating income (loss)	<u>(221,940)</u>	<u>18,174</u>
NONOPERATING REVENUE (EXPENSE)		
County reimbursements - Sugar Hill	51,968	-
Investment earnings	4,266	-
Interest on long-term debt	(35,745)	-
Total nonoperating revenue (expense)	<u>20,489</u>	<u>-</u>
Income (loss) before transfers	(201,451)	18,174
Transfer to general fund - payment in lieu of taxes	<u>(103,638)</u>	<u>-</u>
Change in net position	<u>(305,089)</u>	<u>18,174</u>
Net position, beginning, as previously reported	21,260,403	22,866
Restatements	(82,671)	(9,941)
Net position, beginning, as restated	<u>21,177,732</u>	<u>12,925</u>
Net position, end of year	<u>\$ 20,872,643</u>	<u>\$ 31,099</u>
Reconciliation with Statement of Activities - Change in Net Position - Business-type Activities:		
Change in net position - fund perspective	\$ (305,089)	
Internal service fund profits allocated to business-type activities	<u>6,906</u>	
Change in net position - government-wide perspective	<u>\$ (298,183)</u>	

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

PROPRIETARY FUNDS
Statement of Cash Flows
For the year ended June 30, 2015

	Major Enterprise Fund		Internal Service Fund
	Water and Sewer Fund		Fund
Cash flows from operating activities:			
Cash received from customers and users	\$ 3,138,355	\$	309,981
Cash paid for goods and services	(1,387,496)		(191,491)
Cash paid to or on behalf of employees for services	(1,239,000)		(92,259)
Net cash provided by operating activities	<u>511,859</u>		<u>26,231</u>
Cash flows from noncapital and related financing activities:			
Transfer from (to) General Fund	(103,638)		-
Due to (from) other funds	-		(23,216)
Non-capital reimbursement	51,968		-
Net cash used by noncapital and related financing activities	<u>(51,670)</u>		<u>(23,216)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(929,361)		(3,015)
Proceeds from the issuance of debt	470,000		-
Principal payments on long-term debt	(188,053)		-
Interest on long-term debt	(30,584)		-
Net cash used by capital and related financing activities	<u>(677,998)</u>		<u>(3,015)</u>
Cash flows from investing activities:			
Interest received	365		-
Net cash provided by investing activities	<u>365</u>		<u>-</u>
Net decrease in cash and cash equivalents	(217,444)		-
Cash and cash equivalents, beginning of year	<u>1,741,023</u>		<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 1,523,579</u>	\$	<u>-</u>

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

PROPRIETARY FUNDS
Statement of Cash Flows
For the year ended June 30, 2015

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (221,940)	\$ 18,174
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	870,556	2,133
Pension expense	4,117	358
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(89,024)	-
(Increase) decrease in due from other governments	(34,030)	(34)
(Increase) decrease in inventory	17,998	9,030
(Increase) decrease in prepaid items	403	(73)
Increase (decrease) in accounts payable and accrued liabilities	13,183	912
Increase (decrease) in customer deposits	3,332	-
Increase (decrease) in compensated absences	943	398
Increase (decrease) in deferred outflows of resources for pensions	(53,679)	(4,667)
Total adjustments	<u>733,799</u>	<u>8,057</u>
Net cash provided by operating activities	<u>\$ 511,859</u>	<u>\$ 26,231</u>

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

CITY OF MARION, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2015

Note 1 - 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 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 Non-Major 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 Non-Major governmental funds:

Capital Project Funds. These funds are used to account for the construction of the Streetscape Project, Catawba River Greenway, NCDOT Bicycle Plan, and Mt. Ida Wilderness Area 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.

The City reports the following fund type:

Internal Service Fund. The Central Stores Fund 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.

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. Sales taxes are considered a shared revenue for the City because the tax is levied by McDowell County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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.

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

1. Deposits and Investments

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

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

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

2. 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.

3. 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.

<u>City of Marion Restricted Cash</u>	
Governmental Activities	
General Fund:	
Streets	\$ 19,582
Public Safety	79,214
Customer deposits	10,131
Employee Flex Account	<u>844</u>
Total governmental activities	<u>109,771</u>
Business Type Activities	
Water and Sewer Fund:	
Customer deposits	<u>225,290</u>
Total business-type activities	<u>225,290</u>
Total restricted cash	<u><u>\$ 335,061</u></u>

4. Ad Valorem Taxes Receivable

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

5. 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.

6. 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 fund consists 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.

7. 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.

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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 has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the Statement of Net 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 several items that meet the criterion for this category - property taxes receivable, prepaid taxes, and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. 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.

10. 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.

11. 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.

12. 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.

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.

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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

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

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

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

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

13. 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.

14. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Marion's employer contributions are recognized when due and the City has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 – Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal depository insurance coverage level are collateralized with securities held by the City's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board's agents in their names.

The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or the ABC Board under the Pooling Method, the potential exists for 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, 2015, the City’s deposits had a carrying amount of \$3,824,252 and a bank balance of \$4,183,743. Of the bank balance, \$752,854 was covered by Federal depository insurance and the remaining balance was covered by collateral held under the pooling method. At June 30, 2015, the City’s petty cash fund totaled \$1,503.

The carrying amount of deposits for the ABC Board was \$64,482 and the bank balance was \$75,433. All of the bank balance was covered by Federal depository insurance. At June 30, 2015, the Board’s petty cash fund totaled \$3,225.

2. Investments

At June 30, 2015 the City of Marion had \$771,813 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, 2015.

