

City of Marion, North Carolina

Financial Statements

June 30, 2016



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

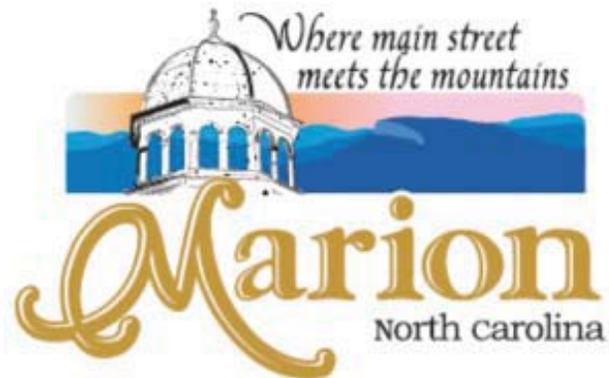
**Marion City Council
(As of June 30, 2016)**

Steve Little, Mayor
Billy Martin, Mayor Pro Tem

Everette Clark
Lloyd Cuthbertson
Juanita Doggett
Don Ramsey

City Manager
Bob Boyette

Prepared under the direction of:
Finance Officer
Julie Scherer, CPA



**CITY OF MARION, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2016**

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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, 2016, 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, 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, 2016, 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 4-16, the Law Enforcement Officers' Special Separation Allowance's Schedule of Funding Progress on page 56, the Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions, on page 57, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 58 and 59, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 60 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 October 20, 2016 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.

David Killian CPA Group, P.A.

Asheville, North Carolina
October 20, 2016

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, 2016. 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

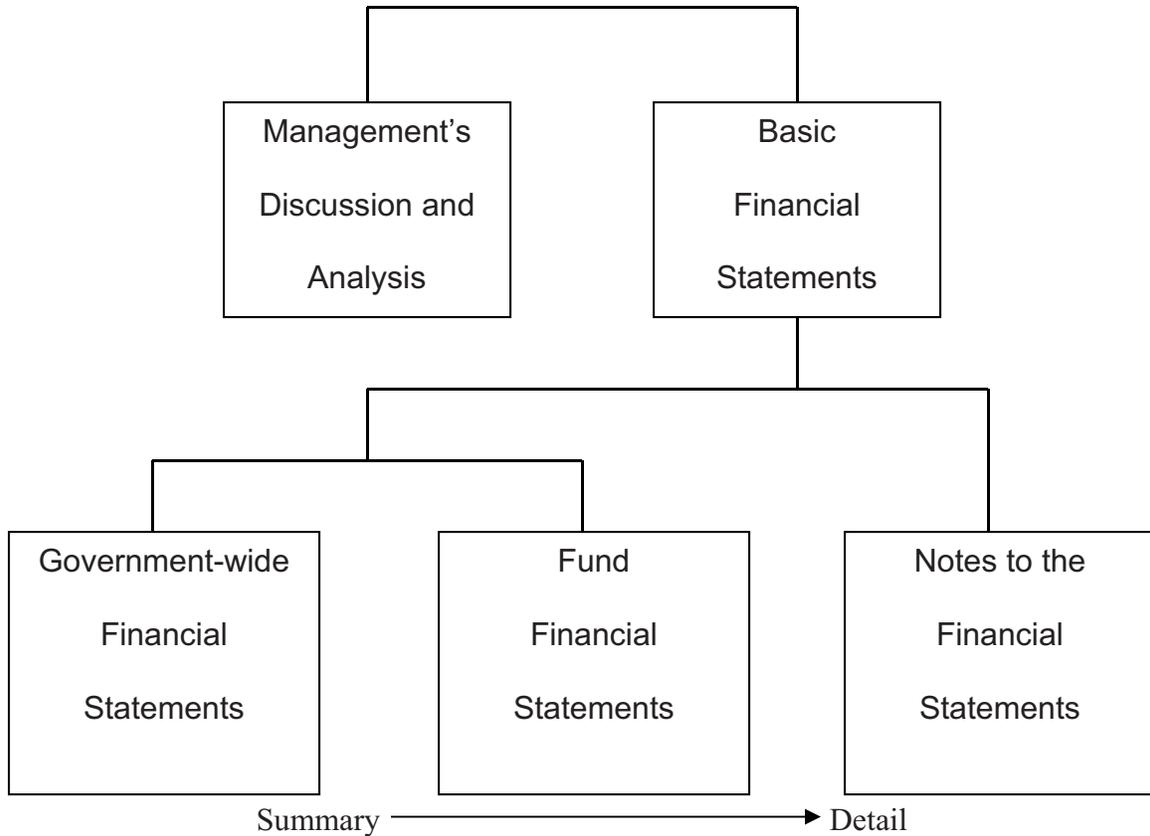
- The assets and deferred outflows of resources of the City of Marion exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$32,190,151 (*net position*).
- The government's total net position decreased by (\$764,489), consisting of decreases in the governmental activities net position of (\$126,643) and decreases in the business-type activities net position of (\$637,846).
- As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balances of \$3,687,511 with a net decrease of (\$35,963) in fund balance. Approximately 23.73% of this total amount, or \$875,178, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,174,162, or 36.43% of total general fund expenditures for the fiscal year. Total fund balance for the General Fund was \$3,587,511 or 60.12% of the total General Fund expenditures.
- The City of Marion's total debt increased by \$406,977 (12.47%) during the current fiscal year. The key factor in this increase was the issuance of installment notes of \$200,428 for a street sweeper and \$500,000 for sewer lines related to the Airport Road Sewer Line Extension project. The City continues to pay down the other existing debt.
- The City of Marion maintained a stable property tax rate of \$.51 per \$100 of valuation 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 two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between 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 – The City of Marion has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Marion uses 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 the 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 consolidated within the governmental activities in the government-wide financial statements. However, a portion of the profit or loss from this fund is allocated to the Water and Sewer Fund.

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 30 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 56 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,039,659	\$ 4,239,051	\$ 2,261,181	\$ 1,930,074	\$ 6,300,840	\$ 6,169,125
Restricted assets	113,459	109,771	731,645	225,290	845,104	335,061
Capital assets	10,014,905	10,001,839	19,972,449	21,239,104	29,987,354	31,240,943
Deferred outflows of resources	177,875	179,706	59,292	53,679	237,167	233,385
Total assets and deferred outflows of resources	14,345,898	14,530,367	23,024,567	23,448,147	37,370,465	37,978,514
Long-term liabilities outstanding	1,682,308	1,466,616	2,197,578	1,931,612	3,879,886	3,398,228
Other liabilities	540,546	268,066	598,484	490,952	1,139,030	759,018
Deferred inflows of resources	122,279	668,277	39,119	198,351	161,398	866,628
Total liabilities and deferred inflows of resources	2,345,133	2,402,959	2,835,181	2,620,915	5,180,314	5,023,874
Net position:						
Net investment in capital assets	8,721,701	8,829,025	18,095,956	19,149,198	26,817,657	27,978,223
Restricted	875,178	865,604	-	-	875,178	865,604
Unrestricted	2,403,886	2,432,779	2,093,430	1,678,034	4,497,316	4,110,813
Total net position	\$12,000,765	\$12,127,408	\$20,189,386	\$20,827,232	\$32,190,151	\$32,954,640

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 \$32,190,151 as of June 30, 2016. This \$32,190,151 represents the City's total net position. The largest portion of net position (83.3%) 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, \$875,178, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,497,316 is unrestricted.

The City's total net position decreased by (\$764,489) for the fiscal year ended June 30, 2016 mainly due to an unusual occurrence that happened during the year with capital assets. Many attempts were made by City staff to correct issues with a water and sewer meter system that was installed in fiscal year 2009. After these attempts were unsuccessful, the City decided to invest in another system and the old system was dismantled and disposed in fiscal year 2015-2016 resulting in a net loss of \$722,525.

While the total net position of the City decreased, several particular aspects of the City's financial operations positively influenced the total *unrestricted* governmental net position which increased \$886,503:

- Continued diligence in the collection of property taxes as shown by an increase in the tax collection rate from 98.34% in the prior fiscal year to 98.4% in fiscal year 2015-2016.
- Increases in charges for services of \$134,941, or 3.2%, mainly due to an increase in water and sewer rates of 3% in fiscal year 2015-2016. Water and sewer revenues are 76.53% of the total amount collected for charges for service.
- Increases in operating and capital grants and contributions of \$114,854, or 15%, for programs in Public Safety, Community Development and the Airport Road Sewer Expansion Project.
- The City's total revenues were \$9,592,588 for the fiscal year ending June 30, 2016 which represents an increase of \$440,940. All categories of revenue experienced increases. Charges for service makes up 45.40% of the City's total revenues, while property taxes contribute 24.35% of the total revenues and other taxes and licenses comprise 20.66% of total revenues.
- Continued efforts of all departments to minimize costs and efficiently serve our citizens.

