

**City of Marion, North Carolina**

**Financial Statements**

**June 30, 2017**



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

**Marion City Council  
(As of June 30, 2017)**

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, 2017**

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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, 2017, 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, 2017, 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 Other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions on page 58, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 59 and 60, respectively, the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 61, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on page 62, 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 27, 2017 on our consideration of the City of Marion's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marion's internal control over financial reporting and compliance.

*Donald Killian CPA Group, P.A.*

Asheville, North Carolina  
October 27, 2017

**City of Marion, North Carolina**  
Management's Discussion and Analysis  
June 30, 2017

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, 2017. 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**

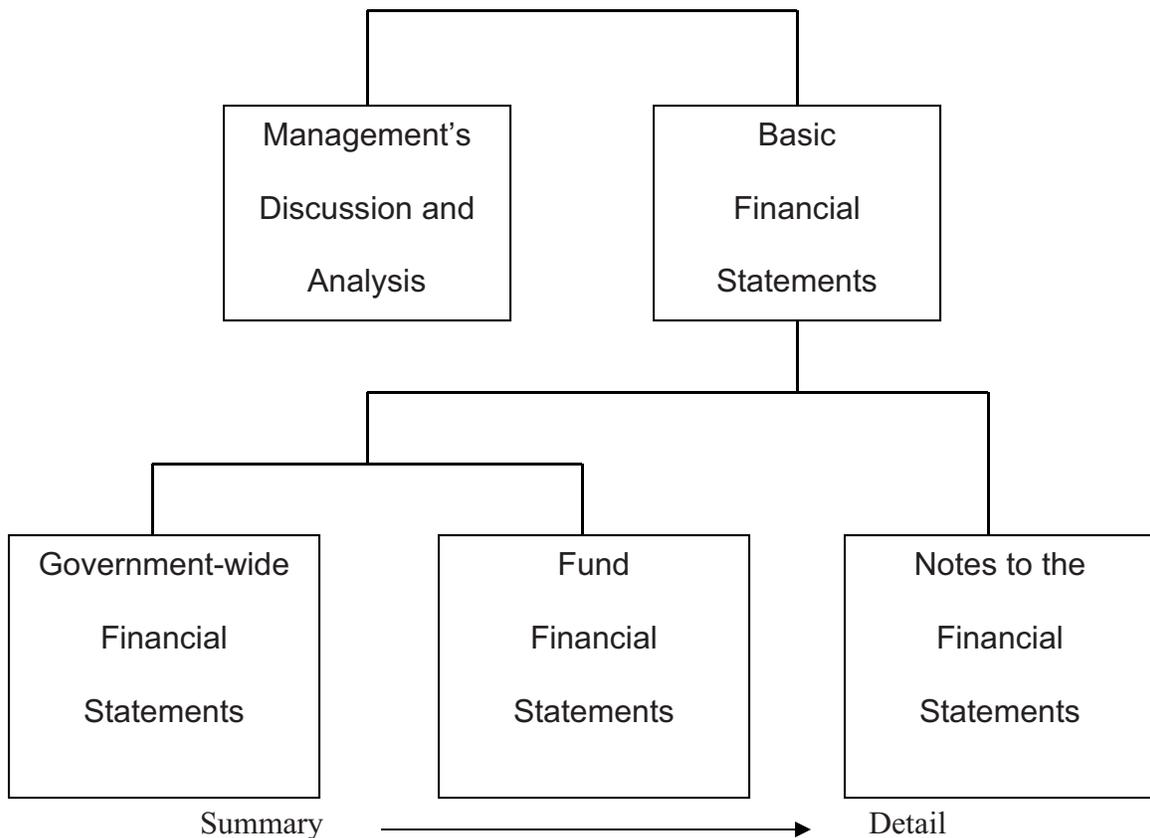
- The assets and deferred outflows of resources of the City of Marion exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$31,488,744 (*net position*).
- The government's total net position decreased by (\$372,973), consisting of decreases in the governmental activities net position of (\$181,346) and decreases in the business-type activities net position of (\$191,627).
- As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balances of \$3,894,557 with a net increase of \$207,046 in fund balance. Approximately 28% of this total amount, or \$1,105,988, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,041,015, or 32% of general fund expenditures for the fiscal year. Total fund balance for the General Fund was \$3,616,756 or 57% of the total general fund expenditures.
- The City of Marion's total debt decreased by \$213,694 (6%) during the current fiscal year. The key factors in this decrease were regularly scheduled principal payments on existing debt of \$384,694 offset by the issuance of an installment note of \$171,000 for a sanitation truck.
- The City of Marion maintained a stable property tax rate of \$.51 per \$100 of valuation for the 49<sup>th</sup> consecutive year.

**Overview of the Financial Statements**

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

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

The first two statements (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 fund 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 58 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	
	Restated				Restated	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 4,071,094	\$ 4,039,659	\$ 2,109,266	\$ 2,261,181	\$ 6,180,360	\$ 6,300,840
Restricted assets	229,046	113,459	235,510	731,645	464,556	845,104
Capital assets	9,751,906	10,014,905	20,147,591	19,972,449	29,899,497	29,987,354
Deferred outflows of resources	812,334	197,215	232,082	59,292	1,044,416	256,507
Total assets and deferred outflows of resources	14,864,380	14,365,238	22,724,449	23,024,567	37,588,829	37,389,805
Long-term liabilities outstanding	2,790,766	2,030,082	2,131,065	2,197,578	4,921,831	4,227,660
Other liabilities	501,113	540,546	576,652	598,484	1,077,765	1,139,030
Deferred inflows of resources	81,516	122,279	18,973	39,119	100,489	161,398
Total liabilities and deferred inflows of resources	3,373,395	2,692,907	2,726,690	2,835,181	6,100,085	5,528,088
Net position:						
Net investment in capital assets	8,408,720	8,721,701	18,034,774	18,095,956	26,443,494	26,817,657
Restricted	1,102,915	875,178	-	-	1,102,915	875,178
Unrestricted	1,979,350	2,075,452	1,962,985	2,093,430	3,942,335	4,168,882
Total net position	\$11,490,985	\$11,672,331	\$19,997,759	\$20,189,386	\$31,488,744	\$31,861,717

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 \$31,488,744 as of June 30, 2017, which represents the City's total net position. The largest portion of net position (84%) 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, \$1,102,915, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,942,335 is unrestricted.

The City's total net position decreased by (\$372,973) for the fiscal year ended June 30, 2017 mainly due to the following:

- Pension expense of \$316,698 was incurred during FY 2016-2017 related to the City's participation in the Local Government Employees' Retirement System (LGERS). Pension expense related to LGERS in the prior year totaled \$147,562.
- Although the City had capital additions during the year, total capital assets net of depreciation declined approximately \$88,000 due to depreciation expense exceeding additions.
- Restricted assets declined \$523,919 due mainly to the use of \$500,000 in restricted cash from financing that was spent on the Airport Road Sewer Line Extension. While these funds were used to construct a capital asset, as discussed previously, capital assets net of depreciation declined.

While the total net position of the City decreased, several particular aspects of the City's financial operations positively helped to offset the items noted above:

- Continued diligence in the collection of property taxes as shown by the stability in the tax collection rate (excluding registered motor vehicles) in the current fiscal year of 98.33% compared to 98.4% in the prior fiscal year.
- The City's total revenues were \$9,883,454 for the fiscal year ending June 30, 2017 which represents an increase of \$290,866. Property taxes and other taxes experienced increases of 3% and 12%, respectively, mainly due to growth in the property and sales tax base.
- 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	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,015,461	\$ 1,022,320	\$ 3,294,632	\$ 3,332,864	\$ 4,310,093	\$ 4,355,184
Operating grants and contributions	330,612	390,560	51,968	51,968	382,580	442,528
Capital grants and contributions	383,979	65,200	-	350,000	383,979	415,200
General revenues:						
Property taxes	2,410,255	2,335,665	-	-	2,410,255	2,335,665
Other taxes	2,228,081	1,981,782	-	-	2,228,081	1,981,782
Investment earnings	-	-	5,373	4,322	5,373	4,322
Other	156,091	48,352	7,002	9,555	163,093	57,907
Total revenues	<u>6,524,479</u>	<u>5,843,879</u>	<u>3,358,975</u>	<u>3,748,709</u>	<u>9,883,454</u>	<u>9,592,588</u>
Expenses:						
General government	1,180,542	1,001,489	-	-	1,180,542	1,001,489
Public safety	3,365,565	3,049,949	-	-	3,365,565	3,049,949
Transportation	1,424,738	1,232,429	-	-	1,424,738	1,232,429
Environmental protection	589,479	579,055	-	-	589,479	579,055
Cultural and recreation	205,226	171,701	-	-	205,226	171,701
Interest on long-term debt	42,134	37,899	-	-	42,134	37,899
Water and sewer	-	-	3,448,743	3,562,030	3,448,743	3,562,030
Total expenses	<u>6,807,684</u>	<u>6,072,522</u>	<u>3,448,743</u>	<u>3,562,030</u>	<u>10,256,427</u>	<u>9,634,552</u>
Change in net position before transfers and special item	(283,205)	(228,643)	(89,768)	186,679	(372,973)	(41,964)
Special item	-	-	-	(722,525)	-	(722,525)
Transfers	101,859	102,000	(101,859)	(102,000)	-	-
Change in net position	<u>(181,346)</u>	<u>(126,643)</u>	<u>(191,627)</u>	<u>(637,846)</u>	<u>(372,973)</u>	<u>(764,489)</u>
Net position, July 1	12,000,765	12,127,408	20,189,386	20,827,232	32,190,151	32,954,640
Restatements	(328,434)	(328,434)	-	-	(328,434)	(328,434)
Net position, June 30	<u>\$ 11,490,985</u>	<u>\$ 11,672,331</u>	<u>\$ 19,997,759</u>	<u>\$ 20,189,386</u>	<u>\$ 31,488,744</u>	<u>\$ 31,861,717</u>

**Governmental activities.** Governmental activities decreased the City's net position by (\$181,346). Public Safety accounted for 49% and Transportation accounted for 21% of governmental activities for fiscal year 2016-2017. The City's governmental activities cover a wide range of services. Several factors affected the governmental activities net position:

- A 3% increase in property tax revenues due to the effects of growth and a stable collection rate
- A 12% increase in other taxes and licenses, primarily local option sales taxes
- An overall increase in expenses of approximately 12% which occurred across most functional areas, due to various items such as increases in pension expense (as previously discussed), depreciation expense, and increases in costs in general.