3. 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	<u>\$ 59,000</u>
 Enterprise Funds	 <u>\$ 76,000</u>

4. Due from Other Governments

Due from other governments consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>	
	Activities	Activities	Total
Local option sales tax	\$ 311,753	\$ -	\$ 311,753
Sales tax refund	28,858	61,652	90,510
Vehicle taxes/tag fees	19,968	-	19,968
Fire district tax	17,271	-	17,271
Franchise/video programming tax	122,000	-	122,000
Solid waste tax	1,100	-	1,100
McDowell County Schools	17,265	-	17,265
Federal and State grants	99,518	-	99,518
Miscellaneous reimbursements	8,791	-	8,791
	<u>\$ 626,524</u>	<u>\$ 61,652</u>	<u>\$ 688,176</u>

5. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2015 was as follows:

Government Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,521,345	\$ 69,530	\$ 20,874	\$ 1,570,001
Construction in progress	889,080	-	560,784	328,296
Total capital assets not being depreciated	<u>2,410,425</u>	<u>69,530</u>	<u>581,658</u>	<u>1,898,297</u>
Capital assets being depreciated:				
Building improvements	2,908,043	40,739	-	2,948,782
Buildings	1,538,113	-	-	1,538,113
Equipment	1,950,354	55,667	-	2,006,021
Equipment – ISF	11,601	3,015	-	14,616
Furniture and fixtures	221,897	1,287	-	223,184
Land improvements	1,164,541	542,710	-	1,707,251
Vehicles	4,101,326	703,647	143,142	4,661,831
Infrastructure	<u>1,645,571</u>	<u>556,322</u>	<u>-</u>	<u>2,201,893</u>
Total capital assets being depreciated	<u>13,541,446</u>	<u>1,903,387</u>	<u>143,142</u>	<u>15,301,691</u>
Less accumulated depreciation for:				
Building improvements	574,028	79,823	-	653,851
Buildings	605,377	32,079	-	637,456
Equipment	1,479,098	108,842	-	1,587,940
Equipment – ISF	7,783	2,133	-	9,916
Furniture and fixtures	201,987	5,112	-	207,099
Land improvements	211,858	41,032	-	252,890
Infrastructure	193,020	47,895	-	240,915
Vehicles	<u>3,352,225</u>	<u>398,999</u>	<u>143,142</u>	<u>3,608,082</u>
Total accumulated depreciation	<u>6,625,376</u>	<u>715,915</u>	<u>143,142</u>	<u>7,198,149</u>
Total capital assets being depreciated, net	<u>6,916,070</u>	<u>\$ 1,187,472</u>	<u>\$ -</u>	<u>8,103,542</u>
Governmental activities capital assets, net	<u>\$ 9,326,495</u>			<u>\$ 10,001,839</u>

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

General government	\$ 122,935
Public safety	130,699
Transportation	90,453
Environmental protection	60,586
Culture and recreation	311,242
Total depreciation expense	<u>\$ 715,915</u>

Capital asset activity for business-type activities for the year ended June 30, 2015 was as follows:

Business-type activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 101,245	\$ -	\$ -	\$ 101,245
Construction in progress	<u>-</u>	<u>702,595</u>	<u>-</u>	<u>702,595</u>
Total capital assets not being depreciated	<u>101,245</u>	<u>702,595</u>	<u>-</u>	<u>803,840</u>
Capital assets being depreciated:				
Building improvements	599,242	17,708	-	616,950
Buildings	6,891,369	-	-	6,891,369
Water and sewer mains, fittings, and lines	23,369,628	5,366	-	23,374,994
Equipment	1,745,364	172,566	-	1,917,930
Furniture and fixtures	646,678	-	-	646,678
Land improvements	1,144,904	31,125	-	1,176,029
Vehicles	<u>460,473</u>	<u>-</u>	<u>-</u>	<u>460,473</u>
Total capital assets being depreciated	<u>34,857,658</u>	<u>226,765</u>	<u>-</u>	<u>35,084,423</u>
Less accumulated depreciation for:				
Building improvements	518,693	4,722	-	523,415
Buildings	3,930,879	126,537	-	4,057,416
Water and sewer mains, fittings, and lines	6,681,182	549,946	-	7,231,128
Equipment	1,403,196	100,131	-	1,503,327
Furniture and fixtures	323,195	12,792	-	335,987
Land improvements	527,556	28,732	-	556,288
Vehicles	<u>393,902</u>	<u>47,696</u>	<u>-</u>	<u>441,598</u>
Total accumulated depreciation	<u>13,778,603</u>	<u>870,556</u>	<u>-</u>	<u>14,649,159</u>
Total capital assets being depreciated, net	<u>21,079,055</u>	<u>\$ (643,791)</u>	<u>\$ -</u>	<u>20,435,264</u>
Business-type activities capital assets, net	<u>\$21,180,300</u>			<u>\$21,239,104</u>

Discretely Presented Component Units:

Activity for the ABC Board for the year ended June 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
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>20,060</u>	<u>-</u>	<u>226,680</u>
Total capital assets being depreciated	<u>427,009</u>	<u>20,060</u>	<u>-</u>	<u>447,069</u>
Less accumulated depreciation for:				
Buildings	104,093	6,107	-	110,200
Leasehold improvements	19,914	4,539	-	24,453
Land improvements	19,493	-	-	19,493
Equipment	<u>157,160</u>	<u>10,354</u>	<u>-</u>	<u>167,514</u>
Total accumulated depreciation	<u>300,660</u>	<u>21,000</u>	<u>-</u>	<u>321,660</u>
Total capital assets being depreciated, net	<u>126,349</u>	<u>\$ (940)</u>	<u>\$ -</u>	<u>125,409</u>
ABC Board capital assets, net	<u>\$ 186,181</u>			<u>\$ 185,241</u>

6. 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, 2015, the loan has been discounted to the present value of \$101,435.

B. Liabilities1. Accounts Payable – Disaggregate Information

	Governmental Activities	Business-type Activities	Total
Trade payables	\$ 47,348	\$ 33,400	\$ 80,748
Accrued salaries and expenses	93,799	28,619	122,418
Total	<u>\$ 141,147</u>	<u>\$ 62,019</u>	<u>\$203,166</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description - The City of Marion and the ABC Board are participating employers in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Marion employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Marion's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Marion were \$233,385 for the year ended June 30, 2015.