City of Marion's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,022,320	\$ 996,196	\$ 3,332,864	\$ 3,224,047	\$ 4,355,184	\$ 4,220,243
Operating grants and contributions	390,560	313,381	51,968	51,968	442,528	365,349
Capital grants and contributions	65,200	377,525	350,000	-	415,200	377,525
General revenues:						
Property taxes	2,335,665	2,291,713	-	-	2,335,665	2,291,713
Other taxes	1,981,782	1,844,733	-	-	1,981,782	1,844,733
Investment earnings	-	-	4,322	-	4,322	-
Other	48,352	47,819	9,555	4,266	57,907	52,085
Total revenues	<u>5,843,879</u>	<u>5,871,367</u>	<u>3,748,709</u>	<u>3,280,281</u>	<u>9,592,588</u>	<u>9,151,648</u>
Expenses:						
General government	1,001,489	938,584	-	-	1,001,489	938,584
Public safety	3,049,949	2,789,977	-	-	3,049,949	2,789,977
Transportation	1,232,429	1,157,205	-	-	1,232,429	1,157,205
Environmental protection	579,055	529,410	-	-	579,055	529,410
Cultural and recreation	171,701	157,817	-	-	171,701	157,817
Interest on long-term debt	37,899	38,305	-	-	37,899	38,305
Water and sewer	-	-	3,562,030	3,474,826	3,562,030	3,474,826
Total expenses	<u>6,072,522</u>	<u>5,611,298</u>	<u>3,562,030</u>	<u>3,474,826</u>	<u>9,634,552</u>	<u>9,086,124</u>
Change in net position before transfers and special item	(228,643)	260,069	186,679	(194,545)	(41,964)	65,524
Special item	-	-	(722,525)	-	(722,525)	-
Transfers	102,000	103,638	(102,000)	(103,638)	-	-
Change in net position	<u>(126,643)</u>	<u>363,707</u>	<u>(637,846)</u>	<u>(298,183)</u>	<u>(764,489)</u>	<u>65,524</u>
Net position, July 1	12,127,408	11,763,701	20,827,232	21,125,415	32,954,640	32,889,116
Net position, June 30	<u>\$ 12,000,765</u>	<u>\$ 12,127,408</u>	<u>\$ 20,189,386</u>	<u>\$ 20,827,232</u>	<u>\$ 32,190,151</u>	<u>\$ 32,954,640</u>

Governmental activities. Governmental activities decreased the City's net position by (\$126,643). The Public Safety accounted for 50.23% and Transportation accounted for 20.3% of governmental activities for fiscal year 2015-2016. The City's governmental activities cover a wide range of services. Several factors affected the governmental activities net position:

- An increase in property tax revenues due to the effects of growth and a higher collection rate
- A 7% increase in other taxes and licenses, primarily local option sales taxes
- An overall increase in expenses of 8%, with the majority of the increases in public safety

Business-type activities. Business-type activities decreased the City of Marion's net position by (\$637,846), combined with the decrease in the governmental activities of (\$126,643) equals a total decrease in the government's net position of (\$764,489). Key elements of the decrease related to business-type activities are as follows:

- As discussed previously, the City's decrease in net position from the business-type activities was due largely to a special item which was the disposal of the old automated meter reading system. This single item decreased the net position by (\$722,525).
- The decreases were offset by the receipt of \$350,000 in capital contributions for the Airport Road Sewer Line Extension Project which increased the City's net position for business activities.

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. The general fund balance increased \$66,256 during fiscal year 2015-2016. Increases occurred in several revenue areas mainly due to the continuing recovery of the economy. Ad valorem taxes, which represent 40% of general fund revenues, increased \$33,290, or 1.44%, due to continuing gradual growth of the tax base and improved collections. The next largest revenue of the general fund, other taxes and licenses, increased \$137,049, or 7.43%. This increase is mainly due to continuing improvement in retail sales in the region and a resulting \$82,761 increase in local option sales tax and an increase in utilities sales tax of \$49,209.

At the end of the current fiscal year, the City of Marion's unassigned fund balance in the General Fund was \$2,174,162, while total fund balance reached \$3,587,511. 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 unassigned fund balance of 36.44% of general fund expenditures, and total fund balance represents 60.12% of the same amount.

At June 30, 2016, the governmental funds of the City of Marion reported a combined fund balance of \$3,687,511 with a net decrease in fund balance of (\$35,963). The increase previously discussed in the general fund was offset by a decrease of \$102,219 in fund balance in the capital projects fund as capital funds were used to complete projects in fiscal year 2015-2016.

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 2015-2016 were to increase revenues for increased zoning and inspection fees due to new construction - \$80,000, the receipt of a grant to purchase VIPER radios - \$67,515, the receipt of a COPS grant to assist in salaries and benefits - \$25,160, the receipt of the Governor's Highway Safety Grant - \$21,120, 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 to account for vehicle and equipment purchases re-budgeted in 2015-2016 due to the timing of delivery - \$103,959, the purchase of a street sweeper - \$200,428, the purchase of VIPER radios - \$85,530, tennis court repairs - \$17,600, 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 \$2,643,931 and the total change in net position for the Water and Sewer and the Internal Service Funds was (\$637,846) and (\$13,395), 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, 2016, totals \$29,987,354 (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:

- Completion of the Mount Ida Capital Project in the amount of \$165,104.
- Completion of the Automated Meter Reading System in the amount of \$48,396.
- Construction in progress for the Airport Road Sewer Line Extension Project in the amount of \$84,375.
- Purchase of a street sweeper - \$200,428.

- Purchase of VIPER radios - \$85,530
- Purchase of 4 Police vehicles - \$143,000
- Purchase of 3 Sanitation vehicles - \$62,685
- Repair of tennis courts - \$17,600

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,624,802	\$ 1,570,001	\$ 101,245	\$ 101,245	\$ 1,726,047	\$ 1,671,246
Buildings and system Improvements other than buildings	3,084,921	3,195,588	18,499,690	19,071,354	21,584,611	22,266,942
Equipment and furniture	1,876,512	1,454,361	591,913	619,741	2,468,425	2,074,102
Infrastructure	532,336	438,866	643,930	725,294	1,176,266	1,164,160
Vehicles and motorized equipment	1,935,051	1,960,978	-	-	1,935,051	1,960,978
Construction in progress	961,283	1,053,749	51,296	18,875	1,012,579	1,072,624
Total	-	328,296	84,375	702,595	84,375	1,030,891
	<u>\$ 10,014,905</u>	<u>\$ 10,001,839</u>	<u>\$ 19,972,449</u>	<u>\$ 21,239,104</u>	<u>\$ 29,987,354</u>	<u>\$ 31,240,943</u>

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, 2016, the City of Marion had total installment debt outstanding of \$3,669,697. Of this, \$874,265 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 \$406,977 (12.5%) during the past fiscal year, primarily due to the \$200,428 installment debt issued to purchase a street sweeper and \$500,000 installment debt issue for the Airport Road sewer line extension.

City of Marion's Outstanding Debt
Figure 5

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment debt	\$ 1,293,204	\$ 1,172,814	\$ 2,376,493	\$ 2,089,906	\$ 3,669,697	\$ 3,262,720
Net Pension Liability (LGERS)	209,026	-	69,675	-	278,701	-
Net Pension Obligation (LEO)	227,306	200,084	-	-	227,306	200,084
Unfunded OPEB	11,818	10,371	-	-	11,818	10,371
Compensated absences	185,972	192,384	45,386	40,188	231,358	232,572
Total	\$ 1,927,326	\$ 1,575,653	\$ 2,491,554	\$ 2,130,094	\$ 4,418,880	\$ 3,705,747

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 approximately \$34,000,000. The City has \$-0- in bonds authorized but unissued at June 30, 2016.

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 4.6% in August 2016, a rate below the State average of 5.0% and below almost all of the counties in the region, including Avery (5.0%), Burke (5.1%), Caldwell (5.3%), Catawba (4.9%), Cleveland (5.5%), Mitchell (5.9%), Rutherford (6.5%) and Yancey (5.2%). As of August 2016, only 13 of North Carolina's 100 counties had unemployment rates lower than McDowell County and McDowell County's unemployment rate was only 0.7% higher than the lowest unemployment rate in North Carolina, which was Buncombe County at 3.9%. 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 eight 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 and the company has continued to invest in machinery and equipment, increasing the City's tax base. This project has led to increased property tax, utility

franchise tax, and water and sewer revenues for the City. Other smaller plant expansions have taken place in recent years in the City and the City's utility service area and have resulted in some increased property tax and water and sewer revenues for the City. The City and County have worked on 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 many new commercial projects have occurred or been announced. First floor 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 two years or have been announced for the downtown area, which should increase the downtown first floor occupancy rate to 90 percent or greater, a positive indicator for the future. The City has also initiated some economic development incentives for downtown development in the past two years, including an enhanced Façade Grant Program, a small business grant program, a revolving loan fund and upper level housing incentives. These programs should lead to increased business and residential development in the downtown area in the next few years.

Retail sales gains/sales tax losses. The fiscal year 2015-2016 gross taxable retail sales for McDowell County were 4.01 percent higher than 2014-2015, with a record total of \$318,946,993. Since 2005, gross taxable retail sales in McDowell County have increased by 47.26 percent, compared to growth of 26.20 percent 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 2015-16 to 9.73 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 2016-17.

Property Tax Collection. The City of Marion's tax collection percentage for property excluding motor vehicles increased from 98.34 percent in 2014-2015 to 98.4 percent in 2015-2016, 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, 2017

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 1.03 percent higher than the budgeted amount for 2015-2016. Sales taxes are expected to increase by 10.64 percent over the 2015-2016 budget, due to good growth in sales tax collections State-wide and locally. As noted above, sales tax collections in the City of Marion and in McDowell County have outpaced the State average in most recent years. Utility franchise tax collections are projected to increase 2 percent in 2016-2017, but this is likely a very conservative estimate, due to recent commercial growth. Other revenues are expected to remain relatively flat in 2016-2017. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2016-2017. For the 49th consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 6.56 percent to \$6,133,248. This increase is mainly due to increases in personnel expenses and targeted capital outlay spending for large purchases of equipment in 2016-2017 including the purchase of VIPER radios for the Police Department (\$100,000).

Business-type Activities:

The water and sewer rates for inside the City and outside customers will increase by three percent, the third year of five years of planned three percent rate increases. General operating expenses in the Water and Sewer Fund will increase by 4.96 percent, mainly due to increased capital outlay spending.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the 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 jscherer@marionnc.org for more information.