**Business-type activities.** Business-type activities decreased the City of Marion's net position by (\$191,627). The key element of the decrease related to business-type activities was the increase in pension expense (as previously discussed).

### 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 fund balance of the general fund increased \$29,245 during fiscal year 2016-2017. Increases occurred in several revenue areas mainly due to the continuing recovery of the economy. Ad valorem taxes, which represent 39% of general fund revenues, increased approximately \$45,000, or 2%, due to continuing gradual growth of the tax base. The next largest revenue of the general fund, other taxes and licenses, increased \$246,299, or 12%. This increase is mainly due to continuing improvement in retail sales in the region.

At the end of the current fiscal year, the City of Marion's unassigned fund balance in the General Fund was \$2,041,015, while total fund balance reached \$3,616,756. 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 32% of general fund expenditures, and total fund balance represents 57% of the same amount.

At June 30, 2017, the governmental funds of the City of Marion reported a combined fund balance of \$3,894,557 with a net increase in fund balance of \$207,046. This increase is the result of 1) the general fund increase of \$29,245 (discussed earlier) and 2) an increase in the capital project fund of \$177,801 due mainly to unspent funds which were transferred to the Drexel Building Demolition Project from the General Fund and grants that were advanced from Kate B Reynolds for two projects that were not completed as of year end.

**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 2016-2017 were to increase revenues for 1) increased current year property taxes due to growth - \$47,226, 2) increased sales taxes due to growth - \$72,766, 3) increased restricted intergovernmental revenue mainly due to the receipt of grants such as the Governor's Highway Safety Grant and the Governor's Crime Commission Grant for radios and bullet proof vests - \$76,543, and 4) the receipt of insurance proceeds during the year related to auto and building claims - \$106,321, 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 1) the purchase of a sanitation truck - \$171,000, 2) various street projects such as the paving of a portion of Mt Ida Drive and Burgin Street \$89,100, 3) the purchase of radios, vehicles, and other equipment for the Police Department funded with grant funds or insurance proceeds - \$93,637, 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 \$2,015,440 and the total decrease in net position for the Water and Sewer and the Internal Service Funds was (\$189,673) and (\$5,143), 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, 2017, totals \$29,899,497 (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 a restroom facility in the Farmers Market area and a City Stage/restroom facility on Main Street in the amount of \$114,385.
- Completion of the Airport Road Sewer Line Extension Project in the amount of \$869,414.
- Purchase of a sanitation vehicle - \$167,502.
- Purchase of VIPER radios/equipment - \$96,772
- Purchase of 5 Police vehicles - \$183,500
- Purchase of 1 Utility Line Maintenance vehicle - \$40,781
- Purchase of a submersible sewage pump - \$21,450
- Roof replacement on the Waste Water Treatment Plant office building - \$16,200

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

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,630,172	\$1,624,802	\$ 101,245	\$101,245	\$ 1,731,417	\$ 1,726,047
Buildings and system Improvements other than buildings	3,090,945	3,084,921	18,805,689	18,499,690	21,896,634	21,584,611
Equipment and furniture	1,809,668	1,876,512	565,376	591,913	2,375,044	2,468,425
Infrastructure	532,214	532,336	601,857	643,930	1,134,071	1,176,266
Vehicles and motorized equipment	1,870,647	1,935,051	-	-	1,870,647	1,935,051
Construction in progress	797,681	961,283	73,424	51,296	871,105	1,012,579
	20,579	-	-	84,375	20,579	84,375
<b>Total</b>	<b>\$ 9,751,906</b>	<b>\$10,014,905</b>	<b>\$20,147,591</b>	<b>\$19,972,449</b>	<b>\$29,899,497</b>	<b>\$29,987,354</b>

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, 2017, the City of Marion had total installment debt outstanding of \$3,456,003. Of this, \$811,812 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 decreased by \$213,694 (6%) during the past fiscal year, primarily due to the issuance of an installment note of \$171,000 for a sanitation truck and regularly scheduled principal payments of \$384,694 on existing debt.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Installment debt	\$ 1,343,186	\$ 1,293,204	\$ 2,112,817	\$ 2,376,493	\$ 3,456,003	\$ 3,669,697
Net Pension Liability (LGERS)	936,282	209,026	273,024	69,675	1,209,306	278,701
Net Pension Obligation (LEO)	590,935	227,306	-	-	590,935	227,306
Unfunded OPEB	13,999	11,818	-	-	13,999	11,818
Compensated absences	190,421	185,972	43,600	45,386	234,021	231,358
<b>Total</b>	<b>\$ 3,074,823</b>	<b>\$ 1,927,326</b>	<b>\$ 2,429,441</b>	<b>\$ 2,491,554</b>	<b>\$ 5,504,264</b>	<b>\$ 4,418,880</b>

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, 2017.

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 4.0% in August 2017, a rate below the State average of 4.5% and equal to or below almost all of the counties in the region, including Avery (4.0%), Burke (4.3%), Caldwell (4.5%), Catawba (4.2%), Cleveland (4.7%), Mitchell (5.1%), Rutherford (6.2%) and Yancey (4.4%). As of August 2017, only eight of North Carolina's 100 counties had unemployment rates lower than McDowell County and McDowell County's unemployment rate was only 0.6% higher than the lowest unemployment rate in North Carolina, which was Buncombe County at 3.4%. 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 nine 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. The City and County have also worked on a Master Plan for City and County property located on College Drive that could support the development of numerous large manufacturing sites and yield significant employment and tax base in the future.

**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 food and beverage establishments and retail stores have opened in the past three 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. Several more businesses, including two breweries, a meadery, a tap room/live entertainment business and potentially a restaurant, are planning to open in the downtown area in the next year. 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 2016-2017 gross taxable retail sales for McDowell County were 9.51 percent higher than 2015-2016, with a record total of \$349,263,767. Since 2005, gross taxable retail sales in McDowell County have increased by 61.25 percent, compared to growth of 37.04 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 2016-17 to 9.69 percent and will result in an estimated sales tax revenue loss for the City of \$435,000 (or approximately 10 cents on the City's tax rate) for 2017-18.

**Property Tax Collection.** The City of Marion's tax collection percentage for property excluding motor vehicles remained stable at 98.33 percent in FY 2016-2017 as compared to 98.4 percent in 2015-2016. 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, 2018****Governmental Activities:**

Revenue growth in the General Fund is projected to have some modest increases, due to the continued growth of the City. Property taxes (resulting from good commercial growth and industrial development) are projected to be 2.71 percent higher than the budgeted amount for 2016-2017. Sales taxes are expected to increase by 7.01 percent over the 2016-2017 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. Other revenues are expected to remain relatively flat in 2017-2018. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2017-2018. For the 50<sup>th</sup> consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 4.2 percent to \$6,391,117. This increase is mainly due to increases in personnel expenses and capital outlay related spending for vehicles and equipment.

**Business-type Activities:**

The water and sewer rates for inside the City and outside customers will increase by approximately three percent, the fourth year of five years of planned three percent rate increases. Expenses in the Water and Sewer Fund will increase by 5.18 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](http://www.marionnc.org) or send an email to [jscherer@marionnc.org](mailto:jscherer@marionnc.org) for more information.