Refunds of Contributions – City employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported an asset of \$347,478 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The City’s proportion of the net pension asset was based on a projection of the City’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the City’s proportion was 0.059%, which was a decrease of 0.001% from its proportion measured as of June 30, 2013. The ABC Board did not record its proportionate share of the net pension asset at June 30, 2015 because management determined these amounts to be immaterial.

For the year ended June 30, 2015, the City recognized pension expense of \$17,898. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 37,968
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	808,922
Changes in proportion and differences between City contributions and proportionate share of contributions	-	15,507
City contributions subsequent to the measurement date	<u>233,385</u>	<u>-</u>
Total	<u>\$ 233,385</u>	<u>\$ 862,397</u>

\$233,385 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (215,633)
2017	(215,633)
2018	(215,633)
2019	(215,498)
2020	-
Thereafter	<u>-</u>
	<u>\$ (862,397)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment Expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	36.0%	2.5%
Global equity	40.5%	6.1%
Real estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation protection	4.5%	3.7%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s proportionate share of the net pension asset to changes in the discount rate. The following presents the City’s proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the City’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	(6.25%)	(7.25%)	(8.25%)
City's proportionate share of the net pension liability (asset)	\$ 1,179,492	\$ (347,478)	\$ (1,633,139)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers’ Special Separation Allowance

1. *Plan Description*

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

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2014, 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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, 2013 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.

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	\$ 43,370
Interest on net pension obligation	9,018
Adjustment to annual required contribution	<u>(15,236)</u>
Annual pension cost	37,152
Contributions made	<u>17,424</u>
Increase in net pension obligation	19,728
Net pension obligation beginning of fiscal year	<u>180,356</u>
Net pension obligation end of fiscal year	<u>\$ 200,084</u>

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
6/30/2013	\$ 29,995	26.63%	\$ 171,444
6/30/2014	29,666	69.96%	180,356
6/30/2015	37,152	46.90%	200,084

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 \$347,483. The covered payroll (annual payroll of active employees covered by the plan) was \$1,016,476 and the ratio of the UAAL to the covered payroll was 34.19%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2015 were \$51,738 which consisted of \$48,068 from the City and \$3,670 from the law enforcement officers.

d. Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Plan Description. 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.

Funding Policy. The City's contributions were calculated using a covered payroll amount of \$2,290,888. Total contributions for the year ended June 30, 2015 were \$154,545, which consisted of \$114,545 from the City and \$40,000 from the employees. The City's required contributions and the employees' voluntary contributions represented 5.00 percent and 1.75 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 (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who 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. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. 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, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the City through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the City and supported by the State was \$13,629. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the City is not projected to make any future contributions to the plan, its proportionate share at June 30, 2014 and at June 30, 2013 was 0%.

For the year ended June 30, 2015, the City recognized pension expense of \$5,124 and revenue of \$5,124 for support provided by the State. At June 30, 2015, the City reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

3. 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 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:

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

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

The current ARC rate is .51% of annual covered payroll. For the current year, the City contributed \$9,889, or .31% of annual covered payroll. The City obtains healthcare coverage through private insurers. The City's contributions totaled \$9,889 in fiscal year 2015. Retirees contributed \$2,650 including dependent care coverage in the amount of \$0. 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 Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 16,344
Valuation discount rate	4.00%
Interest on net OPEB obligation	153
Amortization factor	26.1695
Adjustment to annual required contribution	<u>50</u>
Annual OPEB cost	16,447
Employer contributions made for fiscal year	<u>9,889</u>
Increase in net OPEB obligation	6,558
Net OPEB obligation beginning of fiscal year	<u>3,813</u>
Net OPEB obligation end of fiscal year	<u>\$ 10,371</u>

Trend Information			
Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2013	\$ 16,342	84.1%	\$ 1,303
6/30/2014	16,346	84.6%	3,813
6/30/2015	16,447	60.1%	10,371

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 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.

4. Other Employment Benefit

The City has 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.

For the fiscal year ended June 30, 2015, 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>
10 – 20	1	2015
20 or more	2	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.

5. Deferred Outflows and Inflows of Resources

The City has deferred outflows of resources for contributions to pension plan in the current fiscal year of \$233,385.

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

Prepaid taxes (General Fund)	\$ 4,231
Taxes receivable, net (General Fund)	102,302
Pension deferrals	<u>862,397</u>
Total	<u>\$ 968,930</u>

6. 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 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. The Finance Director is individually bonded for \$50,000.

7. Long-Term Obligations

Serviced by the Water and Sewer Fund:

During the year ended June 30, 2015, the City issued a note payable for the purchase and installment of water meters for \$470,000. Two biannual payments of \$26,269, including interest at 2.17%, began June 19, 2015. The note is secured by the equipment being installed. The balance of this note payable was \$448,831 on June 30, 2015.

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 \$704,363 on June 30, 2015.

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 was immediately reduced by one half as part of 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 \$936,712 on June 30, 2015.

Serviced by the General Fund:

During the year ended June 30, 2015, the City issued a note payable for the purchase of a fire truck for \$491,571. Biannual payments of \$27,565, including interest at 2.24%, are due beginning March 15, 2015. The note is secured by the equipment purchased. The balance of this note payable was \$469,501 on June 30, 2015.

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 \$703,313 on June 30, 2015.