BASIC FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2016

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>City of Marion ABC Board</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,086,655	\$ 1,544,828	\$ 4,631,483	\$ 54,712
Taxes receivable, net	94,272	-	94,272	-
Accrued interest receivable	19,611	-	19,611	-
Accounts receivable, net	28,203	485,615	513,818	-
Internal balances	50,501	(50,501)	-	-
Due from other governments	658,997	26,444	685,441	-
Inventories	101,420	49,304	150,724	425,381
Prepaid items	-	-	-	9,104
Restricted cash	113,459	731,645	845,104	-
Total current assets	<u>4,153,118</u>	<u>2,787,335</u>	<u>6,940,453</u>	<u>489,197</u>
Noncurrent assets:				
Notes receivable	-	205,491	205,491	-
Capital assets:				
Land and construction in progress	1,624,802	185,620	1,810,422	59,832
Other capital assets, net	8,390,103	19,786,829	28,176,932	582,514
Total capital assets	<u>10,014,905</u>	<u>19,972,449</u>	<u>29,987,354</u>	<u>642,346</u>
Total noncurrent assets	<u>10,014,905</u>	<u>20,177,940</u>	<u>30,192,845</u>	<u>642,346</u>
Total assets	<u>14,168,023</u>	<u>22,965,275</u>	<u>37,133,298</u>	<u>1,131,543</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>177,875</u>	<u>59,292</u>	<u>237,167</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Accounts payable	275,322	68,419	343,741	231,579
Accrued interest payable	7,223	4,444	11,667	-
Liabilities payable from restricted assets:				
Customer deposits	12,983	231,645	244,628	-
Current portion of				
long-term liabilities	245,018	293,976	538,994	21,320
Total current liabilities	<u>540,546</u>	<u>598,484</u>	<u>1,139,030</u>	<u>252,899</u>

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

Statement of Net Position
June 30, 2016

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>City of Marion ABC Board</u>
Long-term liabilities:				
Net pension liability	209,026	69,675	278,701	-
Due in more than one year	<u>1,473,282</u>	<u>2,127,903</u>	<u>3,601,185</u>	<u>568,000</u>
Total long-term liabilities	<u>1,682,308</u>	<u>2,197,578</u>	<u>3,879,886</u>	<u>568,000</u>
Total liabilities	<u>2,222,854</u>	<u>2,796,062</u>	<u>5,018,916</u>	<u>820,899</u>
DEFERRED INFLOWS OF RESOURCES	<u>122,279</u>	<u>39,119</u>	<u>161,398</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	8,721,701	18,095,956	26,817,657	53,026
Restricted for:				
Stabilization by State statute	776,851	-	776,851	-
Streets	15,424	-	15,424	-
Public safety	82,903	-	82,903	-
Working capital	-	-	-	71,134
Unrestricted	<u>2,403,886</u>	<u>2,093,430</u>	<u>4,497,316</u>	<u>186,484</u>
Total net position	<u>\$ 12,000,765</u>	<u>\$ 20,189,386</u>	<u>\$ 32,190,151</u>	<u>\$ 310,644</u>

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, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit City of Marion ABC Board
	Expenses	Charges for	Operating	Capital	Primary Government		Total	
					Governmental	Business-type		
Primary government:								
Governmental Activities:								
General government	\$ 1,001,489	\$ 311,498	\$ 5,600	\$ 33,200	\$ (651,191)	\$ -	\$ (651,191)	
Public safety	3,049,949	488,908	151,623	-	(2,409,418)	-	(2,409,418)	
Transportation	1,232,429	-	229,137	-	(1,003,292)	-	(1,003,292)	
Environmental protection	579,055	188,246	4,200	-	(386,609)	-	(386,609)	
Cultural and recreation	171,701	33,668	-	32,000	(106,033)	-	(106,033)	
Interest on long-term debt	37,899	-	-	-	(37,899)	-	(37,899)	
Total governmental activities	<u>6,072,522</u>	<u>1,022,320</u>	<u>390,560</u>	<u>65,200</u>	<u>(4,594,442)</u>	<u>-</u>	<u>(4,594,442)</u>	
Business-type activities:								
Water and sewer	<u>3,562,030</u>	<u>3,332,864</u>	<u>51,968</u>	<u>350,000</u>	<u>-</u>	<u>172,802</u>	<u>172,802</u>	
Total primary government	<u>\$ 9,634,552</u>	<u>\$ 4,355,184</u>	<u>\$ 442,528</u>	<u>\$ 415,200</u>	<u>(4,594,442)</u>	<u>172,802</u>	<u>(4,421,640)</u>	
Component unit:								
City of Marion ABC Board	\$ 2,402,876	\$ 2,410,046	\$ -	\$ -				\$ 7,170
Total component unit	<u>\$ 2,402,876</u>	<u>\$ 2,410,046</u>	<u>\$ -</u>	<u>\$ -</u>				<u>7,170</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					2,335,665	-	2,335,665	-
Other taxes					1,981,782	-	1,981,782	-
Unrestricted investment earnings					3,967	4,322	8,289	-
Gain on disposal of capital assets					-	9,555	9,555	-
Miscellaneous					44,385	-	44,385	-
Total general revenues					<u>4,365,799</u>	<u>13,877</u>	<u>4,379,676</u>	<u>-</u>
Special items (Note 7)					-	(722,525)	(722,525)	-
Transfers					<u>102,000</u>	<u>(102,000)</u>	<u>-</u>	<u>-</u>
Total general revenues, special items, and transfers					<u>4,467,799</u>	<u>(810,648)</u>	<u>3,657,151</u>	<u>-</u>
Changes in net position					<u>(126,643)</u>	<u>(637,846)</u>	<u>(764,489)</u>	<u>7,170</u>
Net position, beginning					<u>12,127,408</u>	<u>20,827,232</u>	<u>32,954,640</u>	<u>303,474</u>
Net position, ending					<u>\$ 12,000,765</u>	<u>\$ 20,189,386</u>	<u>\$ 32,190,151</u>	<u>\$ 310,644</u>

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

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2016

	<u>Major Fund</u>		Total Governmental Funds
	General Fund	Non-Major Funds	
ASSETS			
Cash and cash equivalents	\$ 2,986,655	\$ 100,000	\$ 3,086,655
Restricted cash and cash equivalents	113,459	-	113,459
Taxes receivable, net	94,272	-	94,272
Accounts receivable, net	28,203	-	28,203
Due from other governments	644,032	7,280	651,312
Due from other funds	104,616	-	104,616
Total assets	<u>\$ 3,971,237</u>	<u>\$ 107,280</u>	<u>\$ 4,078,517</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 271,550	\$ -	\$ 271,550
Due to other funds	-	7,280	7,280
Liabilities payable from restricted assets:			
Customer deposits	12,983	-	12,983
Total liabilities	<u>284,533</u>	<u>7,280</u>	<u>291,813</u>
DEFERRED INFLOWS OF RESOURCES	<u>99,193</u>	<u>-</u>	<u>99,193</u>
FUND BALANCES			
Restricted for:			
Stabilization by State statute	776,851	-	776,851
Streets	15,424	-	15,424
Public safety	82,903	-	82,903
Committed for:			
Cemetery	111,295	-	111,295
Future capital projects	-	100,000	100,000
Assigned - subsequent year's expenditures	426,876	-	426,876
Unassigned	2,174,162	-	2,174,162
Total fund balances	<u>3,587,511</u>	<u>100,000</u>	<u>3,687,511</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,971,237</u>	<u>\$ 107,280</u>	<u>\$ 4,078,517</u>

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

GOVERNMENTAL FUNDS
Balance Sheet
June 30, 2016

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

Fund balances of governmental funds	\$	3,687,511	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			10,014,905
Contributions to the pension plan in the current fiscal year are deferred outflows of resources in the statement of net position.			173,314
Other long-term assets are not available to pay for current-period expenditures and, therefore, are inflows of resources in the funds.			19,611
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	\$	109,105	
Current liabilities		(101,108)	
Portion allocated to the enterprise fund		<u>50,501</u>	58,498
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			94,272
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable		(1,293,204)	
Accrued interest		(7,223)	
Net pension liability - LGERS		(209,026)	
Net pension obligation - LEO		(227,306)	
OPEB		(11,818)	
Compensated absences		<u>(185,972)</u>	(1,934,549)
Pension related deferrals are not reported in the funds.			<u>(112,797)</u>
Net position of governmental activities			<u><u>\$ 12,000,765</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, 2016

	<u>Major Fund</u>		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 2,343,695	\$ -	\$ 2,343,695
Other taxes and licenses	1,981,782	-	1,981,782
Unrestricted intergovernmental	190,063	-	190,063
Restricted intergovernmental	808,504	32,000	840,504
Licenses and permits	135,959	-	135,959
Sales and services	238,075	-	238,075
Investment earnings	5,015	37	5,052
Restricted contributions	7,792	-	7,792
Miscellaneous	77,002	-	77,002
Total revenues	<u>5,787,887</u>	<u>32,037</u>	<u>5,819,924</u>
EXPENDITURES			
Current:			
General government	879,039	-	879,039
Public safety	2,840,425	-	2,840,425
Transportation	1,402,504	-	1,402,504
Environmental protection	599,494	-	599,494
Cultural and recreation	127,284	-	127,284
Capital outlay	-	191,104	191,104
Debt service:			
Principal	80,038	-	80,038
Interest	38,427	-	38,427
Total expenditures	<u>5,967,211</u>	<u>191,104</u>	<u>6,158,315</u>
Revenues under expenditures	<u>(179,324)</u>	<u>(159,067)</u>	<u>(338,391)</u>
OTHER FINANCING SOURCES (USES)			
Installment obligations issued	200,428	-	200,428
Transfers from other funds	102,000	56,848	158,848
Transfers to other funds	(56,848)	-	(56,848)
Total other financing sources (uses)	<u>245,580</u>	<u>56,848</u>	<u>302,428</u>
Net change in fund balances	66,256	(102,219)	(35,963)
Fund balances, beginning of year	<u>3,521,255</u>	<u>202,219</u>	<u>3,723,474</u>
Fund balances, end of year	<u>\$ 3,587,511</u>	<u>\$ 100,000</u>	<u>\$ 3,687,511</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, 2016