## **BASIC FINANCIAL STATEMENTS**

Statement of Net Position  
June 30, 2017

	Primary Government			Component Unit
	Governmental	Business-type	Total	City of Marion ABC Board
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,981,178	\$ 1,434,930	\$ 4,416,108	\$ 67,166
Taxes receivable, net	90,107	-	90,107	-
Accrued interest receivable	18,478	-	18,478	-
Accounts receivable, net	57,261	515,404	572,665	-
Internal balances	52,455	(52,455)	-	-
Due from other governments	736,369	31,944	768,313	-
Due from component unit	39,085	-	39,085	-
Inventories	93,088	63,635	156,723	426,438
Prepaid items	3,073	6,096	9,169	8,076
Restricted cash	229,046	235,510	464,556	-
Total current assets	<u>4,300,140</u>	<u>2,235,064</u>	<u>6,535,204</u>	<u>501,680</u>
Noncurrent assets:				
Notes receivable	-	109,712	109,712	-
Capital assets:				
Land and construction in progress	1,650,751	101,245	1,751,996	59,832
Other capital assets, net	8,101,155	20,046,346	28,147,501	552,423
Total capital assets	<u>9,751,906</u>	<u>20,147,591</u>	<u>29,899,497</u>	<u>612,255</u>
Total noncurrent assets	<u>9,751,906</u>	<u>20,257,303</u>	<u>30,009,209</u>	<u>612,255</u>
Total assets	<u>14,052,046</u>	<u>22,492,367</u>	<u>36,544,413</u>	<u>1,113,935</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	<u>812,334</u>	<u>232,082</u>	<u>1,044,416</u>	<u>45,870</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	193,094	39,129	232,223	213,971
Accrued interest payable	9,719	3,636	13,355	-
Liabilities payable from restricted assets:				
Customer deposits	14,243	235,510	249,753	-
Current portion of				
long-term liabilities	284,057	298,377	582,434	22,359
Total current liabilities	<u>501,113</u>	<u>576,652</u>	<u>1,077,765</u>	<u>236,330</u>

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

Statement of Net Position  
June 30, 2017

	<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 - LGERS	936,282	273,024	1,209,306	47,540
Total pension liability - LEOSSA	590,935	-	590,935	-
Due in more than one year	1,263,549	1,858,041	3,121,590	545,770
Total long-term liabilities	<u>2,790,766</u>	<u>2,131,065</u>	<u>4,921,831</u>	<u>593,310</u>
Total liabilities	<u>3,291,879</u>	<u>2,707,717</u>	<u>5,999,596</u>	<u>829,640</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>81,516</u>	<u>18,973</u>	<u>100,489</u>	<u>2,342</u>
<b>NET POSITION</b>				
Net investment in capital assets	8,408,720	18,034,774	26,443,494	44,126
Restricted for:				
Stabilization by State statute	888,112	-	888,112	-
Streets	2,792	-	2,792	-
Public safety	68,640	-	68,640	-
Community development	143,371	-	143,371	-
Working capital	-	-	-	74,600
Unrestricted	<u>1,979,350</u>	<u>1,962,985</u>	<u>3,942,335</u>	<u>209,097</u>
Total net position	<u>\$ 11,490,985</u>	<u>\$ 19,997,759</u>	<u>\$ 31,488,744</u>	<u>\$ 327,823</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, 2017

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		
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 1,180,542	\$ 354,936	\$ 15,280	\$ 356,838	\$ (453,488)	\$ -	\$ (453,488)	
Public safety	3,365,565	423,645	86,586	27,141	(2,828,193)	-	(2,828,193)	
Transportation	1,424,738	-	223,946	-	(1,200,792)	-	(1,200,792)	
Environmental protection	589,479	194,728	4,200	-	(390,551)	-	(390,551)	
Cultural and recreation	205,226	42,152	600	-	(162,474)	-	(162,474)	
Interest on long-term debt	42,134	-	-	-	(42,134)	-	(42,134)	
Total governmental activities	<u>6,807,684</u>	<u>1,015,461</u>	<u>330,612</u>	<u>383,979</u>	<u>(5,077,632)</u>	<u>-</u>	<u>(5,077,632)</u>	
Business-type activities:								
Water and sewer	<u>3,448,743</u>	<u>3,294,632</u>	<u>51,968</u>	<u>-</u>	<u>-</u>	<u>(102,143)</u>	<u>(102,143)</u>	
Total primary government	<u>\$ 10,256,427</u>	<u>\$ 4,310,093</u>	<u>\$ 382,580</u>	<u>\$ 383,979</u>	<u>(5,077,632)</u>	<u>(102,143)</u>	<u>(5,179,775)</u>	
Component unit:								
City of Marion ABC Board	<u>\$ 2,507,213</u>	<u>\$ 2,524,948</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ 17,735</u>
Total component unit	<u>\$ 2,507,213</u>	<u>\$ 2,524,948</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ 17,735</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					2,410,255	-	2,410,255	-
Other taxes					2,228,081	-	2,228,081	-
Unrestricted investment earnings					6,240	5,373	11,613	-
Gain on disposal of capital assets					38,151	7,002	45,153	-
Miscellaneous					111,700	-	111,700	-
Total general revenues					<u>4,794,427</u>	<u>12,375</u>	<u>4,806,802</u>	<u>-</u>
Transfers					<u>101,859</u>	<u>(101,859)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>4,896,286</u>	<u>(89,484)</u>	<u>4,806,802</u>	<u>-</u>
Changes in net position					<u>(181,346)</u>	<u>(191,627)</u>	<u>(372,973)</u>	<u>17,735</u>
Net position, beginning, as previously stated					12,000,765	20,189,386	32,190,151	310,644
Restatement (Note 7)					<u>(328,434)</u>	<u>-</u>	<u>(328,434)</u>	<u>(556)</u>
Net position, beginning of year, restated					<u>11,672,331</u>	<u>20,189,386</u>	<u>31,861,717</u>	<u>310,088</u>
Net position, ending					<u>\$ 11,490,985</u>	<u>\$ 19,997,759</u>	<u>\$ 31,488,744</u>	<u>\$ 327,823</u>

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

GOVERNMENTAL FUNDS  
Balance Sheet  
June 30, 2017

	<u>Major Fund</u>		Total Governmental Funds
	General Fund	Non-Major Funds	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,843,728	\$ 137,450	\$ 2,981,178
Restricted cash and cash equivalents	85,675	143,371	229,046
Taxes receivable, net	90,107	-	90,107
Accounts receivable, net	57,261	-	57,261
Prepaid items	3,073	-	3,073
Due from other governments	729,331	1,271	730,602
Due from other funds	88,667	-	88,667
Due from component unit	39,085	-	39,085
Total assets	<u>\$ 3,936,927</u>	<u>\$ 282,092</u>	<u>\$ 4,219,019</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 186,624	\$ 4,291	\$ 190,915
Liabilities payable from restricted assets:			
Customer deposits	14,243	-	14,243
Total liabilities	<u>200,867</u>	<u>4,291</u>	<u>205,158</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>119,304</u>	<u>-</u>	<u>119,304</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	3,073	-	3,073
Restricted for:			
Stabilization by State statute	888,112	-	888,112
Streets	2,792	-	2,792
Public safety	68,640	-	68,640
Community development	-	143,371	143,371
Committed for:			
Cemetery	120,928	-	120,928
Future capital projects	-	134,430	134,430
Assigned - subsequent year's expenditures	492,196	-	492,196
Unassigned	<u>2,041,015</u>	<u>-</u>	<u>2,041,015</u>
Total fund balances	<u>3,616,756</u>	<u>277,801</u>	<u>3,894,557</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,936,927</u>	<u>\$ 282,092</u>	<u>\$ 4,219,019</u>

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

GOVERNMENTAL FUNDS  
Balance Sheet  
June 30, 2017

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

Fund balances of governmental funds	\$	3,894,557	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			9,751,906
Deferred outflows of resources related to pensions are not reported in the funds			812,334
Other long-term assets are not available to pay for current-period expenditures and, therefore, are inflows of resources in the funds.			18,478
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	\$	98,855	
Current liabilities		(90,846)	
Portion allocated to the enterprise fund		<u>52,455</u>	60,464
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			116,339
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable		(1,343,186)	
Accrued interest		(9,719)	
Net pension liability - LGERS		(936,282)	
Net pension obligation - LEO		(590,935)	
OPEB		(13,999)	
Compensated absences		<u>(190,421)</u>	(3,084,542)
Pension related deferrals are not reported in the funds.			<u>(78,551)</u>
Net position of governmental activities			<u><u>\$ 11,490,985</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, 2017

	<u>Major Fund</u>		
	General Fund	Total Non-Major Funds	Total Governmental Funds
<b>REVENUES</b>			
Ad valorem taxes	\$ 2,388,188	\$ -	\$ 2,388,188
Other taxes and licenses	2,228,081	-	2,228,081
Unrestricted intergovernmental	199,451	-	199,451
Restricted intergovernmental	782,579	168,188	950,767
Licenses and permits	74,398	-	74,398
Sales and services	281,753	-	281,753
Investment earnings	7,363	10	7,373
Restricted contributions	16,482	-	16,482
Restricted grants - nongovernmental	-	177,113	177,113
Miscellaneous	179,939	-	179,939
Total revenues	<u>6,158,234</u>	<u>345,311</u>	<u>6,503,545</u>
<b>EXPENDITURES</b>			
Current:			
General government	895,680	133,552	1,029,232
Public safety	3,157,339	-	3,157,339
Transportation	1,285,362	-	1,285,362
Environmental protection	670,423	-	670,423
Cultural and recreation	131,382	-	131,382
Capital outlay	-	134,964	134,964
Debt service:			
Principal	121,018	-	121,018
Interest	39,638	-	39,638
Total expenditures	<u>6,300,842</u>	<u>268,516</u>	<u>6,569,358</u>
Revenues over (under) expenditures	<u>(142,608)</u>	<u>76,795</u>	<u>(65,813)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Installment obligations issued	171,000	-	171,000
Transfers from other funds	201,869	101,006	302,875
Transfers to other funds	(201,016)	-	(201,016)
Total other financing sources (uses)	<u>171,853</u>	<u>101,006</u>	<u>272,859</u>
Net change in fund balances	29,245	177,801	207,046
Fund balances, beginning of year	<u>3,587,511</u>	<u>100,000</u>	<u>3,687,511</u>
Fund balances, end of year	<u>\$ 3,616,756</u>	<u>\$ 277,801</u>	<u>\$ 3,894,557</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, 2017