At June 30, 2015, the City of Marion had a legal debt margin of \$33,488,782. 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
2016	\$ 80,037	\$ 38,382	\$ 191,782	\$ 26,854
2017	82,453	35,965	195,632	23,004
2018	84,947	33,472	199,605	19,031
2019	87,523	30,996	203,706	14,930
2020	90,184	28,234	207,939	10,697
2021 -2031	747,670	132,572	1,091,242	30,914
Total	<u>\$ 1,172,814</u>	<u>\$ 299,621</u>	<u>\$ 2,089,906</u>	<u>\$ 125,430</u>

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

	(Restated) Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015	Current Portion of Balance
<u>Governmental Activities:</u>					
Notes payable	\$ 737,116	\$ 491,571	\$ 55,873	\$ 1,172,814	\$ 80,037
Net pension liability (LGERS)	558,744	-	558,744	-	-
Net pension obligation (LEO)	180,356	37,152	17,424	200,084	-
Unfunded OPEB	3,813	16,447	9,889	10,371	-
Compensated absences	196,772	225,472	229,860	192,384	29,000
Total	<u>\$ 1,676,801</u>	<u>\$ 770,642</u>	<u>\$ 871,790</u>	<u>\$ 1,575,653</u>	<u>\$ 109,037</u>
<u>Business-type Activities:</u>					
Notes payable	\$ 1,807,959	\$ 470,000	\$ 188,053	\$ 2,089,906	\$ 191,782
Net pension liability (LGERS)	166,897	-	166,897	-	-
Compensated absences	39,244	44,467	43,523	40,188	6,700
Total	<u>\$ 2,014,100</u>	<u>\$ 514,467</u>	<u>\$ 398,473</u>	<u>\$ 2,130,094</u>	<u>\$ 198,482</u>

The LGERS plan had a net pension asset as of June 30, 2015; however, the plan had a net pension liability at the beginning of the fiscal year.

8. Interfund Balances and Activity:

Balances due to the General Fund from other funds at June 30, 2015, consist of the following:

Internal Service Fund	\$ 64,950
General Fund Capital Projects Fund	<u>99,518</u>
Total	<u>\$ 164,468</u>

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfer to/from other funds at June 30, 2015 consist of the following:

To the General Fund Capital Projects Funds from the General Fund to close capital projects	\$ (10,739)
From the Water and Sewer Fund to the General Fund for payments in lieu of taxes	<u>103,638</u>
Total	<u>\$ 92,899</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

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

The City has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$8,715 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, 2015. 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 3 – 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.

Note 4 – Prior Period Adjustment/Restatements

During the fiscal year ended June 30, 2015, the City determined that revenues which had been deferred should have been recognized in previous periods. Therefore, an adjustment to beginning net position of the Water and Sewer Fund has been recorded, the net effect of which increased beginning net position by \$31,643.

The net position of governmental activities and business-type activities have been restated due to the implementation of GASB 68. Refer to Note 8 for more information.

Note 5 - 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 \$2,609 to the Commission during the fiscal year ended June 30, 2015.

Note 6 - 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 lightning 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, 2015, the City reported revenue and expenditures for the payments of \$8,715 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, 2015. 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.

Note 7 – 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	\$ 3,521,255
<u>Less:</u>	
Prepaid items	34,144
Stabilization by State statute	766,794
Streets - Powell Bill	19,582
Public safety	79,228
Cemetery	112,581
Appropriated fund balance in 2015 Budget	399,291
Working Capital/Fund Balance Policy	<u>1,430,644</u>
Remaining Fund Balance	<u>\$ 678,991</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 8 – Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the City to record beginning net pension liability and the effects on net position of contributions made by the City during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$382,706 and \$114,314, respectively.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

CITY OF MARION, NORTH CAROLINA

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/2009	\$ -	\$ 157,435	\$ 157,435	0.00%	\$ 801,004	19.65%
12/31/2010	-	241,761	241,761	0.00%	885,663	27.30%
12/31/2011	-	227,895	227,895	0.00%	853,491	26.70%
12/31/2012	-	253,274	253,274	0.00%	897,133	28.23%
12/31/2013	-	304,566	304,566	0.00%	842,818	36.14%
12/31/2014	-	347,483	347,483	0.00%	1,016,476	34.19%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%
2015	43,370	40.18%

CITY OF MARION, NORTH CAROLINA
OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/2009	\$ -	\$ 277,760	\$ 277,760	0.00%	\$2,927,250	9.49%
12/31/2012	-	337,250	337,250	0.00%	3,209,151	10.51%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2012	\$ 13,629	102.90%
2013	16,344	86.40%
2014	16,344	84.60%
2015	16,344	60.51%

CITY OF MARION, NORTH CAROLINA

CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST TWO FISCAL YEARS *

Local Government Employees' Retirement System		
	<u>2015</u>	<u>2014</u>
City's proportionate share of the net pension liability (asset) (%)	0.05892%	0.06020%
City's proportion of the net pension liability (asset) (\$)	\$ (347,478)	\$ 725,641
City's covered-employee payroll	3,254,764	3,207,416
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(10.68%)	22.62%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participants in the LGERS plan

CITY OF MARION, NORTH CAROLINA

**SCHEDULE OF CITY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS**

Local Government Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 235,131	\$ 228,621
Contribution in relation to the contractually required contribution	<u>235,131</u>	<u>228,621</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,254,764	\$ 3,207,416
Contributions as a percentage of covered- employee payroll	7.22%	7.13%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

CITY OF MARION, NORTH CAROLINA

**CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
LAST FISCAL YEAR ***

	<u>2015</u>
City's proportionate share of the net pension liability (%)	0.00000%
City's proportion of the net pension liability (\$)	\$ -
State's proportionate share of the net pension liability associated with City of Marion	<u>13,629</u>
Total	<u>\$ 13,629</u>
City's covered-employee payroll	\$ 244,449
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	5.58%
Plan fiduciary net position as a percentage of the total pension liability	93.42%