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

Net changes in fund balances - total governmental funds		\$ (35,963)
<p>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.</p>		
Capital outlay expenditures which were capitalized	\$ 900,663	
Depreciation expense for governmental assets	<u>(918,548)</u>	(17,885)
<p>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.</p>		
		(2,249)
<p>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.</p>		
		173,314
<p>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.</p>		
Donated assets	33,200	
Change in accrued interest receivable on taxes	(1,215)	
Change in unavailable tax revenues	<u>(8,030)</u>	23,955
<p>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.</p>		
New long-term debt issued	(200,428)	
Principal payments on long-term debt	80,038	
Accrued interest expense	<u>528</u>	(119,862)
<p>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.</p>		
Compensated absences	6,412	
Pension expense (LGERS)	(105,041)	
Net pension obligation (LEO)	(27,222)	
Other postemployment benefits	<u>(1,447)</u>	(127,298)
<p>Remaining consolidation adjustment for the internal service fund and the governmental funds, not included elsewhere.</p>		
		<u>(20,655)</u>
Total changes in net position of governmental activities		<u>\$ (126,643)</u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – GENERAL FUND
 For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 2,291,225	\$ 2,291,223	\$ 2,343,695	\$ 52,472
Other taxes	1,801,200	1,801,200	1,981,782	180,582
Unrestricted intergovernmental	170,600	170,600	190,063	19,463
Restricted intergovernmental	635,281	796,349	808,504	12,155
Licenses and permits	54,100	135,300	135,959	659
Sales and services	209,260	236,329	238,075	1,746
Investment earnings	3,050	3,050	5,015	1,965
Restricted contributions	2,600	8,200	7,792	(408)
Miscellaneous	37,130	68,494	77,002	8,508
Total revenues	<u>5,204,446</u>	<u>5,510,745</u>	<u>5,787,887</u>	<u>277,142</u>
Expenditures:				
Current:				
General government	890,345	944,007	879,039	64,968
Public safety	2,809,777	2,990,779	2,840,425	150,354
Transportation	1,252,323	1,513,370	1,402,504	110,866
Environmental protection	561,238	645,838	599,494	46,344
Cultural and recreation	99,719	143,444	127,284	16,160
Debt service:				
Principal retirement	101,422	101,422	80,038	21,384
Interest and other charges	40,913	40,913	38,427	2,486
Total expenditures	<u>5,755,737</u>	<u>6,379,773</u>	<u>5,967,211</u>	<u>412,562</u>
Revenues over (under) expenditures	<u>(551,291)</u>	<u>(869,028)</u>	<u>(179,324)</u>	<u>689,704</u>
Other financing sources (uses):				
Fund balance appropriated	449,291	641,603	-	(641,603)
Installment obligations issued	-	200,425	200,428	3
Transfer from water and sewer fund	102,000	102,000	102,000	-
Transfer to capital projects funds, net	-	(75,000)	(56,848)	18,152
Total other financing sources (uses)	<u>551,291</u>	<u>869,028</u>	<u>245,580</u>	<u>(623,448)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	66,256	<u>\$ 66,256</u>
Fund balance, beginning of year			<u>3,521,255</u>	
Fund balance, end of year			<u>\$ 3,587,511</u>	

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

PROPRIETARY FUNDS
Statement of Fund Net Position
June 30, 2016

	Major Enterprise Fund		Internal Service Fund
	Water and Sewer Fund		Fund
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,544,828	\$	-
Accounts receivable	485,615		-
Due from other governments	26,444		7,685
Inventories	49,304		101,420
Restricted cash and cash equivalents	731,645		-
Total current assets	<u>2,837,836</u>		<u>109,105</u>
Noncurrent assets:			
Notes receivable	205,491		-
Capital assets:			
Land and other non-depreciable assets	185,620		-
Other capital assets, net of depreciation	19,786,829		15,123
Capital assets, net	<u>19,972,449</u>		<u>15,123</u>
Noncurrent assets	<u>20,177,940</u>		<u>15,123</u>
Total assets	<u>23,015,776</u>		<u>124,228</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>59,292</u>		<u>4,743</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	68,419	3,772	
Accrued interest payable	4,444		-
Due to general fund	-		97,336
Liabilities payable from restricted assets:			
Customer deposits	231,645		-
Compensated absences, current	30,300		-
Current portion of long-term debt	263,676		-
Total current liabilities	<u>598,484</u>		<u>101,108</u>

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

PROPRIETARY FUNDS
Statement of Fund Net Position
June 30, 2016

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Noncurrent liabilities:		
Compensated absences, net	15,086	1,454
Net pension liability	69,675	5,575
Long-term debt, net of current portion	2,112,817	-
Total noncurrent liabilities	<u>2,197,578</u>	<u>7,029</u>
Total liabilities	<u>2,796,062</u>	<u>108,137</u>
DEFERRED INFLOWS OF RESOURCES	<u>39,119</u>	<u>3,130</u>
NET POSITION		
Net investment in capital assets	18,095,956	15,123
Unrestricted	<u>2,143,931</u>	<u>2,581</u>
Total net position	<u>\$ 20,239,887</u>	<u>\$ 17,704</u>
Reconciliation with Statement of Net Position - Business-type Activities:		
Total net position - proprietary fund presentation	\$ 20,239,887	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(50,501)</u>	
Net position of business-type activities	<u>\$ 20,189,386</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, 2016

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 3,262,082	\$ 250,587
Water and sewer taps	53,609	-
Other operating revenue	17,173	-
Total operating revenues	<u>3,332,864</u>	<u>250,587</u>
OPERATING EXPENSES		
Utility line maintenance	1,161,818	-
Water filter plant	474,564	-
Waste treatment plant	979,105	-
Operating expenses	-	46,299
Materials	-	213,986
Insurance and bonding	79,589	-
Miscellaneous	5,595	-
Depreciation	825,498	3,697
Total operating expenses	<u>3,526,169</u>	<u>263,982</u>
Operating loss	<u>(193,305)</u>	<u>(13,395)</u>
NONOPERATING REVENUE (EXPENSE)		
County reimbursements - Sugar Hill	51,968	-
Investment earnings	4,322	-
Gain on sale of capital assets	9,555	-
Interest on long-term debt	(30,771)	-
Total nonoperating revenue (expense)	<u>35,074</u>	<u>-</u>
Loss before contributions, transfers, and special items	(158,231)	(13,395)
Capital contributions	350,000	-
Transfer to general fund - payment in lieu of taxes	(102,000)	-
Special item - disposal of meter system (Note 7)	<u>(722,525)</u>	<u>-</u>
Change in net position	(632,756)	(13,395)
Net position, beginning of year	<u>20,872,643</u>	<u>31,099</u>
Net position, end of year	<u>\$ 20,239,887</u>	<u>\$ 17,704</u>
Reconciliation with Statement of Activities - Change in Net Position - Business-type Activities:		
Change in net position - fund perspective	\$ (632,756)	
Internal service fund loss allocated to business-type activities	<u>(5,090)</u>	
Change in net position - government-wide perspective	<u>\$ (637,846)</u>	

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

PROPRIETARY FUNDS
Statement of Cash Flows
For the year ended June 30, 2016

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Cash flows from operating activities:		
Cash received from customers and users	\$ 3,216,893	\$ 250,587
Cash paid for goods and services	(1,445,466)	(175,305)
Cash paid to or on behalf of employees for services	(1,202,054)	(93,549)
Net cash provided (used) by operating activities	<u>569,373</u>	<u>(18,267)</u>
Cash flows from noncapital and related financing activities:		
Transfer to General Fund	(102,000)	-
Due to other funds	-	32,388
Non-capital reimbursement	<u>51,968</u>	<u>-</u>
Net cash provided (used) by noncapital and related financing activities	<u>(50,032)</u>	<u>32,388</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(296,311)	(14,121)
Capital contribution	250,000	-
Proceeds from the sale of capital assets	24,498	-
Principal payments on long-term debt	(213,413)	-
Proceeds from the issuance of debt	500,000	-
Interest on long-term debt	<u>(31,488)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>233,286</u>	<u>(14,121)</u>
Cash flows from investing activities:		
Interest received	<u>266</u>	<u>-</u>
Net cash provided by investing activities	<u>266</u>	<u>-</u>
Net increase in cash and cash equivalents	752,893	-
Cash and cash equivalents, beginning of year	<u>1,523,579</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 2,276,472</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, 2016

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (193,305)	\$ (13,395)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	825,498	3,697
Changes in assets deferred outflows of resources and liabilities:		
(Increase) decrease in accounts receivable	(122,326)	-
(Increase) decrease in due from other governments	35,208	(1,426)
(Increase) decrease in inventories	9,525	(6,066)
(Increase) decrease in prepaid items	12,071	1,135
(Increase) decrease in net pension asset	79,920	6,949
(Increase) decrease in deferred outflows of resources - pensions	(5,613)	(76)
Increase (decrease) in accounts payable and accrued liabilities	6,399	(285)
Increase (decrease) in customer deposits	6,355	-
Increase (decrease) in compensated absences	5,198	(257)
Increase (decrease) in net pension liability	69,675	5,575
Increase (decrease) in deferred inflows of resources - pensions	(159,232)	(14,118)
Total adjustments	<u>762,678</u>	<u>(4,872)</u>
Net cash provided (used) by operating activities	<u>\$ 569,373</u>	<u>\$ (18,267)</u>
Noncash Capital Financing and Investing Activities		
Note receivable - capital contribution	<u>\$ 100,000</u>	<u>\$ -</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, 2016

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 NCDOT Bicycle Plan and the 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.

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.

City of Marion Restricted Cash

Governmental Activities

General Fund:

Streets	\$ 15,424
Public Safety	82,903
Customer deposits	12,983
Employee Flex Account	<u>2,149</u>
Total governmental activities	<u>113,459</u>

Business Type Activities

Water and Sewer Fund:

Customer deposits	231,645
Unspent loan proceeds	<u>500,000</u>
Total business-type activities	<u>731,645</u>
Total restricted cash	<u>\$ 845,104</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

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.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of \$1,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. 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 and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

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

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 two items that meet this criterion, contributions made to the pension plan in the 2016 fiscal year, and other pension deferrals.

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.

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. This amount represents the balance of the total unexpended Powell Bill.