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

Net changes in fund balances - total governmental funds	\$	207,046
<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	\$ 663,950	
Depreciation expense for governmental assets	<u>(926,949)</u>	(262,999)
<p>Contributions to the LGERS 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>		
		193,040
<p>Benefit payments paid and administrative expenses for the LEOSSA are not included on the Statement of Activities.</p>		
		16,453
<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>		
Change in accrued interest receivable on taxes	(1,133)	
Change in unavailable tax revenues	<u>22,067</u>	20,934
<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	(171,000)	
Principal payments on long-term debt	121,018	
Accrued interest expense	<u>(2,496)</u>	(52,478)
<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	(4,449)	
Pension expense (LGERS)	(249,994)	
Pension expense (LEO)	(48,684)	
Other postemployment benefits	<u>(2,181)</u>	(305,308)
<p>Remaining consolidation adjustment for the internal service fund and the governmental funds, not included elsewhere.</p>		
		<u>1,966</u>
Total changes in net position of governmental activities	\$	<u><u>(181,346)</u></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, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,298,312	\$ 2,345,538	\$ 2,388,188	\$ 42,650
Other taxes	1,945,400	2,018,166	2,228,081	209,915
Unrestricted intergovernmental	176,600	176,600	199,451	22,851
Restricted intergovernmental	671,700	748,243	782,579	34,336
Licenses and permits	82,100	82,100	74,398	(7,702)
Sales and services	215,580	218,200	281,753	63,553
Investment earnings	2,550	2,550	7,363	4,813
Restricted contributions	2,600	5,100	16,482	11,382
Miscellaneous	55,530	165,528	179,939	14,411
Total revenues	<u>5,450,372</u>	<u>5,762,025</u>	<u>6,158,234</u>	<u>396,209</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	927,550	970,497	895,680	74,817
Public safety	3,028,009	3,234,473	3,157,339	77,134
Transportation	1,313,536	1,413,082	1,285,362	127,720
Environmental protection	565,580	738,913	670,423	68,490
Cultural and recreation	117,800	141,500	131,382	10,118
<b>Debt service:</b>				
Principal retirement	138,785	138,785	121,018	17,767
Interest and other charges	41,988	41,988	39,638	2,350
Total expenditures	<u>6,133,248</u>	<u>6,679,238</u>	<u>6,300,842</u>	<u>378,396</u>
Revenues under expenditures	<u>(682,876)</u>	<u>(917,213)</u>	<u>(142,608)</u>	<u>774,605</u>
<b>Other financing sources (uses):</b>				
Fund balance appropriated	476,876	741,219	-	(741,219)
Installment obligations issued	-	171,000	171,000	-
Transfer from Capital reserve fund	100,000	100,010	100,010	-
Transfer from water and sewer fund	106,000	106,000	101,859	(4,141)
Transfer to capital projects funds, net	-	(201,016)	(201,016)	-
Total other financing sources (uses)	<u>682,876</u>	<u>917,213</u>	<u>171,853</u>	<u>(745,360)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	29,245	<u>\$ 29,245</u>
Fund balance, beginning of year			<u>3,587,511</u>	
Fund balance, end of year			<u>\$ 3,616,756</u>	

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

PROPRIETARY FUNDS  
Statement of Fund Net Position  
June 30, 2017

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,434,930	\$ -
Accounts receivable	515,404	-
Due from other governments	31,944	5,767
Inventories	63,635	93,088
Prepaid items	6,096	-
Restricted cash and cash equivalents	235,510	-
Total current assets	<u>2,287,519</u>	<u>98,855</u>
Noncurrent assets:		
Notes receivable	109,712	-
Capital assets:		
Land and other non-depreciable assets	101,245	-
Other capital assets, net of depreciation	20,046,346	11,327
Capital assets, net	<u>20,147,591</u>	<u>11,327</u>
Noncurrent assets	<u>20,257,303</u>	<u>11,327</u>
Total assets	<u>22,544,822</u>	<u>110,182</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>232,082</u>	<u>19,710</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	39,129	2,179
Accrued interest payable	3,636	-
Due to general fund	-	88,667
Liabilities payable from restricted assets:		
Customer deposits	235,510	-
Compensated absences, current	29,100	-
Current portion of long-term debt	269,277	-
Total current liabilities	<u>576,652</u>	<u>90,846</u>

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

PROPRIETARY FUNDS  
Statement of Fund Net Position  
June 30, 2017

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
Noncurrent liabilities:		
Compensated absences, net	14,501	1,687
Net pension liability	273,024	23,187
Long-term debt, net of current portion	1,843,540	-
Total noncurrent liabilities	<u>2,131,065</u>	<u>24,874</u>
Total liabilities	<u>2,707,717</u>	<u>115,720</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>18,973</u>	<u>1,611</u>
<b>NET POSITION</b>		
Net investment in capital assets	18,034,774	11,327
Unrestricted	<u>2,015,440</u>	<u>1,234</u>
Total net position	<u>\$ 20,050,214</u>	<u>\$ 12,561</u>
<b>Reconciliation with Statement of Net Position - Business-type Activities:</b>		
Total net position - proprietary fund presentation	\$ 20,050,214	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(52,455)</u>	
Net position of business-type activities	<u>\$ 19,997,759</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, 2017

	<b>Major Enterprise Fund Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 3,232,363	\$ 278,093
Water and sewer taps	22,535	-
Other operating revenue	39,734	-
Total operating revenues	<u>3,294,632</u>	<u>278,093</u>
<b>OPERATING EXPENSES</b>		
Utility line maintenance	1,092,549	-
Water filter plant	514,327	-
Waste treatment plant	885,832	-
Operating expenses	-	51,453
Materials	-	227,986
Insurance and bonding	85,431	-
Miscellaneous	4,627	-
Depreciation	828,266	3,797
Total operating expenses	<u>3,411,032</u>	<u>283,236</u>
Operating loss	<u>(116,400)</u>	<u>(5,143)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
County reimbursements - Sugar Hill	51,968	-
Investment earnings	5,373	-
Gain on sale of capital assets	7,002	-
Interest on long-term debt	(35,757)	-
Total nonoperating revenue (expense)	<u>28,586</u>	<u>-</u>
Loss before transfers	(87,814)	(5,143)
Transfer to general fund - payment in lieu of taxes	<u>(101,859)</u>	<u>-</u>
Change in net position	(189,673)	(5,143)
Net position, beginning of year	<u>20,239,887</u>	<u>17,704</u>
Net position, end of year	<u>\$ 20,050,214</u>	<u>\$ 12,561</u>
<b>Reconciliation with Statement of Activities - Change in Net Position - Business-type Activities:</b>		
Change in net position - fund perspective	\$ (189,673)	
Internal service fund loss allocated to business-type activities	<u>(1,954)</u>	
Change in net position - government-wide perspective	<u>\$ (191,627)</u>	

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

PROPRIETARY FUNDS  
Statement of Cash Flows  
For the year ended June 30, 2017

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers and users	\$ 3,268,708	\$ 278,093
Cash paid for goods and services	(1,519,705)	(177,507)
Cash paid to or on behalf of employees for services	(1,109,650)	(91,917)
Net cash provided by operating activities	<u>639,353</u>	<u>8,669</u>
<b>Cash flows from noncapital and related financing activities:</b>		
Transfer to General Fund	(101,859)	-
Due to other funds	-	(8,669)
County reimbursements	<u>51,968</u>	<u>-</u>
Net cash used by noncapital and related financing activities	<u>(49,891)</u>	<u>(8,669)</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(1,003,409)	-
Proceeds from the sale of capital assets	7,002	-
Principal payments on long-term debt	(263,676)	-
Interest on long-term debt	<u>(36,564)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,296,647)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>		
Collection of note receivable	100,000	-
Interest received	<u>1,152</u>	<u>-</u>
Net cash provided by investing activities	<u>101,152</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(606,033)	-
Cash and cash equivalents, beginning of year	<u>2,276,473</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 1,670,440</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, 2017

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>		
Operating loss	\$ (116,400)	\$ (5,143)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	828,266	3,797
Bad debts written off	7,796	-
Changes in assets deferred outflows of resources and liabilities:		
(Increase) decrease in accounts receivable	(37,585)	-
(Increase) decrease in due from other governments	(5,500)	1,918
(Increase) decrease in inventories	(14,331)	8,332
(Increase) decrease in prepaid items	(6,096)	-
(Increase) decrease in deferred outflows of resources - pensions	(172,790)	(14,967)
Increase (decrease) in accounts payable and accrued liabilities	(29,290)	(1,593)
Increase (decrease) in customer deposits	3,865	-
Increase (decrease) in compensated absences	(1,785)	233
Increase (decrease) in net pension liability	203,349	17,612
Increase (decrease) in deferred inflows of resources - pensions	(20,146)	(1,520)
Total adjustments	<u>755,753</u>	<u>13,812</u>
Net cash provided by operating activities	<u>\$ 639,353</u>	<u>\$ 8,669</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, 2017

**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 multi-year construction and grant projects. 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 Government 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 and Capital Project Funds 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	\$ 2,792
Public Safety	68,640
Customer deposits	14,243

Capital project funds:

Unspent grant proceeds	<u>143,371</u>
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Total governmental activities	<u>229,046</u>
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Business Type Activities

Water and Sewer Fund:

Customer deposits	<u>235,510</u>
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Total restricted cash	<u>\$ 464,556</u>
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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 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. 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 \$2,500 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 30, 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 2017 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, other receivables, prepaid taxes, and other pension deferrals.

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.

**Restricted for Community Development** – portion of fund balance that is restricted by revenue source for certain community development capital projects.

**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, 2017, the City’s deposits had a carrying amount of \$3,915,712 and a bank balance of \$4,020,993. Of the bank balance, \$750,000 was covered by federal depository insurance and the remaining balance was covered by collateral held under the pooling method. At June 30, 2017, the City’s petty cash fund totaled \$1,850.