* The amounts presented for the fiscal year ended June 30, 2015 were determined as of June 30, 2014.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad Valorem Taxes:			
Current year taxes	\$ 2,036,153	\$ 2,073,872	\$ 37,719
Prior year taxes	45,000	32,362	(12,638)
Motor vehicle taxes, net	190,000	181,959	(8,041)
Penalties and interest	20,000	22,212	2,212
	<u>2,291,153</u>	<u>2,310,405</u>	<u>19,252</u>
Other Taxes and Licenses:			
Local option sales tax	1,200,000	1,266,906	66,906
Utilities sales tax	500,000	533,493	33,493
Solid waste disposal tax	5,000	5,225	225
Wine tax	39,109	39,109	-
	<u>1,744,109</u>	<u>1,844,733</u>	<u>100,624</u>
Unrestricted Intergovernmental:			
Court revenue	4,000	2,668	(1,332)
ABC revenues	120,000	121,237	1,237
Video Franchise fees	68,000	69,040	1,040
	<u>192,000</u>	<u>192,945</u>	<u>945</u>
Restricted Intergovernmental:			
Powell Bill allocation	227,845	227,845	-
ABC revenue for law enforcement	3,000	3,119	119
Parking violations	5,000	5,822	822
County fire protection	330,000	362,265	32,265
County recycling	13,064	10,309	(2,755)
NCDOT reimbursements	2,500	2,519	19
Federal drug asset revenue	-	2,294	2,294
State controlled substance revenue	3,894	4,284	390
State of NC fire protection	1,824	1,781	(43)
McDowell County schools officer	65,500	68,811	3,311
Governor's Highway Safety grant	22,361	25,446	3,085
Bullet-proof vest grants	2,000	5,300	3,300
On-behalf payments for fire and rescue	-	13,839	13,839
	<u>676,988</u>	<u>733,634</u>	<u>56,646</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
License, Permits and Fees:			
Business registration fees	60,000	55,532	(4,468)
City vehicle license	27,000	28,043	1,043
Building permits (zoning and inspections)	29,100	28,289	(811)
	<u>116,100</u>	<u>111,864</u>	<u>(4,236)</u>
Sales and Services:			
Rents and concessions	38,500	34,820	(3,680)
Cemetery revenues	9,000	2,712	(6,288)
Garbage fees	158,200	161,640	3,440
Copies and fingerprints	600	920	320
Sales of real estate	5,600	5,702	102
Sale of surplus equipment	7,800	7,938	138
	<u>219,700</u>	<u>213,732</u>	<u>(5,968)</u>
Miscellaneous	<u>77,332</u>	<u>80,436</u>	<u>3,104</u>
Investment earnings	<u>7,160</u>	<u>2,275</u>	<u>(4,885)</u>
Restricted contributions:			
Contributions - police	<u>8,490</u>	<u>8,280</u>	<u>(210)</u>
Restricted grants - nongovernmental:			
Kate B. Reynolds Trust	<u>16,635</u>	<u>16,635</u>	<u>-</u>
Total revenues	<u>5,349,667</u>	<u>5,514,939</u>	<u>165,272</u>
Expenditures:			
General government:			
Administration:			
Salaries and employee benefits		582,797	
Operating expenditures		99,679	
Professional fees		15,159	
Allocation to Water and Sewer		(263,630)	
	<u>459,871</u>	<u>434,005</u>	<u>25,866</u>
Cemetery:			
Operating expenditures		30,692	
	<u>31,650</u>	<u>30,692</u>	<u>958</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Non-departmental:			
Operating expenditures		363,074	
Capital outlay		13,105	
	<u>420,015</u>	<u>376,179</u>	<u>43,836</u>
 Total general government	 <u>911,536</u>	 <u>840,876</u>	 <u>70,660</u>
Public safety:			
Police department:			
Salaries and employee benefits		1,408,231	
Operating expenditures		365,994	
Capital outlay		168,177	
	<u>2,070,156</u>	<u>1,942,402</u>	<u>127,754</u>
Fire department:			
Salaries and employee benefits		332,965	
Operating expenditures		156,004	
Capital outlay		515,313	
	<u>1,001,854</u>	<u>1,004,282</u>	<u>(2,428)</u>
Inspections:			
Salaries and employee benefits		191,214	
Operating expenditures		32,720	
Capital outlay		2,052	
	<u>241,643</u>	<u>225,986</u>	<u>15,657</u>
 Total public safety	 <u>3,313,653</u>	 <u>3,172,670</u>	 <u>140,983</u>
Transportation:			
Public works administration:			
Salaries and employee benefits		140,513	
Other operating expenditures		20,135	
Capital outlay		6,293	
Allocation to Water and Sewer		(63,018)	
	<u>110,110</u>	<u>103,923</u>	<u>6,187</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Street department:			
Salaries and employee benefits		458,455	
Other operating expenditures		313,994	
Capital outlay		45,772	
	<u>911,194</u>	<u>818,221</u>	<u>92,973</u>
Powell Bill:			
Other operating expenditures		170,557	
Capital outlay		85,671	
	<u>271,740</u>	<u>256,228</u>	<u>15,512</u>
Fleet maintenance:			
Salaries and employee benefits		95,623	
Other operating expenditures		6,681	
Capital outlay		12,786	
Allocation to Water and Sewer		(43,695)	
	<u>78,330</u>	<u>71,395</u>	<u>6,935</u>
Total transportation	<u>1,371,374</u>	<u>1,249,767</u>	<u>121,607</u>
Environmental protection:			
Salaries and employee benefits		290,806	
Other operating expenditures		191,622	
Capital outlay		5,578	
Total environmental protection	<u>629,280</u>	<u>488,006</u>	<u>141,274</u>
Cultural and recreation:			
Community building and recreation:			
Other operating expenditures		89,394	
Capital outlay		71,211	
Total cultural and recreation	<u>167,800</u>	<u>160,605</u>	<u>7,195</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2015