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 Projects – 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, 2016, the City’s deposits had a carrying amount of \$4,616,594 and a bank balance of \$4,169,284. Of the bank balance, \$753,481 was covered by Federal depository insurance and the remaining balance was covered by collateral held under the pooling method. At June 30, 2016, the City’s petty cash fund totaled \$1,503.

The carrying amount of deposits for the ABC Board was \$51,487 and the bank balance was \$96,658. All of the bank balance was covered by Federal depository insurance. At June 30, 2016, the Board’s petty cash fund totaled \$3,225.

2. Investments

At June 30, 2016 the City of Marion had \$858,490 invested with the North Carolina Capital Management Trust’s Cash Portfolio, which carried a credit rating of AAAM by Standard & Poor’s. The City has no policy regarding credit risk.

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>\$ 55,000</u>
Enterprise Funds	<u>\$ 82,000</u>

4. Due from Other Governments

Due from other governments consisted of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Local option sales tax	\$ 342,690	\$ -	\$ 342,690
Sales tax refund	40,670	26,444	67,114
Vehicle taxes/tag fees	24,006	-	24,006
Fire district tax	2,661	-	2,661
Franchise/video programming tax	121,000	-	121,000
Solid waste tax	1,100	-	1,100
Marion ABC	28,350	-	28,350
Federal and State grants	7,280	-	7,280
Miscellaneous reimbursements	91,240	-	91,240
	<u>\$ 658,997</u>	<u>\$ 26,444</u>	<u>\$ 685,441</u>

5. Capital Assets

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

Governmental Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,570,001	\$ 57,050	\$ 2,249	\$ 1,624,802
Construction in progress	328,296	191,104	519,400	-
Total capital assets not being depreciated	<u>1,898,297</u>	<u>248,154</u>	<u>521,649</u>	<u>1,624,802</u>
Capital assets being depreciated:				
Building improvements	2,948,782	3,039	-	2,951,821
Buildings	1,538,113	-	-	1,538,113
Equipment	2,006,021	177,683	-	2,183,704
Equipment – ISF	14,616	14,121	-	28,737
Furniture and fixtures	223,184	25,500	-	248,684
Land improvements	1,707,251	478,797	-	2,186,048
Vehicles	4,661,831	468,632	128,138	5,002,325
Infrastructure	2,201,893	37,337	-	2,239,230
Total capital assets being depreciated	<u>15,301,691</u>	<u>1,205,109</u>	<u>128,138</u>	<u>16,378,662</u>
Less accumulated depreciation for:				
Building improvements	653,851	81,627	-	735,478
Buildings	637,456	32,079	-	669,535
Equipment	1,587,940	114,352	-	1,702,292
Equipment – ISF	9,916	3,697	-	13,613
Furniture and fixtures	207,099	5,785	-	212,884
Land improvements	252,890	56,646	-	309,536
Vehicles	3,608,082	561,098	128,138	4,041,042
Infrastructure	240,915	63,264	-	304,179
Total accumulated depreciation	<u>7,198,149</u>	<u>918,548</u>	<u>128,138</u>	<u>7,988,559</u>
Total capital assets being depreciated, net	<u>8,103,542</u>	<u>\$ 286,561</u>	<u>\$ -</u>	<u>8,390,103</u>
Governmental activities capital assets, net	<u>\$ 10,001,839</u>			<u>\$10,014,905</u>

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

General government	\$ 154,506
Public safety	518,071
Transportation	96,243
Environmental protection	75,916
Culture and recreation	73,812
Total depreciation expense	<u>\$ 918,548</u>

Capital asset activity for business-type activities for the year ended June 30, 2016 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	702,595	84,375	702,595	84,375
Total capital assets not being depreciated	<u>803,840</u>	<u>84,375</u>	<u>702,595</u>	<u>185,620</u>
Capital assets being depreciated:				
Building improvements	616,950	9,137	-	626,087
Buildings	6,891,369	-	-	6,891,369
Water and sewer mains, fittings, and lines	23,374,994	800,022	910,990	23,264,026
Equipment	1,917,930	45,749	193,761	1,769,918
Furniture and fixtures	646,678	3,663	-	650,341
Land improvements	1,176,029	-	-	1,176,029
Vehicles	460,473	55,960	-	516,433
Total capital assets being depreciated	<u>35,084,423</u>	<u>914,531</u>	<u>1,104,751</u>	<u>34,894,203</u>
Less accumulated depreciation for:				
Building improvements	523,415	5,880	-	529,295
Buildings	4,057,416	126,537	-	4,183,953
Water and sewer mains, fittings, and lines	7,231,128	524,726	187,310	7,568,544
Equipment	1,503,327	103,984	179,973	1,427,338
Furniture and fixtures	335,987	13,004	-	348,991
Land improvements	556,288	27,828	-	584,116
Vehicles	441,598	23,539	-	465,137
Total accumulated depreciation	<u>14,649,159</u>	<u>825,498</u>	<u>367,283</u>	<u>15,107,374</u>
Total capital assets being depreciated, net	<u>20,435,264</u>	<u>\$ 89,033</u>	<u>\$ 737,468</u>	<u>19,786,829</u>
Business-type activities capital assets, net	<u>\$21,239,104</u>			<u>\$19,972,449</u>

Construction Commitments

The City has a construction commitment with a contractor for the Airport Road Sewer Project at June 30, 2016. The outstanding commitment at year-end was \$856,543.

Discretely Presented Component Unit:

Activity for the ABC Board for the year ended June 30, 2016 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	483,742	-	638,696
Leasehold improvements	45,942	-	-	45,942
Land improvements	19,493	-	-	19,493
Equipment	226,680	3,118	-	229,798
Total capital assets being depreciated	<u>447,069</u>	<u>486,860</u>	<u>-</u>	<u>933,929</u>
Less accumulated depreciation for:				
Buildings	110,200	14,169	-	124,369
Leasehold improvements	24,453	4,540	-	28,993
Land improvements	19,493	-	-	19,493
Equipment	167,514	11,046	-	178,560
Total accumulated depreciation	<u>321,660</u>	<u>29,755</u>	<u>-</u>	<u>351,415</u>
Total capital assets being depreciated, net	<u>125,409</u>	<u>\$ 457,105</u>	<u>\$ -</u>	<u>582,514</u>
ABC Board capital assets, net	<u>\$ 185,241</u>			<u>\$ 642,346</u>

6. Notes 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, 2016, the loan has been discounted to the present value of \$105,491.

In June of 2016, the City entered into an agreement with Autumn Corporation whereas Autumn Corporation agrees to pay the City \$100,000 in connection to the Airport Road Sewer Line project. The Corporation will repay the loan over a ten year period, with 20 bi-annual installments of \$5,533 at 1.97% interest with payments beginning December 28, 2016.

B. Liabilities1. Accounts Payable – Disaggregate Information

	Governmental Activities	Business-type Activities	Total
Vendor payables	\$ 171,226	\$ 35,335	\$206,561
Accrued salaries and expenses	104,096	33,084	137,180
Total	<u>\$ 275,322</u>	<u>\$ 68,419</u>	<u>\$343,741</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, 2016, was 7.15% of compensation for law enforcement officers and 6.79% 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 \$231,085 for the year ended June 30, 2016.

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, 2016, the City reported a liability of \$278,701 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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 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, 2015, the City's proportion was 0.0621%, which was an increase of 0.00318% from its proportion measured as of June 30, 2014. The ABC Board did not record its proportionate share of the net pension asset at June 30, 2016 because management determined these amounts to be immaterial.

For the year ended June 30, 2016, the City recognized pension expense of \$147,562. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>of Resources</u>	<u>of Resources</u>
Differences between expected and actual experience	\$ -	\$ 65,511
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	79,345
Changes in proportion and differences between City contributions and proportionate share of contributions	6,082	11,621
City contributions subsequent to the measurement date	<u>231,085</u>	<u>-</u>
Total	<u>\$ 237,167</u>	<u>\$ 156,477</u>
		161,398

\$231,085 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, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ (94,746)
2018	(94,746)
2019	(94,606)
2020	133,703
2021	-
Thereafter	<u>-</u>
	<u>\$ (150,395)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2014 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, 2014 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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Real Rate of Return
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	6.0%	3.4%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 3.00%. All rates of return and inflation are annualized.

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 liability 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	1% Increase
	(6.25%)	Discount Rate (7.25%)	(8.25%)
	<u> </u>	<u> </u>	<u> </u>
City's proportionate share of the net pension liability (asset)	\$ 1,943,421	\$ 278,701	\$ (1,123,789)

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

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, 2015, 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>27</u>
Total	<u><u>28</u></u>

A separate report was not issued for the plan.

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.

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, 2014 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.

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	\$ 52,225
Interest on net pension obligation	10,004
Adjustment to annual required contribution	<u>(17,583)</u>
Annual pension cost	44,646
Contributions made	<u>17,424</u>
Increase in net pension obligation	27,222
Net pension obligation beginning of fiscal year	<u>200,084</u>
Net pension obligation end of fiscal year	<u><u>\$ 227,306</u></u>

Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	\$ 29,666	69.96%	\$ 180,356
6/30/2015	37,152	46.90%	200,084
6/30/2016	44,646	39.03%	227,306

As of December 31, 2015, 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 \$575,080. The covered payroll (annual payroll of active employees covered by the plan) was \$1,121,051 and the ratio of the UAAL to the covered payroll was 51.3%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 were \$53,384 which consisted of \$48,784 from the City and \$4,600 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 \$2,381,719. Total contributions for the year ended June 30, 2016 were \$157,921, which consisted of \$119,086 from the City and \$38,835 from the employees. The City's required contributions and the employees' voluntary contributions represented 5.00% and 1.63% 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. For the fiscal year ending June 30, 2015, the State contributed \$13,900,000 to the plan. The City's proportionate share of the State's contribution is \$4,834.

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, 2016, 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 \$12,644. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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, 2015 and at June 30, 2014 was 0%.