At June 30, 2017, the carrying amount of deposits for the ABC Board was \$63,941 and the bank balance was \$88,173. All of the bank balance was covered by Federal depository insurance. At June 30, 2017, the Board’s petty cash fund totaled \$3,225.

2. Investments

At June 30, 2017 the City of Marion had \$963,102 invested with the North Carolina Capital Management Trust’s Government 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>\$ 51,000</u>
Enterprise Funds	<u>\$ 87,000</u>

4. Due from Other Governments

Due from other governments consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Local option sales tax	\$ 492,221	\$ -	\$ 492,221
Sales tax refund	53,967	31,944	85,911
Vehicle taxes/tag fees	24,205	-	24,205
Fire district tax	1,978	-	1,978
Franchise/video programming tax	147,499	-	147,499
Solid waste tax	1,305	-	1,305
Federal and State grants	10,255	-	10,255
Miscellaneous reimbursements	4,939	-	4,939
	<u>\$ 736,369</u>	<u>\$ 31,944</u>	<u>\$ 768,313</u>

5. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2017 was as follows:

Governmental Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,624,802	\$ 5,370	\$ -	\$ 1,630,172
Construction in progress	-	20,579	-	20,579
Total capital assets not being depreciated	<u>1,624,802</u>	<u>25,949</u>	<u>-</u>	<u>1,650,751</u>
Capital assets being depreciated:				
Building improvements	2,951,821	5,728	2,300	2,955,249
Buildings	1,538,113	114,385	-	1,652,498
Equipment	2,183,704	166,886	151,476	2,199,114
Equipment – ISF	28,737	-	652	28,085
Furniture and fixtures	248,684	-	16,699	231,985
Land improvements	2,186,048	-	-	2,186,048
Vehicles	5,002,325	351,002	224,687	5,128,640
Infrastructure	<u>2,239,230</u>	<u>-</u>	<u>-</u>	<u>2,239,230</u>
Total capital assets being depreciated	<u>16,378,662</u>	<u>638,001</u>	<u>395,814</u>	<u>16,620,849</u>
Less accumulated depreciation for:				
Building improvements	735,478	81,912	2,300	815,090
Buildings	669,535	32,177	-	701,712
Equipment	1,702,292	157,773	151,476	1,708,589
Equipment – ISF	13,613	3,797	652	16,758
Furniture and fixtures	212,884	5,438	16,699	201,623
Land improvements	309,536	66,844	-	376,380
Vehicles	4,041,042	514,604	224,687	4,330,959
Infrastructure	<u>304,179</u>	<u>64,404</u>	<u>-</u>	<u>368,583</u>
Total accumulated depreciation	<u>7,988,559</u>	<u>926,949</u>	<u>395,814</u>	<u>8,519,694</u>
Total capital assets being depreciated, net	<u>8,390,103</u>	<u>\$ (288,948)</u>	<u>\$ -</u>	<u>8,101,155</u>
Governmental activities capital assets, net	<u>\$ 10,014,905</u>			<u>\$ 9,751,906</u>

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

General government	\$ 160,013
Public safety	463,396
Transportation	149,781
Environmental protection	79,915
Culture and recreation	73,844
Total depreciation expense	<u>\$ 926,949</u>

Capital asset activity for business-type activities for the year ended June 30, 2017 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	84,375	869,414	953,789	-
Total capital assets not being depreciated	<u>185,620</u>	<u>869,414</u>	<u>-</u>	<u>101,245</u>
Capital assets being depreciated:				
Building improvements	626,087	16,200	12,646	629,641
Buildings	6,891,369	-	-	6,891,369
Water and sewer mains, fittings, and lines	23,264,026	960,010	-	24,224,036
Equipment	1,769,918	70,793	137,625	1,703,086
Furniture and fixtures	650,341	-	2,904	647,437
Land improvements	1,176,029	-	10,981	1,165,048
Vehicles	516,433	40,781	29,845	527,369
Total capital assets being depreciated	<u>34,894,203</u>	<u>1,087,784</u>	<u>194,001</u>	<u>35,787,986</u>
Less accumulated depreciation for:				
Building improvements	529,295	5,895	12,646	522,544
Buildings	4,183,953	126,538	-	4,310,491
Water and sewer mains, fittings, and lines	7,568,544	537,778	-	8,106,322
Equipment	1,427,338	99,728	137,625	1,389,441
Furniture and fixtures	348,991	13,138	2,904	359,225
Land improvements	584,116	26,537	10,981	599,672
Vehicles	465,137	18,653	29,845	453,945
Total accumulated depreciation	<u>15,107,374</u>	<u>828,267</u>	<u>194,001</u>	<u>15,741,640</u>
Total capital assets being depreciated, net	<u>\$19,786,829</u>	<u>\$ 259,517</u>	<u>\$ -</u>	<u>20,046,346</u>
Business-type activities capital assets, net	<u>\$19,972,449</u>			<u>\$20,147,591</u>

#### Construction Commitments

The City had no material construction commitments at June 30, 2017.

**Discretely Presented Component Unit:**

Activity for the ABC Board for the year ended June 30, 2017 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	638,696	-	-	638,696
Leasehold improvements	45,942	-	-	45,942
Land improvements	19,493	-	-	19,493
Equipment	<u>229,798</u>	<u>8,952</u>	<u>-</u>	<u>238,750</u>
Total capital assets being depreciated	<u>933,929</u>	<u>8,952</u>	<u>-</u>	<u>942,881</u>
Less accumulated depreciation for:				
Buildings	124,369	22,232	-	146,601
Leasehold improvements	28,993	4,539	-	33,532
Land improvements	19,493	-	-	19,493
Equipment	<u>178,560</u>	<u>12,272</u>	<u>-</u>	<u>190,832</u>
Total accumulated depreciation	<u>351,415</u>	<u>39,043</u>	<u>-</u>	<u>390,458</u>
Total capital assets being depreciated, net	<u>582,514</u>	<u>\$ (30,091)</u>	<u>\$ -</u>	<u>552,423</u>
ABC Board capital assets, net	<u>\$ 642,346</u>			<u>\$ 612,255</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, 2017, the loan has been discounted to the present value of \$109,712.

In June of 2016, the City entered into an agreement with Autumn Corporation whereas Autumn Corporation agreed to pay the City \$100,000 in connection to the Airport Road Sewer Line project. The Corporation paid the note in full during the year ended June 30, 2017.

**B. Liabilities**

1. Accounts Payable – Disaggregate Information

	Governmental Activities	Business-type Activities	Total
Vendor payables	\$ 76,299	\$ 11,914	\$ 88,213
Accrued salaries and expenses	116,795	27,215	144,010
Total	<u>\$ 193,094</u>	<u>\$ 39,129</u>	<u>\$232,223</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](http://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, 2017, was 8.00% of compensation for law enforcement officers and 7.37% 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 \$249,331 for the year ended June 30, 2017.

*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, 2017, the City reported a liability of \$1,209,306 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the City’s proportion was 0.05698%, which was a decrease of 0.00512% from its proportion measured as of June 30, 2015. The ABC Board reported a liability of \$47,540 for its proportionate share of the net pension liability.

For the year ended June 30, 2017, the City recognized pension expense of \$316,698. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,721	\$ 42,375
Changes of assumptions	82,827	-
Net difference between projected and actual earnings on pension plan investments	668,594	-
Changes in proportion and differences between City contributions and proportionate share of contributions	4,490	41,660
City contributions subsequent to the measurement date	<u>249,331</u>	<u>-</u>
Total	<u>\$ 1,027,963</u>	<u>\$ 84,035</u>

\$249,331 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:

Year ended June 30:	
2018	100,008
2019	100,139
2020	309,918
2021	184,532
2022	-
Thereafter	<u>-</u>
	<u>\$ 694,597</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's proportionate share of the net pension liability (asset)	\$ 2,870,248	\$ 1,209,306	\$ (178,036)

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

b. Law Enforcement Officers’ Special Separation Allowance

1. Plan Description.

The City of Marion administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the City’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. 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 (valuation date), 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>

2. Summary of Significant Accounting Policies

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

accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meet the criteria which are outlined in GASB Statement 73.

3. Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate used to measure the total pension liability is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the RP-2014 mortality tables base rates projected to the valuation date using MP-2015.

4. Contributions

The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The City’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administrative costs of the Separation Allowance are financed through investment earnings. The City paid \$19,141 as benefits came due for the reporting period.

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

At June 30, 2017, the City reported a total pension liability of \$590,935. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$48,684.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions and other inputs	-	13,489
Town benefit payments and plan administrative expense made subsequent to the measurement date	16,453	-
Total	<u>\$ 16,453</u>	<u>\$ 13,489</u>

\$16,453 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ (2,371)
2019	(2,371)
2020	(2,371)
2021	(2,371)
2022	(2,371)
Thereafter	<u>(1,634)</u>
	<u>\$ (13,489)</u>

\$16,055 paid as benefits came due and \$398 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

*Sensitivity of the City's total pension liability to changes in the discount rate.* The following presents the City's total pension liability calculated using the discount rate of 3.86 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Current Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 647,488	\$ 590,935	\$ 539,519

#### Schedule of Changes in Total Pension Liability

Total pension liability as of December 31, 2015	\$ 575,080
Changes for the year:	
Service cost at end of year	30,667
Interest	20,189
Change in benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions and other inputs	(15,860)
Benefit payments	(19,141)
Other	-
Net changes	<u>15,855</u>
Total pension liability as of December 31, 2016	<u>\$ 590,935</u>

The plan currently uses mortality tables that vary by age, 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

## 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. The law enforcement officers may make voluntary contributions to the Plan.