	Final Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement		55,873	
Interest and fees		34,980	
Total debt service	90,853	90,853	-
Total expenditures	6,484,496	6,002,777	481,719
Revenues over (under) expenditures	(1,134,829)	(487,838)	646,991
Other Financing Sources (Uses):			
Fund balance appropriated	551,622	-	(551,622)
Installment obligations issued	491,571	491,571	-
Transfer from water and sewer fund	103,636	103,638	2
Transfer to capital projects funds	(12,000)	(10,739)	1,261
Total other financing sources (uses)	1,134,829	584,470	(550,359)
Revenues and other sources over expenditures and other uses	\$ -	96,632	\$ 96,632
Fund balance, beginning of year		3,424,623	
Fund balance, end of year		\$ 3,521,255	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GOVERNMENTAL FUNDS
 Combining Balance Sheet
 June 30, 2015

	<u>Catawba River Greenway</u>	<u>Capital Reserve Fund</u>	<u>Mt. Ida Project</u>	<u>Total</u>
Assets				
Cash and investments	\$ -	\$ 163,277	\$ 38,942	\$ 202,219
Grants receivable	<u>99,518</u>	<u>-</u>	<u>-</u>	<u>99,518</u>
 Total assets	<u><u>\$ 99,518</u></u>	<u><u>\$ 163,277</u></u>	<u><u>\$ 38,942</u></u>	<u><u>\$ 301,737</u></u>
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	<u>\$ 99,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,518</u>
Fund balances:				
Committed for future capital projects	<u>-</u>	<u>163,277</u>	<u>38,942</u>	<u>202,219</u>
 Total liabilities and fund balances	<u><u>\$ 99,518</u></u>	<u><u>\$ 163,277</u></u>	<u><u>\$ 38,942</u></u>	<u><u>\$ 301,737</u></u>

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

For the year ended June 30, 2015

	<u>Downtown Streetscape Project</u>	<u>Catawba River Greenway</u>	<u>Capital Reserve Fund</u>	<u>NCDOT Bicycle Plan</u>	<u>Mt. Ida Wilderness Area Project</u>	<u>Total</u>
Revenues						
Restricted intergovernmental	\$ -	\$ 358,800	\$ -	\$ -	\$ -	\$ 358,800
Interest income	-	-	53	-	-	53
Total revenues	<u>-</u>	<u>358,800</u>	<u>53</u>	<u>-</u>	<u>-</u>	<u>358,853</u>
Expenditures						
Construction costs	-	449,276	-	14,000	4,110	467,386
Revenues over (under) expenditures	<u>-</u>	<u>(90,476)</u>	<u>53</u>	<u>(14,000)</u>	<u>(4,110)</u>	<u>(108,533)</u>
Other Financing Sources (Uses)						
Transfers in (out)	<u>(83,886)</u>	<u>45,573</u>	<u>-</u>	<u>6,000</u>	<u>43,052</u>	<u>10,739</u>
Net change in fund balance	(83,886)	(44,903)	53	(8,000)	38,942	(97,794)
Fund balances, beginning of year	<u>83,886</u>	<u>44,903</u>	<u>163,224</u>	<u>8,000</u>	<u>-</u>	<u>300,013</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,277</u>	<u>\$ -</u>	<u>\$ 38,942</u>	<u>\$ 202,219</u>

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - DOWNTOWN STREETSCAPE PROJECT
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2015

	Project Authorization	Actual through June 30, 2015		
		Reported in Prior Years	Current Year	Total to Date
Revenues:				
NCSTEP allocation	\$ 62,672	\$ 21,551	\$ -	\$ 21,551
Donations	-	3,150	-	3,150
NCDOT Grant	50,000	-	-	-
Total revenues	112,672	24,701	-	24,701
Expenditures:				
Construction costs	455,923	408,773	-	408,773
Total expenditures	455,923	408,773	-	408,773
Revenues under expenditures	(343,251)	(384,072)	-	(384,072)
Other Financing Sources (Uses):				
Transfers in (out)	343,251	467,958	(83,886)	384,072
Total other financing sources (uses)	343,251	467,958	(83,886)	384,072
Net change in fund balance	\$ -	\$ 83,886	(83,886)	\$ -
Fund Balance - beginning of year			83,886	
Fund Balance - end of year			\$ -	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - CATAWBA RIVER GREENWAY
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2015

	Project Authorization	Actual through June 30, 2015		
		Reported in Prior Years	Current Year	Total to Date
Revenues:				
Phase I:				
Restricted intergovernmental:				
PARTF Grant	\$ 167,300	\$ 167,300	\$ -	\$ 167,300
RTP Grant	75,000	75,000	-	75,000
Total	<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
Total	<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	-	238,800	238,800
RTP Grant	75,000	-	75,000	75,000
McDowell County	45,000	-	45,000	45,000
Total	<u>358,800</u>	<u>-</u>	<u>358,800</u>	<u>358,800</u>
Other:				
Kate B. Reynolds Trust Grant	40,000	40,000	-	40,000
Donations:				
In-kind	37,700	37,700	-	37,700
Total revenue - Phase II	<u>436,500</u>	<u>77,700</u>	<u>358,800</u>	<u>436,500</u>
Total revenues	<u>744,450</u>	<u>386,150</u>	<u>358,800</u>	<u>744,950</u>

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - CATAWBA RIVER GREENWAY
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2015

	Project Authorization	Actual through June 30, 2015		
		Reported in Prior Years	Current Year	Total to Date
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>
Phase II:				
Construction costs	494,402	43,486	449,276	492,762
In-kind costs	37,700	37,700	-	37,700
Total expenditures - Phase II	<u>532,102</u>	<u>81,186</u>	<u>449,276</u>	<u>530,462</u>
Total expenditures	<u>947,402</u>	<u>491,991</u>	<u>449,276</u>	<u>941,267</u>
Revenues under expenditures	<u>(202,952)</u>	<u>(105,841)</u>	<u>(90,476)</u>	<u>(196,317)</u>
Other Financing Sources:				
Transfers in:				
Phase I	107,350	102,355	-	102,355
Phase II	95,602	48,389	45,573	93,962
Total other financing sources	<u>202,952</u>	<u>150,744</u>	<u>45,573</u>	<u>196,317</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 44,903</u>	<u>(44,903)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>44,903</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - CAPITAL RESERVE FUND
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 For the year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenue:			
Interest income	\$ 800	\$ 53	\$ (747)
Expenditures:			
Future expenditures	153,909	-	(153,909)
Revenues over (under) expenditures	<u>(153,109)</u>	<u>53</u>	<u>153,162</u>
Other Financing Sources:			
Fund balance appropriated	<u>153,109</u>	<u>-</u>	<u>(153,109)</u>
Net change in fund balance	<u>\$ -</u>	<u>53</u>	<u>\$ 53</u>
Fund balance, beginning of year		<u>163,224</u>	
Fund balance, end of year		<u>\$ 163,277</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - NCDOT BICYCLE PLAN
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2015