For the year ended June 30, 2016, the City recognized pension expense of \$1,012 and revenue of \$1,012 for support provided by the State. At June 30, 2016, 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, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
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, 2015, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	4
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	-
Total	<u><u>4</u></u>

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

The current ARC rate does not include a normal cost portion because there is no covered payroll. For the current year, the City contributed \$9,908. The City obtains healthcare coverage through private insurers. Retirees contributed \$2,962 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	\$ 11,517
Valuation discount rate	4.00%
Interest on net OPEB obligation	415
Amortization factor	17.9837
Adjustment to annual required contribution	<u>577</u>
Annual OPEB cost	11,355
Employer contributions made for fiscal year	<u>9,908</u>
Increase in net OPEB obligation	1,447
Net OPEB obligation beginning of fiscal year	<u>10,371</u>
Net OPEB obligation end of fiscal year	<u><u>\$ 11,818</u></u>

Trend Information			
Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2014	16,346	84.6%	3,813
6/30/2015	16,447	60.1%	10,371
6/30/2016	11,355	87.3%	11,818

Funded Status and Funding Progress. As of December 31, 2015, 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 \$207,115. The covered payroll (annual payroll of employees covered by the plan) was \$0, because the plan is closed to all active employees as of July 1, 2014. 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, 2015 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 5.75 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 dollar amount on a closed basis. The remaining amortization period at December 31, 2015 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.

5. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in current fiscal year	\$ 231,085
Pension deferrals	<u>6,082</u>
	<u>\$ 237,167</u>

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

Prepaid taxes (General Fund)	\$ 4,921
Taxes receivable, net (General Fund)	94,272
Pension deferrals	<u>156,477</u>
Total	<u>\$ 255,670</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 mountain 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 General Fund:

During the year ended June 30, 2016, the City issued a note payable for the purchase of a street sweeper for \$200,428. Semiannual payments of \$21,118 including interest at 1.924%. begin July 22, 2016. The note is secured by the equipment purchased. The balance of this note payable was \$200,428 on June 30, 2016.

During the year ended June 30, 2015, the City issued a note payable for the purchase of a fire truck for \$491,571. Semiannual 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 \$424,619 on June 30, 2016.

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 \$668,157 on June 30, 2016.

Serviced by the Water and Sewer Fund:

During the year ended June 30, 2016, the City issued a note payable for the construction of a water and sewer line extension on Airport Road for \$500,000. Semiannual payments of \$27,666, including interest at 1.97%, beginning December 28, 2016. The note is secured by the system improvements being installed. The balance of this note payable was \$500,000 on June 30, 2016.

During the year ended June 30, 2015, the City issued a note payable for the purchase and installment of water meters for \$470,000. Semiannual 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 \$405,801 on June 30, 2016.

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 system improvements being installed. The balance of this note payable was \$596,427 on June 30, 2016.

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 \$874,265 on June 30, 2016.

At June 30, 2016, the City of Marion had a legal debt margin of approximately \$33,700,000. 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
2017	\$ 121,018	\$ 39,637	\$ 263,676	\$ 36,561
2018	124,258	36,398	269,277	30,958
2019	127,594	33,062	275,044	25,192
2020	131,030	29,625	280,980	19,256
2021	134,567	26,089	287,090	13,146
2022 -2032	<u>654,737</u>	<u>107,187</u>	<u>1,000,426</u>	<u>22,144</u>
Total	<u>\$ 1,293,204</u>	<u>\$ 271,998</u>	<u>\$ 2,376,493</u>	<u>\$ 147,257</u>

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

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016	Current Portion of Balance
<u>Governmental Activities:</u>					
Notes payable	\$ 1,172,814	\$ 200,428	\$ 80,038	\$ 1,293,204	\$ 121,018
Net pension obligation (LEO)	200,084	44,646	17,424	227,306	-
Unfunded OPEB	10,371	9,908	8,461	11,818	-
Net pension liability (LGERS)	-	209,026	-	209,026	-
Compensated absences	<u>192,384</u>	<u>232,257</u>	<u>238,669</u>	<u>185,972</u>	<u>124,000</u>
Total	<u>\$ 1,575,653</u>	<u>\$ 696,265</u>	<u>\$ 344,592</u>	<u>\$ 1,927,326</u>	<u>\$ 245,018</u>
<u>Business-type Activities:</u>					
Notes payable	\$ 2,089,906	\$ 500,000	\$ 213,413	\$ 2,376,493	\$ 263,676
Net pension liability (LGERS)	-	69,675	-	69,675	-
Compensated absences	<u>40,188</u>	<u>44,970</u>	<u>39,772</u>	<u>45,386</u>	<u>30,300</u>
Total	<u>\$ 2,130,094</u>	<u>\$ 614,645</u>	<u>\$ 253,185</u>	<u>\$ 2,491,554</u>	<u>\$ 293,976</u>
<u>Marion ABC Board:</u>					
Notes payable	<u>\$ 115,100</u>	<u>\$ 598,000</u>	<u>\$ 123,780</u>	<u>\$ 589,320</u>	<u>\$ 21,320</u>
Total	<u>\$ 115,100</u>	<u>\$ 598,000</u>	<u>\$ 123,780</u>	<u>\$ 589,320</u>	<u>\$ 21,320</u>

The LGERS plan had a net pension liability as of June 30, 2016; however, the plan had a net pension asset at the beginning of the fiscal year.

8. Interfund Balances and Activity:

Balances due to the General Fund from other funds at June 30, 2016, consist of the following:

Internal Service Fund	\$ 97,336
General Fund Capital Projects Fund	<u>7,280</u>
Total	<u>\$ 104,616</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 during the year ended June 30, 2016 consist of the following:

To the General Fund Capital Projects Funds	
from the General Fund to fund capital projects	\$ (56,848)
From the Water and Sewer Fund to the General Fund	
for payments in lieu of taxes	<u>102,000</u>
Total	<u>\$ 45,152</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.

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 – 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 \$2,624 to the Commission during the fiscal year ended June 30, 2016.

Note 5 – Joint Ventures

The City and the members of the City’s fire department each appoint two members to the five-member local Board of Trustees for the Firefighter’s Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firefighter’s Relief Fund is funded by a portion of the fire and lightening insurance premiums which insurers remit to the State. The State passes these monies to the local Board of the Firefighter’s Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City’s fire department by the Board of Trustees. During the fiscal year ended June 30, 2016, the City reported revenue and expenditures for the payments of \$8,400 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, 2016. 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 6 – 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	\$ 3,587,511
<u>Less:</u>	
Stabilization by State statute	776,851
Streets	15,424
Public safety	82,903
Cemetery	111,295
Appropriated fund balance in 2017 Budget	426,876
Working Capital/Fund Balance Policy	<u>1,594,943</u>
Remaining Fund Balance	<u><u>\$ 579,219</u></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. This balance was \$1,594,943 as of June 30, 2016.

Note 7 – Special Item

Special items are significant transactions or other events within the control of management that are either “unusual in nature” or “infrequent in occurrence.” As a part of the City’s installation of its new automated meter reader project, the old automated meter system was disposed of. This older system was put into service during fiscal year 2009 and had an estimated service life of 30 years. The original cost of the old meter reader system was \$910,990, and it had a remaining book value net of depreciation of \$737,519. The old materials and parts were disposed of for total proceeds of \$14,994, resulting in a net loss of \$722,525. This item is infrequent in nature and is separately reported on exhibit 2 after total revenues and before transfers.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

CITY OF MARION, NORTH CAROLINA

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

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%
12/31/2015	-	575,080	575,080	0.00%	1,121,051	51.30%

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%
12/31/2015	-	207,115	207,115	0.00%	-	N/A

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%
2016	11,355	87.26%

CITY OF MARION, NORTH CAROLINA

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

Local Government Employees' Retirement System			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportionate share of the net pension liability (asset) (%)	0.06210%	0.05892%	6.02000%
City's proportion of the net pension liability (asset) (\$)	\$ 278,701	\$ (347,478)	\$ 725,641
City's covered-employee payroll	3,351,821	3,254,764	3,207,416
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.31%	(10.68%)	22.62%
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.09%	102.64%	94.35%

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

CITY OF MARION, NORTH CAROLINA

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 231,085	\$ 235,131	\$ 228,621
Contribution in relation to the contractually required contribution	<u>231,085</u>	<u>235,131</u>	<u>228,621</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,351,821	\$ 3,254,764	\$ 3,207,416
Contributions as a percentage of covered- employee payroll	6.89%	7.22%	7.13%

CITY OF MARION, NORTH CAROLINA

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

	<u>2016</u>	<u>2015</u>
Firefighters' and Rescue Squad Workers' Pension		
City's proportionate share of the net pension liability (%)	0.00000%	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>12,644</u>	<u>13,629</u>
Total	<u>\$ 12,644</u>	<u>\$ 13,629</u>
City's covered-employee payroll	\$ 250,678	\$ 244,449
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	5.04%	5.58%
Plan fiduciary net position as a percentage of the total pension liability	91.40%	93.42%