The City made contributions of \$49,413 for the reporting year. No amounts were forfeited.

## 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.

*Funding Policy.* The City contributes five percent of each participant's compensation, while participants may also make voluntary contributions. All amounts are vested immediately.

The City made contributions of \$115,474 for the reporting year. No amounts were forfeited.

## 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](http://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, 2016, the State contributed \$13,900,000 to the plan. The City's proportionate share of the State's contribution is \$4,869.

*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, 2017, 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 \$12,736. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the City recognized pension expense of \$3,737 and revenue of \$3,737 for support provided by the State. At June 30, 2017, 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, 2015 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	1
Active plan members	-
Total	<u><u>5</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 \$9,152. The City obtains healthcare coverage through private insurers. Retirees contributed \$1,480, which did not include any amounts for dependent care coverage. 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	473
Amortization factor	17.9837
Adjustment to annual required contribution	<u>657</u>
Annual OPEB cost	11,333
Employer contributions made for fiscal year	<u>9,152</u>
Increase in net OPEB obligation	2,181
Net OPEB obligation beginning of fiscal year	<u>11,818</u>
Net OPEB obligation end of fiscal year	<u><u>\$ 13,999</u></u>

## Trend Information

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2015	\$ 16,447	60.1%	\$ 10,371
6/30/2016	11,355	87.3%	11,818
6/30/2017	11,333	80.8%	13,999

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 the government-wide level at June 30, 2017 were as follows:

Contributions to pensions plan in current fiscal year	\$ 249,331
Benefit payments and admin expenses for LEOSSA	16,453
Pension deferrals	<u>778,632</u>
	<u>\$ 1,044,416</u>

Deferred inflows of resources at June 30, 2017 were as follows:

	<u>Governmental Funds</u>	<u>Government- Wide</u>
Prepaid taxes (General Fund)	\$ 2,965	\$ 2,965
Taxes receivable, net (General Fund)	90,107	-
Other receivables (General Fund)	26,232	-
Pension deferrals	-	<u>97,524</u>
Total	<u>\$ 119,304</u>	<u>\$ 100,489</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the City has workers' compensation coverage up to statutory limits, and employee health coverage. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request. The City carries commercial coverage for general liability and auto liability coverage of \$1 million per occurrence,

property coverage up to the total insured values of the property policy and all other risks of loss. There have been no significant reductions in insurance coverage in the prior year. Claims have not exceeded coverage in any of the last three fiscal years.

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

In accordance with G.S. 159-29, City employees that have access to \$100 or more at any given time of City funds are performance bonded through a commercial surety bond. The Finance Director, and Tax Collector are each individually bonded for \$50,000 each, the City Manager is bonded for \$65,000. The remaining employees that have access to funds 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, 2017, the City issued a note payable for the purchase of a sanitation truck for \$171,000. Semiannual payments of \$18,021 including interest at 1.930% beginning July 13, 2017. The note is secured by the equipment purchased.	\$ 171,000
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% beginning July 22, 2016. The note is secured by the equipment purchased.	161,863
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.	378,728
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.	631,595
	\$ 1,343,186

**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 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.	\$ 454,294
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.	361,832
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.	484,873
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.	<u>811,818</u>
	<u>\$ 2,112,817</u>

At June 30, 2017, the City of Marion had a legal debt margin of approximately \$34,000,000. 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
2018	\$ 157,157	\$ 39,540	\$ 269,277	\$ 30,958
2019	161,131	35,567	275,044	25,192
2020	165,218	31,479	280,980	19,255
2021	169,418	27,280	287,090	13,146
2022	131,296	23,163	161,839	8,477
2023-2033	<u>558,966</u>	<u>84,539</u>	<u>838,587</u>	<u>17,225</u>
Total	<u>\$ 1,343,186</u>	<u>\$ 241,568</u>	<u>\$ 2,112,817</u>	<u>\$ 114,253</u>

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

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017	Current Portion of Balance
<u>Governmental Activities:</u>					
Notes payable	\$ 1,293,204	\$ 171,000	\$ 121,018	\$ 1,343,186	\$ 157,157
Total pension liability (LEO)	582,962	27,114	19,141	590,935	-
Unfunded OPEB	11,818	11,333	9,152	13,999	-
Net pension liability (LGERS)	209,026	727,256	-	936,282	-
Compensated absences	<u>185,972</u>	<u>206,373</u>	<u>201,924</u>	<u>190,421</u>	<u>126,900</u>
Total	<u>\$ 1,927,326</u>	<u>\$ 1,143,076</u>	<u>\$ 351,235</u>	<u>\$ 3,074,823</u>	<u>\$ 284,057</u>
<u>Business-type Activities:</u>					
Notes payable	\$ 2,376,493	\$ -	\$ 263,676	\$ 2,112,817	\$ 269,277
Net pension liability (LGERS)	69,675	203,349	-	273,024	-
Compensated absences	<u>45,386</u>	<u>43,991</u>	<u>45,777</u>	<u>43,600</u>	<u>29,100</u>
Total	<u>\$ 2,491,554</u>	<u>\$ 247,340</u>	<u>\$ 309,453</u>	<u>\$ 2,429,441</u>	<u>\$ 298,377</u>
<u>Marion ABC Board:</u>					
Notes payable	<u>\$ 589,320</u>	<u>\$ -</u>	<u>\$ 21,191</u>	<u>\$ 568,129</u>	<u>\$ 22,359</u>
Total	<u>\$ 589,320</u>	<u>\$ -</u>	<u>\$ 21,191</u>	<u>\$ 568,129</u>	<u>\$ 22,359</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

8. Interfund Balances and Activity:

Balances due to the General Fund from other funds at June 30, 2017, consist of the following:

Internal Service Fund	\$ <u>88,667</u>
Total	\$ <u>88,667</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.

Transfers to/from other funds during the year ended June 30, 2017 consist of the following:

To the General Fund Capital Projects Funds	
from the General Fund to fund capital projects	\$ (201,016)
To the General Fund from the Capital Reserve Fund	
to reimburse for capital expenditures	100,010
From the Water and Sewer Fund to the General Fund	
for payments in lieu of taxes	<u>101,859</u>
Total	<u>\$ 853</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, 2017.

**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 lightning insurance premiums which insurers remit to the State. The State passes these monies to the local Board of the Firefighter's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the Board of Trustees. During the fiscal year ended June 30, 2017, the City reported revenue and expenditures for the payments of \$11,550 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, 2017. 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	\$ 3,616,756
<u>Less:</u>	
Nonspendable - prepaids	3,073
Stabilization by State statute	888,112
Streets	2,792
Public safety	68,640
Cemetery	120,928
Appropriated fund balance in next year's budget	492,196
Working Capital/Fund Balance Policy	<u>1,669,810</u>
Remaining Fund Balance	<u>\$ 371,205</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 \$1,669,810 as of June 30, 2017.

**Note 7 – Change in Accounting Principles/Restatement**

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$328,434.

**REQUIRED SUPPLEMENTARY FINANCIAL DATA**

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

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**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

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**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%
2017	11,517	79.47%

\* The plan is closed to all active employees as of July 1, 2014.

**CITY OF MARION, NORTH CAROLINA**

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

<b>Local Government Employees' Retirement System</b>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportionate share of the net pension liability (asset) (%)	0.05698%	0.06210%	0.05892%	6.02000%
City's proportion of the net pension liability (asset) (\$)	\$ 1,209,306	\$ 278,701	\$ (347,478)	\$ 725,641
City's covered payroll	3,351,821	3,254,764	3,207,416	3,113,996
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	36.08%	8.31%	( 10.68%)	22.62%
Plan fiduciary net position as a percentage of the total pension liability (asset)	91.47%	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 FOUR FISCAL YEARS**

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**Local Government Employees' Retirement System**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 249,331	\$ 231,085	\$ 235,131	\$ 228,621
Contribution in relation to the contractually required contribution	<u>249,331</u>	<u>231,085</u>	<u>235,131</u>	<u>228,621</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 3,298,574	\$ 3,351,821	\$ 3,254,764	\$ 3,207,416
Contributions as a percentage of covered payroll	7.56%	6.89%	7.22%	7.13%

**CITY OF MARION, NORTH CAROLINA**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Firefighters' and Rescue Squad Workers' Pension</b>			
City's proportionate share of the net pension liability (%)	0.00000%	0.00000%	0.00000%
City's proportion of the net pension liability (\$)	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the City of Marion	<u>12,736</u>	<u>12,644</u>	<u>13,629</u>
Total	<u>\$ 12,736</u>	<u>\$ 12,644</u>	<u>\$ 13,629</u>
City's covered payroll	\$ 255,627	\$ 250,678	\$ 244,449
City's proportionate share of the net pension liability as a percentage of its covered payroll	4.98%	5.04%	5.58%
Plan fiduciary net position as a percentage of the total pension liability	84.94%	91.40%	93.42%

\* The amounts presented are for the prior fiscal year

**TOWN OF MARION, NORTH CAROLINA**  
**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Changes in Total Pension Liability**

	2017*
Beginning balance	\$ 575,080
Changes for the year:	
Service cost at end of year	30,667
Interest	20,189
Change in benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions and other inputs	(15,860)
Benefit payments	(19,141)
Other	-
Net changes	15,855
Ending balance of the total pension liability	\$ 590,935