	Actual through June 30, 2015			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
NCDOT grant	\$ 32,000	\$ -	\$ -	\$ -
Kate B. Reynolds Trust grant	8,000	8,000	-	8,000
Total revenues	<u>40,000</u>	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Expenditures:				
Bicycle Plan - engineering and construction	<u>40,000</u>	<u>-</u>	<u>14,000</u>	<u>14,000</u>
Revenues over (under) expenditures	<u>-</u>	<u>8,000</u>	<u>(14,000)</u>	<u>(6,000)</u>
Other Financing Sources:				
Transfer in	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>6,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 8,000</u>	<u>(8,000)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>8,000</u>	
Fund balance, end of year			<u><u>\$ -</u></u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - MT. IDA WILDERNESS AREA PROJECT
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2015

	Actual through June 30, 2015			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
PARTF grant	\$ 131,442	\$ 131,442	\$ -	\$ 131,442
LWCF grant	82,500	82,500	-	82,500
Tower reimbursements	<u>20,481</u>	<u>20,481</u>	<u>-</u>	<u>20,481</u>
Total revenues	<u>234,423</u>	<u>234,423</u>	<u>-</u>	<u>234,423</u>
Expenditures:				
Construction costs	<u>373,052</u>	<u>289,471</u>	<u>4,110</u>	<u>293,581</u>
Revenues under expenditures	<u>(138,629)</u>	<u>(55,048)</u>	<u>(4,110)</u>	<u>(59,158)</u>
Other Financing Sources:				
Transfers in	<u>138,629</u>	<u>55,048</u>	<u>43,052</u>	<u>98,100</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	38,942	<u>\$ 38,942</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 38,942</u>	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

For the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water sales	\$ 957,750	\$ 985,677	\$ 27,927
Sewer sales	635,000	667,396	32,396
Sewer taps	20,000	8,449	(11,551)
Water taps	50,000	39,267	(10,733)
Cut-on fees/penalties	96,000	106,896	10,896
Water service charges	891,000	913,813	22,813
Sewer service charges	473,000	484,579	11,579
Other operating income	<u>18,840</u>	<u>17,970</u>	<u>(870)</u>
Total operating revenues	<u>3,141,590</u>	<u>3,224,047</u>	<u>82,457</u>
Non-operating revenues:			
Interest	3,500	283	(3,217)
County reimbursements - Sugar Hill	51,968	51,968	-
Sales of surplus equipment	<u>2,500</u>	<u>-</u>	<u>(2,500)</u>
Total non-operating income	<u>57,968</u>	<u>52,251</u>	<u>(5,717)</u>
Total revenues	<u>3,199,558</u>	<u>3,276,298</u>	<u>76,740</u>
Expenditures:			
Utility line maintenance:			
Salaries and employee benefits		483,841	
Operating expenditures		206,404	
Repairs and maintenance		33,355	
Capital outlay		104,255	
Overhead allocation		<u>390,840</u>	
	<u>1,473,241</u>	<u>1,218,695</u>	<u>254,546</u>
Water filter plant:			
Salaries and employee benefits		211,737	
Operating expenditures		230,253	
Repairs and maintenance		33,853	
Capital outlay		<u>72,231</u>	
	<u>623,868</u>	<u>548,074</u>	<u>75,794</u>

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

For the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Water treatment plant:			
Salaries and employee benefits		\$ 488,028	
Operating expenditures		358,421	
Repairs and maintenance		62,932	
Capital outlay		62,525	
	<u>1,086,756</u>	<u>971,906</u>	<u>114,850</u>
 Total operating expenditures	<u>3,183,865</u>	<u>2,738,675</u>	<u>445,190</u>
 Miscellaneous	<u>12,500</u>	<u>9,155</u>	<u>3,345</u>
 Debt service:			
Principal retirement		188,053	
Interest		30,584	
	<u>218,636</u>	<u>218,637</u>	<u>(1)</u>
 Insurance, bonding and workmen's compensation	<u>98,234</u>	<u>97,233</u>	<u>1,001</u>
 Total expenditures	<u>3,513,235</u>	<u>3,063,700</u>	<u>449,535</u>
 Revenues over (under) expenditures	<u>(313,677)</u>	<u>212,598</u>	<u>526,275</u>
 Other Financing Sources (Uses):			
Transfer to general fund - payment in lieu of taxes	(103,636)	(103,638)	(2)
Transfer to water capital project fund	(252,426)	(254,700)	(2,274)
Appropriated fund balance	669,739	-	(669,739)
	<u>313,677</u>	<u>(358,338)</u>	<u>(672,015)</u>
 Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ (145,740)</u>	<u>\$ (145,740)</u>

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)

For the year ended June 30, 2015

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over (under) expenditures and other uses		\$ (145,740)	
Reconciling items:			
Principal retirement of debt		188,053	
Increase (decrease) in inventory		(17,998)	
(Increase) decrease in accrued vacation pay		(943)	
(Increase) decrease in accrued interest		(5,161)	
Interest earned on long-term note receivable		3,901	
From Water and Sewer Capital Project Fund:			
Interest income		82	
Transfer		254,700	
Capital outlay		239,011	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		53,679	
Pension expense		(4,117)	
Depreciation		(870,556)	
 Total reconciling items		 (159,349)	
 Change in net position		 \$ (305,089)	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND
 AUTOMATED METER READING SYSTEM PROJECT
 Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
 For the year ended June 30, 2015