* The amounts presented are for the prior fiscal year

**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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Current year taxes	\$ 2,050,223	\$ 2,107,504	\$ 57,281
Prior year taxes	40,000	30,182	(9,818)
Motor vehicle taxes, net	181,000	187,181	6,181
Penalties and interest	20,000	18,828	(1,172)
	<u>2,291,223</u>	<u>2,343,695</u>	<u>52,472</u>
Other Taxes and Licenses:			
Local option sales tax	1,250,000	1,349,667	99,667
Utilities sales tax	500,000	582,702	82,702
Solid waste disposal tax	5,200	5,224	24
Liscenses and permits	8,000	8,016	16
Wine tax	38,000	36,173	(1,827)
	<u>1,801,200</u>	<u>1,981,782</u>	<u>180,582</u>
Unrestricted Intergovernmental:			
Court revenue	2,600	2,629	29
ABC revenues	100,000	122,283	22,283
Video franchise fees	68,000	65,151	(2,849)
	<u>170,600</u>	<u>190,063</u>	<u>19,463</u>
Restricted Intergovernmental:			
Powell Bill allocation	226,619	226,619	-
ABC revenue for law enforcement	2,500	3,442	942
Parking violations	6,000	5,644	(356)
County fire protection	340,000	338,942	(1,058)
County recycling	12,125	13,141	1,016
NCDOT reimbursements	2,500	2,519	19
Federal drug asset revenue	13,969	13,969	-
DARE fund revenue	5,000	5,000	-
State controlled substance revenue	4,060	5,139	1,079
State of NC fire protection	1,781	1,680	(101)
McDowell County schools officer	66,000	68,337	2,337
Governor's Highway Safety grant	21,120	19,940	(1,180)
Bullet-proof vest grants	2,000	1,738	(262)
VIPER grant	67,515	57,467	(10,048)
COPS grant	25,160	29,760	4,600
On-behalf payments for fire and rescue	-	15,167	15,167
	<u>796,349</u>	<u>808,504</u>	<u>12,155</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
License, Permits and Fees:			
City vehicle license	27,000	26,300	(700)
Building permits (zoning and inspections)	108,300	109,659	1,359
	<u>135,300</u>	<u>135,959</u>	<u>659</u>
Sales and Services:			
Rents and concessions	39,500	40,380	880
Cemetery revenues	6,000	4,479	(1,521)
Garbage fees	179,160	179,305	145
Copies and fingerprints	600	800	200
Sales of real estate	8,069	7,283	(786)
Sale of surplus equipment	3,000	5,828	2,828
	<u>236,329</u>	<u>238,075</u>	<u>1,746</u>
Miscellaneous	<u>68,494</u>	<u>77,002</u>	<u>8,508</u>
Investment earnings	<u>3,050</u>	<u>5,015</u>	<u>1,965</u>
Restricted Contributions:			
Contributions - police	<u>8,200</u>	<u>7,792</u>	<u>(408)</u>
Total revenues	<u>5,510,745</u>	<u>5,787,887</u>	<u>277,142</u>
Expenditures:			
General government:			
Administration:			
Salaries and employee benefits		626,057	
Operating expenditures		134,092	
Capital outlay		7,234	
Allocation to Water and Sewer		(299,374)	
	<u>507,116</u>	<u>468,009</u>	<u>39,107</u>
Cemetery:			
Operating expenditures		34,830	
	<u>35,950</u>	<u>34,830</u>	<u>1,120</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Non-departmental:			
Operating expenditures		366,655	
Capital outlay		9,545	
	<u>400,941</u>	<u>376,200</u>	<u>24,741</u>
 Total general government	 <u>944,007</u>	 <u>879,039</u>	 <u>64,968</u>
Public safety:			
Police department:			
Salaries and employee benefits		1,443,527	
Operating expenditures		333,111	
Capital outlay		299,354	
	<u>2,209,528</u>	<u>2,075,992</u>	<u>133,536</u>
 Fire department:			
Salaries and employee benefits		341,219	
Operating expenditures		164,733	
Capital outlay		14,232	
	<u>528,527</u>	<u>520,184</u>	<u>8,343</u>
 Inspections:			
Salaries and employee benefits		215,912	
Operating expenditures		18,337	
Capital outlay		10,000	
	<u>252,724</u>	<u>244,249</u>	<u>8,475</u>
 Total public safety	 <u>2,990,779</u>	 <u>2,840,425</u>	 <u>150,354</u>
Transportation:			
Public works administration:			
Salaries and employee benefits		144,288	
Other operating expenditures		20,869	
Capital outlay		1,173	
Allocation to Water and Sewer		(64,286)	
	<u>106,753</u>	<u>102,044</u>	<u>4,709</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Street department:			
Salaries and employee benefits		476,515	
Other operating expenditures		312,393	
Capital outlay		212,677	
	<u>1,081,180</u>	<u>1,001,585</u>	<u>79,595</u>
 Powell Bill:			
Other operating expenditures		195,296	
Capital outlay		37,337	
	<u>254,000</u>	<u>232,633</u>	<u>21,367</u>
 Fleet maintenance:			
Salaries and employee benefits		99,754	
Other operating expenditures		7,844	
Capital outlay		599	
Allocation to Water and Sewer		(41,955)	
	<u>71,437</u>	<u>66,242</u>	<u>5,195</u>
 Total transportation	<u>1,513,370</u>	<u>1,402,504</u>	<u>110,866</u>
 Environmental protection:			
Salaries and employee benefits		303,849	
Other operating expenditures		205,375	
Capital outlay		90,270	
Total environmental protection	<u>645,838</u>	<u>599,494</u>	<u>46,344</u>
 Cultural and recreation:			
Community building and recreation:			
Other operating expenditures		97,889	
Capital outlay		29,395	
Total cultural and recreation	<u>143,444</u>	<u>127,284</u>	<u>16,160</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service:			
Principal retirement		80,038	
Interest and fees		<u>38,427</u>	
Total debt service	<u>142,335</u>	<u>118,465</u>	<u>23,870</u>
 Total expenditures	<u>6,379,773</u>	<u>5,967,211</u>	<u>412,562</u>
 Revenues over (under) expenditures	<u>(869,028)</u>	<u>(179,324)</u>	<u>689,704</u>
 Other Financing Sources (Uses):			
Fund balance appropriated	641,603	-	(641,603)
Installment obligations issued	200,425	200,428	3
Transfer from water and sewer fund	102,000	102,000	-
Transfer to capital projects funds	<u>(75,000)</u>	<u>(56,848)</u>	<u>18,152</u>
Total other financing sources (uses)	<u>869,028</u>	<u>245,580</u>	<u>(623,448)</u>
 Revenues and other sources over expenditures and other uses	<u>\$ -</u>	66,256	<u>\$ 66,256</u>
 Fund balance, beginning of year		<u>3,521,255</u>	
Fund balance, end of year		<u>\$ 3,587,511</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GOVERNMENTAL FUNDS
 Combining Balance Sheet
 June 30, 2016

	Capital Reserve Fund	NCDOT Bicycle Plan	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and investments	\$ 100,000	\$ -	\$ 100,000
Grants receivable	<u> -</u>	<u> 7,280</u>	<u> 7,280</u>
 Total assets	 <u>\$ 100,000</u>	 <u>\$ 7,280</u>	 <u>\$ 107,280</u>
 Liabilities and Fund Balances			
Liabilities:			
Due to other funds	<u>\$ -</u>	<u>\$ 7,280</u>	<u>\$ 7,280</u>
 Fund balances:			
Committed for future capital projects	<u>100,000</u>	<u>-</u>	<u>100,000</u>
 Total liabilities and fund balances	 <u>\$ 100,000</u>	 <u>\$ 7,280</u>	 <u>\$ 107,280</u>

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GOVERNMENTAL FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2016

	<u>Capital Reserve Fund</u>	<u>NCDOT Bicycle Plan</u>	<u>Mt. Ida Wilderness Area Project</u>	<u>Total</u>
Revenues				
Restricted intergovernmental	\$ -	\$ 32,000	\$ -	\$ 32,000
Interest income	<u>37</u>	<u>-</u>	<u>-</u>	<u>37</u>
Total revenues	<u>37</u>	<u>32,000</u>	<u>-</u>	<u>32,037</u>
Expenditures				
Construction costs	<u>-</u>	<u>26,000</u>	<u>165,104</u>	<u>191,104</u>
Revenues over (under) expenditures	<u>37</u>	<u>6,000</u>	<u>(165,104)</u>	<u>(159,067)</u>
Other Financing Sources (Uses)				
Transfers in (out)	<u>(63,314)</u>	<u>(6,000)</u>	<u>126,162</u>	<u>56,848</u>
Net change in fund balance	(63,277)	-	(38,942)	(102,219)
Fund balances, beginning of year	<u>163,277</u>	<u>-</u>	<u>38,942</u>	<u>202,219</u>
Fund balances, end of year	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</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, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenue:			
Interest income	\$ 100	\$ 37	\$ (63)
Expenditures:			
Future expenditures	100,000	-	100,000
Revenues over (under) expenditures	<u>(99,900)</u>	<u>37</u>	<u>99,937</u>
Other Financing Sources (Uses):			
Transfers out	(63,314)	(63,314)	-
Fund balance appropriated	<u>163,214</u>	<u>-</u>	<u>(163,214)</u>
Total other financing sources (uses)	<u>99,900</u>	<u>(63,314)</u>	<u>(163,214)</u>
Net change in fund balance	<u>\$ -</u>	<u>(63,277)</u>	<u>\$ (63,277)</u>
Fund balance, beginning of year		<u>163,277</u>	
Fund balance, end of year		<u>\$ 100,000</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, 2016

	Project Authorization	Actual through June 30, 2016		
		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	20,481	20,481	-	20,481
Total revenues	<u>234,423</u>	<u>234,423</u>	<u>-</u>	<u>234,423</u>
Expenditures:				
Construction costs	<u>458,789</u>	<u>293,581</u>	<u>165,104</u>	<u>458,685</u>
Revenues under expenditures	<u>(224,366)</u>	<u>(59,158)</u>	<u>(165,104)</u>	<u>(224,262)</u>
Other Financing Sources:				
Transfers in	<u>224,366</u>	<u>98,100</u>	<u>126,162</u>	<u>224,262</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 38,942</u>	<u>(38,942)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>38,942</u>	
Fund balance, end of year			<u>\$ -</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, 2016

	Project Authorization	Actual through June 30, 2016		
		Reported in Prior Years	Current Year	Total to Date
Revenues:				
NCDOT grant	\$ 32,000	\$ -	\$ 32,000	\$ 32,000
Kate B. Reynolds Trust grant	8,000	8,000	-	8,000
Total revenues	<u>40,000</u>	<u>8,000</u>	<u>32,000</u>	<u>40,000</u>
Expenditures:				
Bicycle Plan - engineering and construction	<u>40,000</u>	<u>14,000</u>	<u>26,000</u>	<u>40,000</u>
Revenues over (under) expenditures	<u>-</u>	<u>(6,000)</u>	<u>6,000</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfer in (out)	<u>-</u>	<u>6,000</u>	<u>(6,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER FUND