**Schedule of Total Pension Liability as a Percentage of Covered Payroll**

Total Pension Liability	\$ 590,935
Covered Payroll	1,121,051
Total pension liability as a percentage of covered payroll	52.71%

Notes to the schedule:

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The City of Marion has no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

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

**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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
<b>Ad Valorem Taxes:</b>			
Current year taxes	\$ 2,118,538	\$ 2,157,114	\$ 38,576
Prior year taxes	28,000	31,086	3,086
Motor vehicle taxes, net	181,000	184,597	3,597
Penalties and interest	18,000	15,391	(2,609)
	<u>2,345,538</u>	<u>2,388,188</u>	<u>42,650</u>
<b>Other Taxes and Licenses:</b>			
Local option sales tax	1,455,766	1,587,278	131,512
Utilities sales tax	510,000	589,257	79,257
Solid waste disposal tax	5,300	5,681	381
Liscenses and permits	8,500	9,072	572
Wine tax	38,600	36,793	(1,807)
	<u>2,018,166</u>	<u>2,228,081</u>	<u>209,915</u>
<b>Unrestricted Intergovernmental:</b>			
Court revenue	2,600	3,960	1,360
ABC revenues	110,000	129,453	19,453
Video franchise fees	64,000	66,038	2,038
	<u>176,600</u>	<u>199,451</u>	<u>22,851</u>
<b>Restricted Intergovernmental:</b>			
Powell Bill allocation	225,000	221,427	(3,573)
ABC revenue for law enforcement	3,000	4,006	1,006
Parking violations	5,000	5,320	320
County fire protection	325,000	338,152	13,152
County recycling	9,500	10,578	1,078
NCDOT reimbursements	2,500	2,519	19
DARE fund revenue	1,929	1,929	-
State controlled substance revenue	8,033	10,183	2,150
State of NC fire protection	1,700	1,680	(20)
McDowell County schools officer	68,000	79,484	11,484
Public safety grants	83,260	73,613	(9,647)
COPS grant	11,080	11,080	-
MIT grants	4,241	4,241	-
On-behalf payments for fire and rescue	-	18,367	18,367
	<u>748,243</u>	<u>782,579</u>	<u>34,336</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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
License, Permits and Fees:			
City vehicle license	24,000	26,712	2,712
Building permits (zoning and inspections)	58,100	47,686	(10,414)
	<u>82,100</u>	<u>74,398</u>	<u>(7,702)</u>
Sales and Services:			
Rents and concessions	35,800	41,206	5,406
Cemetery revenues	4,000	12,064	8,064
Garbage fees	170,180	188,350	18,170
Copies and fingerprints	600	560	(40)
Sales of real estate	2,000	-	(2,000)
Sale of surplus equipment	5,620	39,573	33,953
	<u>218,200</u>	<u>281,753</u>	<u>63,553</u>
Miscellaneous	<u>165,528</u>	<u>179,939</u>	<u>14,411</u>
Investment earnings	<u>2,550</u>	<u>7,363</u>	<u>4,813</u>
Restricted contributions	<u>5,100</u>	<u>16,482</u>	<u>11,382</u>
Total revenues	<u>5,762,025</u>	<u>6,158,234</u>	<u>396,209</u>
Expenditures:			
General government:			
Administration:			
Salaries and employee benefits		655,258	
Operating expenditures		126,238	
Capital outlay		14,679	
Allocation to Water and Sewer		(302,758)	
	<u>511,423</u>	<u>493,417</u>	<u>18,006</u>
Cemetery:			
Operating expenditures		35,016	
	<u>37,400</u>	<u>35,016</u>	<u>2,384</u>
Non-departmental:			
Operating expenditures		367,247	
	<u>421,674</u>	<u>367,247</u>	<u>54,427</u>
Total general government	<u>970,497</u>	<u>895,680</u>	<u>74,817</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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public safety:			
Police department:			
Salaries and employee benefits		1,549,649	
Operating expenditures		440,134	
Capital outlay		331,979	
	<u>2,364,840</u>	<u>2,321,762</u>	<u>43,078</u>
Fire department:			
Salaries and employee benefits		346,128	
Operating expenditures		223,468	
Capital outlay		3,700	
	<u>590,197</u>	<u>573,296</u>	<u>16,901</u>
Inspections:			
Salaries and employee benefits		208,238	
Operating expenditures		54,043	
	<u>279,436</u>	<u>262,281</u>	<u>17,155</u>
Total public safety	<u>3,234,473</u>	<u>3,157,339</u>	<u>77,134</u>
Transportation:			
Public works administration:			
Salaries and employee benefits		145,594	
Other operating expenditures		20,449	
Allocation to Water and Sewer		(62,939)	
	<u>107,743</u>	<u>103,104</u>	<u>4,639</u>
Street department:			
Salaries and employee benefits		519,984	
Other operating expenditures		363,398	
Capital outlay		20,121	
	<u>993,690</u>	<u>903,503</u>	<u>90,187</u>
Powell Bill:			
Other operating expenditures		231,752	
	<u>236,850</u>	<u>231,752</u>	<u>5,098</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, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fleet maintenance:			
Salaries and employee benefits		59,009	
Other operating expenditures		10,559	
Capital outlay		6,150	
Allocation to Water and Sewer		(28,715)	
	<u>74,799</u>	<u>47,003</u>	<u>27,796</u>
 Total transportation	 <u>1,413,082</u>	 <u>1,285,362</u>	 <u>127,720</u>
 Environmental protection:			
Salaries and employee benefits		290,504	
Other operating expenditures		212,417	
Capital outlay		167,502	
Total environmental protection	<u>738,913</u>	<u>670,423</u>	<u>68,490</u>
 Cultural and recreation:			
Community building and recreation:			
Other operating expenditures		131,382	
Total cultural and recreation	<u>141,500</u>	<u>131,382</u>	<u>10,118</u>
 Debt service:			
Principal retirement		121,018	
Interest and fees		39,638	
Total debt service	<u>180,773</u>	<u>160,656</u>	<u>20,117</u>
 Total expenditures	 <u>6,679,238</u>	 <u>6,300,842</u>	 <u>378,396</u>
 Revenues under expenditures	 <u>(917,213)</u>	 <u>(142,608)</u>	 <u>774,605</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, 2017

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	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other Financing Sources (Uses):			
Fund balance appropriated	741,219	-	(741,219)
Installment obligations issued	171,000	171,000	-
Transfer from capital reserve fund	100,010	100,010	-
Transfer from water and sewer fund	106,000	101,859	(4,141)
Transfer to capital projects funds	<u>(201,016)</u>	<u>(201,016)</u>	<u>-</u>
Total other financing sources (uses)	<u>917,213</u>	<u>171,853</u>	<u>(745,360)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	29,245	<u>\$ 29,245</u>
Fund balance, beginning of year		<u>3,587,511</u>	
Fund balance, end of year		<u>\$ 3,616,756</u>	

**CITY OF MARION, NORTH CAROLINA**

NON-MAJOR GOVERNMENTAL FUNDS  
 Combining Balance Sheet  
 June 30, 2017

	<u>Capital Reserve Fund</u>	<u>Drexel Building Demolition Project</u>	<u>Miscellaneous Projects</u>	<u>Total</u>
<b>Assets</b>				
Cash and investments	\$ -	\$ 115,655	\$ 21,795	\$ 137,450
Restricted cash	-	-	143,371	143,371
Accounts receivable	-	-	1,271	1,271
Total assets	<u>\$ -</u>	<u>\$ 115,655</u>	<u>\$ 166,437</u>	<u>\$ 282,092</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	<u>\$ -</u>	<u>\$ 1,890</u>	<u>\$ 2,401</u>	<u>\$ 4,291</u>
Fund balances:				
Restricted:				
Community development	-	-	143,371	143,371
Committed for future capital projects	-	113,765	20,665	134,430
Total fund balances	<u>-</u>	<u>113,765</u>	<u>164,036</u>	<u>277,801</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 115,655</u>	<u>\$ 166,437</u>	<u>\$ 282,092</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, 2017

	<u>Capital Reserve Fund</u>	<u>Drexel Building Demolition Project</u>	<u>Miscellaneous Projects</u>	<u>Total</u>
<b>Revenues</b>				
State grants	\$ -	\$ -	\$ 158,844	\$ 158,844
County grants	-	9,344	-	9,344
Restricted grants - nongovernmental	-	-	177,113	177,113
Interest income	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
Total revenues	<u>10</u>	<u>9,344</u>	<u>335,957</u>	<u>345,311</u>
<b>Expenditures</b>				
Construction costs	<u>-</u>	<u>20,579</u>	<u>247,937</u>	<u>268,516</u>
Revenues over (under) expenditures	<u>10</u>	<u>(11,235)</u>	<u>88,020</u>	<u>76,795</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	<u>(100,010)</u>	<u>125,000</u>	<u>76,016</u>	<u>101,006</u>
Net change in fund balance	(100,000)	113,765	164,036	177,801
Fund balances, beginning of year	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 113,765</u>	<u>\$ 164,036</u>	<u>\$ 277,801</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, 2017

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenue:			
Interest income	\$ 10	\$ 10	\$ -
Other Financing Sources (Uses):			
Transfer to General Fund	(100,010)	(100,010)	-
Fund balance appropriated	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>(10)</u>	<u>(100,010)</u>	<u>(100,000)</u>
Net change in fund balance	<u>\$ -</u>	(100,000)	<u>\$ (100,000)</u>
Fund balance, beginning of year		<u>100,000</u>	
Fund balance, end of year		<u>\$ -</u>	