	<u>Total Project Budget</u>	<u>Current Actual</u>	<u>Total</u>
Revenue:			
Interest income	\$ -	\$ 82	\$ 82
Expenditures:			
AMR system project - purchase & installation	724,672	690,338	690,338
Revenue under expenditures	(724,672)	(690,256)	(690,256)
Other Financing Sources:			
Proceeds from installment debt	470,000	470,000	470,000
Transfer from Water and Sewer Capital Reserve Fund	254,672	254,700	254,700
Total other financing sources	724,672	724,700	724,700
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ 34,444</u>	<u>\$ 34,444</u>

CITY OF MARION, NORTH CAROLINA

INTERNAL SERVICE FUND

Schedule of Revenues and Expenditures - Financial Plan and Actual (Non-GAAP)
For the year ended June 30, 2015

	Financial Plan	Actual	Variance Positive (Negative)
Revenue:			
Sales to other funds	\$ 355,000	\$ 309,981	\$ (45,019)
Appropriated fund balance	802	-	(802)
Total revenue and appropriated fund balance	355,802	309,981	(45,821)
Expenditures:			
Salaries and employee benefits		88,348	
Operating expenditures		196,207	
Capital outlay		3,015	
Total expenditures	355,802	287,570	68,232
Revenue over expenditures	\$ -	22,411	\$ 22,411
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Increase (decrease) in inventory		(9,030)	
Capital outlay		3,015	
Depreciation		(2,133)	
(Increase) decrease in accrued vacation pay		(398)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		4,667	
Pension expense		(358)	
Total reconciling items		(4,237)	
Change in net position		\$ 18,174	

OTHER SCHEDULES

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2015

Fiscal Year	Uncollected Balance 6/30/2014	Additions	Collections And Credits	Uncollected Balance 6/30/2015
2014-2015	\$ -	\$ 2,353,492	\$ 2,317,482	\$ 36,010
2013-2014	53,171	-	26,843	26,328
2012-2013	30,656	-	6,647	24,009
2011-2012	16,734	-	3,890	12,844
2010-2011	15,693	-	3,221	12,472
2009-2010	13,530	-	2,861	10,669
2008-2009	12,031	-	1,860	10,171
2007-2008	10,289	-	1,697	8,592
2006-2007	12,585	-	1,456	11,129
2005-2006	11,173	-	2,095	9,078
2004-2005 and prior	<u>7,732</u>	-	<u>7,732</u>	-
	<u>\$ 183,594</u>	<u>\$ 2,353,492</u>	<u>\$ 2,375,784</u>	161,302
Less: allowance for uncollectible accounts:				
General Fund				<u>59,000</u>
Ad valorem taxes receivable, net				<u>\$ 102,302</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,310,405
Reconciling items:				
Releases				46,806
Discount				8,416
Amounts written off for the 2004 levy per the statute of limitations				7,732
Motor vehicle fees				10,721
Other				<u>13,916</u>
				2,397,996
Less: interest collected				<u>(22,212)</u>
Total collections and credits				<u>\$ 2,375,784</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
 Analysis of Current Tax Levy
 For the year ended June 30, 2015

	City-Wide		Total Levy			
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	Registered Motor Vehicles
Original levy:						
Original levy	\$ 445,085,300	\$ 0.51	\$ 2,278,458	\$ 2,089,534	\$ 188,924	
Penalties			2,059	2,059	-	
Total			<u>2,280,517</u>	<u>2,091,593</u>	<u>188,924</u>	
Discoveries:						
Current year taxes and penalties	25,539,519	0.51	130,252	130,252	-	
Abatements	<u>(11,231,038)</u>		<u>(57,277)</u>	<u>(57,277)</u>	<u>-</u>	
Total property valuation	<u>\$ 459,393,781</u>					
Net levy			2,353,492	2,164,568	188,924	
Uncollected taxes at June 30, 2015			<u>36,010</u>	<u>35,878</u>	<u>132</u>	
Current year's taxes collected			<u>\$ 2,317,482</u>	<u>\$ 2,128,690</u>	<u>\$ 188,792</u>	
Current levy collection percentage			<u>98.47%</u>	<u>98.34%</u>	<u>99.93%</u>	

COMPLIANCE SECTION



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

To the Honorable Mayor
And Members of the City Council
City of Marion
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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2015, which collectively comprise the City of Marion's basic financial statements, and have issued our report thereon dated September 23, 2015. The financial statements of the City 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 opinions 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 over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the 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.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
September 23, 2015

CITY OF MARION, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Year ended June 30, 2015

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State Contract Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures
Federal Grants:				
<u>U.S. Dept. of Justice</u>				
Office of Justice Programs				
Bulletproof Vest Partnership Grant	16.607		\$ 2,800	\$ -
 <u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
NC Governor's Highway Safety Program	20.600	PT-14-03-09	25,446	-
Passed-through the N.C. Department of Environment and Natural Resources:				
Recreational Trails Program	20.219		75,000	-
Total U.S. Dept. of Transportation			100,446	-
Total assistance - federal programs			103,246	-
 State Grants:				
<u>N.C. Department of Environment and Natural Resources:</u>				
2014 Community Waste Reduction & Recycling Grant		5929		3,960
 <u>N.C. Department of Cultural Resources:</u>				
Parks and Recreation Trust Fund				238,800
 <u>N.C. Department of Transportation:</u>				
Powell Bill				256,228
Total assistance - State programs				498,988
Total assistance			\$ 103,246	\$ 498,988

Note to the Schedule of Expenditures of Federal and State Awards:

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, which are presented on the accrual basis of accounting.