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

For the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water sales	\$ 970,700	\$ 1,008,399	\$ 37,699
Sewer sales	658,000	692,590	34,590
Sewer taps	20,177	20,412	235
Water taps	52,000	53,609	1,609
Cut-on fees/penalties	112,000	112,076	76
Water service charges	894,000	935,121	41,121
Sewer service charges	474,000	493,484	19,484
Other operating income	<u>14,519</u>	<u>17,173</u>	<u>2,654</u>
Total operating revenues	<u>3,195,396</u>	<u>3,332,864</u>	<u>137,468</u>
Non-operating revenues:			
Interest	500	264	(236)
County reimbursements - Sugar Hill	<u>51,968</u>	<u>51,968</u>	<u>-</u>
Total non-operating income	<u>52,468</u>	<u>52,232</u>	<u>(236)</u>
Total revenues	<u>3,247,864</u>	<u>3,385,096</u>	<u>137,232</u>
Expenditures:			
Utility line maintenance:			
Salaries and employee benefits		507,401	
Operating expenditures		180,084	
Repairs and maintenance		33,283	
Capital outlay		83,053	
Overhead allocation		<u>435,645</u>	
	<u>1,426,913</u>	<u>1,239,466</u>	<u>187,447</u>
Water filter plant:			
Salaries and employee benefits		218,306	
Operating expenditures		238,710	
Repairs and maintenance		19,357	
Capital outlay		<u>31,140</u>	
	<u>614,358</u>	<u>507,513</u>	<u>106,845</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, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Water treatment plant:			
Salaries and employee benefits		470,761	
Operating expenditures		427,542	
Repairs and maintenance		84,923	
Capital outlay		49,347	
	<u>1,045,843</u>	<u>1,032,573</u>	<u>13,270</u>
 Total operating expenditures	 <u>3,087,114</u>	 <u>2,779,552</u>	 <u>307,562</u>
 Miscellaneous	 <u>12,500</u>	 <u>5,595</u>	 <u>6,905</u>
 Debt service:			
Principal retirement		213,413	
Interest		31,488	
	<u>244,904</u>	<u>244,901</u>	<u>3</u>
 Insurance, bonding and workmen's compensation	 <u>93,000</u>	 <u>79,589</u>	 <u>13,411</u>
 Total expenditures	 <u>3,437,518</u>	 <u>3,109,637</u>	 <u>327,881</u>
 Revenues over (under) expenditures	 <u>(189,654)</u>	 <u>275,459</u>	 <u>465,113</u>
 Other Financing Sources (Uses):			
Transfer to general fund - payment in lieu of taxes	(102,000)	(102,000)	-
Transfer to capital projects fund	(125,000)	(98,327)	26,673
Proceeds on sale of capital assets	17,494	24,496	7,002
Appropriated fund balance	399,160	-	(399,160)
	<u>189,654</u>	<u>(175,831)</u>	<u>(365,485)</u>
 Revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 <u>\$ 99,628</u>	 <u>\$ 99,628</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, 2016

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 99,628	
Reconciling items:			
Loss on scrapped meter system (Note 7)		(722,525)	
Principal retirement of debt		213,413	
Increase (decrease) in inventories		(9,526)	
(Increase) decrease in accrued compensated absences		(5,197)	
(Increase) decrease in accrued interest		717	
Interest earned on long-term note receivable		4,058	
From Water and Sewer Capital Project Fund:			
Capital contributions		250,000	
Transfers to Capital Projects Funds		98,327	
Capital contribution - note receivable		100,000	
Capital outlay		163,540	
Increase (decrease) in net pension asset		(79,920)	
Increase (decrease) in deferred outflows of resources - pensions		5,613	
(Increase) decrease in net pension liability		(69,675)	
(Increase) decrease in deferred inflows of resources - pensions		159,232	
Basis of capital assets sold		(14,943)	
Depreciation		(825,498)	
Total reconciling items		(732,384)	
Change in net position		\$ (632,756)	

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, 2016

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Actual</u>	<u>Total</u>
Revenue:				
Interest income	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 82</u>
Expenditures:				
AMR system project	<u>739,666</u>	<u>690,338</u>	<u>48,396</u>	<u>738,734</u>
Revenue under expenditures	<u>(739,666)</u>	<u>(690,256)</u>	<u>(48,396)</u>	<u>(738,652)</u>
Other Financing Sources:				
Proceeds from installment debt	470,000	470,000	-	470,000
Transfers from:				
Water and Sewer Fund	14,994	-	13,952	13,952
Water and Sewer Capital Reserve Fund	<u>254,672</u>	<u>254,700</u>	<u>-</u>	<u>254,700</u>
Total other financing sources	<u>739,666</u>	<u>724,700</u>	<u>13,952</u>	<u>738,652</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 34,444</u>	<u>\$ (34,444)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>34,444</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND
 AIRPORT ROAD SEWER LINE EXTENSION
 Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
 From inception and the year ended June 30, 2016

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Actual</u>	<u>Total</u>
Revenue:				
Capital contribution, HTNC, LLC	\$ 250,000	\$ -	\$ 250,000	\$ 250,000
Expenditures:				
Engineering	134,905	-	80,487	80,487
Construction	894,464	-	1,016	1,016
Contingency	<u>20,631</u>	<u>-</u>	<u>2,872</u>	<u>2,872</u>
Total expenditures	<u>1,050,000</u>	<u>-</u>	<u>84,375</u>	<u>84,375</u>
Revenue over (under) expenditures	<u>(800,000)</u>	<u>-</u>	<u>165,625</u>	<u>165,625</u>
Other Financing Sources:				
Proceeds from installment debt	500,000	-	500,000	500,000
Transfer from Water and Sewer	<u>300,000</u>	<u>-</u>	<u>84,375</u>	<u>84,375</u>
Total other financing sources	<u>800,000</u>	<u>-</u>	<u>584,375</u>	<u>584,375</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	750,000	<u>\$ 750,000</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 750,000</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, 2016

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Sales to other funds	\$ 312,000	\$ 250,587	\$ (61,413)
Appropriated fund balance	4,657	-	(4,657)
Total revenue and appropriated fund balance	<u>316,657</u>	<u>250,587</u>	<u>(66,070)</u>
Expenditures:			
Salaries and employee benefits		91,337	
Operating expenditures		<u>176,941</u>	
Total expenditures	<u>316,657</u>	<u>268,278</u>	<u>48,379</u>
Revenue under expenditures	<u>\$ -</u>	(17,691)	<u>\$ (17,691)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(3,697)	
Increase (decrease) in inventories		6,066	
Increase (decrease) in net pension asset		(6,949)	
Increase (decrease) in deferred outflows of resources - pensions		76	
(Increase) decrease in accrued compensated absences		257	
(Increase) decrease in net pension liability		(5,575)	
(Increase) decrease in deferred inflows of resources - pensions		<u>14,118</u>	
Total reconciling items		<u>4,296</u>	
Change in net position		<u>\$ (13,395)</u>	

OTHER SCHEDULES

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable
For the year ended June 30, 2016

Fiscal Year	Uncollected Balance 6/30/2015	Additions	Collections And Credits	Uncollected Balance 6/30/2016
2015-2016	\$ -	\$ 2,369,725	\$ 2,334,787	\$ 34,938
2014-2015	36,010	-	15,913	20,097
2013-2014	26,328	-	7,586	18,742
2012-2013	24,009	-	5,276	18,733
2011-2012	12,844	-	1,594	11,250
2010-2011	12,472	-	1,746	10,726
2009-2010	10,669	-	1,570	9,099
2008-2009	10,171	-	1,043	9,128
2007-2008	8,592	-	1,432	7,160
2006-2007	11,129	-	1,730	9,399
2005-2006 and prior	9,078	-	9,078	-
	<u>\$ 161,302</u>	<u>\$ 2,369,725</u>	<u>\$ 2,381,755</u>	<u>149,272</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>55,000</u>
Ad valorem taxes receivable, net				<u>\$ 94,272</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,343,695
Reconciling items:				
Releases				30,150
Discount				6,812
Amounts written off for the 2005 levy per the statute of limitations				8,286
Other				<u>11,639</u>
				2,400,582
Less: interest collected				<u>(18,827)</u>
Total collections and credits				<u>\$ 2,381,755</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
 Analysis of Current Tax Levy
 For the year ended June 30, 2016

	City-Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
Original levy:					
Original levy	\$ 442,275,928	\$ 0.51	\$ 2,219,056	\$ 2,028,030	\$ 191,026
Penalties			<u>1,008</u>	<u>1,008</u>	<u>-</u>
Total			<u>2,220,064</u>	<u>2,029,038</u>	<u>191,026</u>
Discoveries:					
Current year taxes and penalties	28,654,003	0.51	150,170	150,170	-
Abatements	<u>(6,475,945)</u>		<u>(509)</u>	<u>(509)</u>	<u>-</u>
Total property valuation	<u>\$ 464,453,986</u>				
Net levy			2,369,725	2,178,699	191,026
Uncollected taxes at June 30, 2016			<u>34,938</u>	<u>34,938</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,334,787</u>	<u>\$ 2,143,761</u>	<u>\$ 191,026</u>
Current levy collection percentage			<u>98.53%</u>	<u>98.40%</u>	<u>100.00%</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, 2016, which collectively comprise the City of Marion's basic financial statements, and have issued our report thereon dated October 20, 2016. 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
October 20, 2016

CITY OF MARION, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the year ended June 30, 2016

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		\$ 1,738	\$ -
COPS Grant	16.710		29,760	-
VIPER Radio Grant	16.738		57,467	-
Total U.S. Dept. of Justice			88,965	-
 <u>U.S. Dept. of Transportation</u>				
Passed-through the N.C. Department of Transportation:				
NC Governor's Highway Safety Program	20.600	PT-16-06-05	19,940	-
Total assistance - federal programs			108,905	-
 State Grants:				
<u>N.C. Department of Transportation:</u>				
Bicycle Plan Grant				26,000
Powell Bill				235,561
Total assistance - State programs				261,561
Total assistance			\$ 108,905	\$ 261,561

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.