**CITY OF MARION, NORTH CAROLINA**

NON-MAJOR CAPITAL PROJECT FUND - DREXEL BUILDING DEMOLITION PROJECT  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 From inception and for the year ended June 30, 2017

	Project Authorization	Actual through June 30, 2017		
		Reported in Prior Years	Current Year	Total to Date
<b>Revenues:</b>				
CDBG	\$ 500,000	-	\$ -	\$ -
NC Rural Center grant	150,000	-	-	-
McDowell County contribution	125,000	-	9,344	9,344
Total revenues	<u>775,000</u>	<u>-</u>	<u>9,344</u>	<u>9,344</u>
<b>Expenditures:</b>				
Construction costs	<u>900,000</u>	<u>-</u>	<u>20,579</u>	<u>20,579</u>
Revenues under expenditures	<u>(125,000)</u>	<u>-</u>	<u>(11,235)</u>	<u>(11,235)</u>
<b>Other Financing Sources:</b>				
Transfers in	<u>125,000</u>	<u>-</u>	<u>125,000</u>	<u>125,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	113,765	<u>\$ 113,765</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 113,765</u>	

**CITY OF MARION, NORTH CAROLINA**

NON-MAJOR CAPITAL PROJECT FUND - MISCELLANEOUS PROJECTS  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 From inception and for the year ended June 30, 2017

	Project Authorization	Actual through June 30, 2017		
		Reported in Prior Years	Current Year	Total to Date
<b>Revenues:</b>				
NC Dept of Commerce grants	\$ 159,340	\$ -	\$ 158,844	\$ 158,844
Kate B Reynolds grants	118,113	-	177,113	177,113
Total revenues	<u>277,453</u>	<u>-</u>	<u>335,957</u>	<u>335,957</u>
<b>Expenditures:</b>				
Downtown revitalization	167,106	-	146,649	146,649
West Marion project	118,113	-	33,534	33,534
Building reuse projects	68,250	-	67,754	67,754
Total expenditures	<u>353,469</u>	<u>-</u>	<u>247,937</u>	<u>247,937</u>
Revenues over (under) expenditures	<u>(76,016)</u>	<u>-</u>	<u>88,020</u>	<u>88,020</u>
<b>Other Financing Sources:</b>				
Transfer from General Fund	<u>76,016</u>	<u>-</u>	<u>76,016</u>	<u>76,016</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	164,036	<u>\$ 164,036</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 164,036</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, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Revenues:</b>			
<b>Operating revenues:</b>			
Water sales	\$ 996,500	\$ 1,008,580	\$ 12,080
Sewer sales	699,000	701,932	2,932
Sewer taps	10,000	14,200	4,200
Water taps	30,000	22,535	(7,465)
Cut-on fees/penalties	105,800	112,894	7,094
Water service charges	899,000	910,331	11,331
Sewer service charges	475,000	484,426	9,426
Other operating income	<u>15,919</u>	<u>39,734</u>	<u>23,815</u>
Total operating revenues	<u>3,231,219</u>	<u>3,294,632</u>	<u>63,413</u>
<b>Non-operating revenues:</b>			
Interest	2,425	9,582	7,157
County reimbursements - Sugar Hill	<u>51,968</u>	<u>51,968</u>	<u>-</u>
Total non-operating income	<u>54,393</u>	<u>61,550</u>	<u>7,157</u>
Total revenues	<u>3,285,612</u>	<u>3,356,182</u>	<u>70,570</u>
<b>Expenditures:</b>			
<b>Utility line maintenance:</b>			
Salaries and employee benefits		407,528	
Operating expenditures		185,735	
Repairs and maintenance		85,737	
Capital outlay		66,970	
Overhead allocation		<u>424,343</u>	
	<u>1,463,924</u>	<u>1,170,313</u>	<u>293,611</u>
<b>Water filter plant:</b>			
Salaries and employee benefits		227,522	
Operating expenditures		260,305	
Repairs and maintenance		24,946	
Capital outlay		<u>11,002</u>	
	<u>604,084</u>	<u>523,775</u>	<u>80,309</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, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Water treatment plant:			
Salaries and employee benefits		477,357	
Operating expenditures		316,306	
Repairs and maintenance		88,632	
Capital outlay		<u>56,023</u>	
	<u>1,063,319</u>	<u>938,318</u>	<u>125,001</u>
 Total operating expenditures	 <u>3,131,327</u>	 <u>2,632,406</u>	 <u>498,921</u>
 Miscellaneous	 <u>12,500</u>	 <u>4,627</u>	 <u>7,873</u>
 Debt service:			
Principal retirement		263,676	
Interest		<u>36,565</u>	
	<u>300,238</u>	<u>300,241</u>	<u>(3)</u>
 Insurance, bonding and workmen's compensation	 <u>93,266</u>	 <u>85,431</u>	 <u>7,835</u>
 Total expenditures	 <u>3,537,331</u>	 <u>3,022,705</u>	 <u>514,626</u>
 Revenues over (under) expenditures	 <u>(251,719)</u>	 <u>333,477</u>	 <u>585,196</u>
 Other Financing Sources (Uses):			
Transfer to general fund - payment in lieu of taxes	(106,000)	(101,859)	4,141
Transfer to capital projects fund	(125,000)	(19,402)	105,598
Proceeds on sale of capital assets	2,500	7,002	4,502
Appropriated fund balance	<u>480,219</u>	<u>-</u>	<u>(480,219)</u>
 Total other financing sources (uses)	 <u>251,719</u>	 <u>(114,259)</u>	 <u>(365,978)</u>
 Revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 219,218	 <u>\$ 219,218</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, 2017

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal retirement of debt		263,676	
Increase (decrease) in inventories		14,331	
(Increase) decrease in accrued compensated absences		1,785	
(Increase) decrease in accrued interest		808	
Interest earned on long-term note receivable		(4,221)	
From Water and Sewer Capital Project Fund:			
Interest income		12	
Transfers to Capital Projects Funds		19,402	
Capital outlay		133,995	
Increase (decrease) in deferred outflows of resources - pensions		172,790	
(Increase) decrease in net pension liability		(203,349)	
(Increase) decrease in deferred inflows of resources - pensions		20,146	
Depreciation		(828,266)	
Total reconciling items		(408,891)	
Change in net position		\$ (189,673)	

**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, 2017

	<u>Total Project Budget</u>	<u>Prior Years</u>	<u>Current Actual</u>	<u>Total</u>
Revenues:				
Capital contribution, HTNC, LLC	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
Capital contribution, Autumn Corp.	100,000	-	100,000	100,000
Interest income	<u>-</u>	<u>-</u>	<u>12</u>	<u>12</u>
Total revenue	<u>350,000</u>	<u>250,000</u>	<u>100,012</u>	<u>350,012</u>
Expenditures:				
Engineering	138,905	80,487	58,151	138,638
Construction	894,464	1,016	811,121	812,137
Contingency	<u>16,631</u>	<u>2,872</u>	<u>142</u>	<u>3,014</u>
Total expenditures	<u>1,050,000</u>	<u>84,375</u>	<u>869,414</u>	<u>953,789</u>
Revenue over (under) expenditures	<u>(700,000)</u>	<u>165,625</u>	<u>(769,402)</u>	<u>(603,777)</u>
Other Financing Sources:				
Proceeds from installment debt	400,000	500,000	-	500,000
Transfer from Water and Sewer	<u>300,000</u>	<u>84,375</u>	<u>19,402</u>	<u>103,777</u>
Total other financing sources	<u>700,000</u>	<u>584,375</u>	<u>19,402</u>	<u>603,777</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 750,000</u>	<u>(750,000)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>750,000</u>	
Fund balance, end of year			<u>\$ -</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, 2017

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Sales to other funds	\$ 275,000	\$ 278,093	\$ 3,093
Appropriated fund balance	<u>12,450</u>	<u>-</u>	<u>(12,450)</u>
Total revenue and appropriated fund balance	<u>287,450</u>	<u>278,093</u>	<u>(9,357)</u>
Expenditures:			
Salaries and employee benefits		91,682	
Operating expenditures		228,043	
Allocation to General Fund		(20,045)	
Allocation to Water and Sewer		<u>(29,931)</u>	
Total expenditures	<u>287,450</u>	<u>269,749</u>	<u>17,701</u>
Revenue over expenditures	<u>\$ -</u>	8,344	<u>\$ 8,344</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(3,797)	
Increase (decrease) in inventories		(8,332)	
Increase (decrease) in deferred outflows of resources - pensions		14,967	
(Increase) decrease in accrued compensated absences		(233)	
(Increase) decrease in net pension liability		(17,612)	
(Increase) decrease in deferred inflows of resources - pensions		<u>1,520</u>	
Total reconciling items		<u>(13,487)</u>	
Change in net position		<u>\$ (5,143)</u>	

## **OTHER SCHEDULES**

**CITY OF MARION, NORTH CAROLINA**

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2017

Fiscal Year	Uncollected Balance 6/30/2016	Additions	Collections And Credits	Uncollected Balance 6/30/2017
2016-2017	\$ -	\$ 2,403,226	\$ 2,366,391	\$ 36,835
2015-2016	34,938	-	16,853	18,085
2014-2015	20,097	-	5,740	14,357
2013-2014	18,742	-	4,532	14,210
2012-2013	18,733	-	2,570	16,163
2011-2012	11,250	-	1,481	9,769
2010-2011	10,726	-	1,847	8,879
2009-2010	9,099	-	1,202	7,897
2008-2009	9,128	-	664	8,464
2007-2008	7,160	-	712	6,448
2006-2007 and prior	9,399	-	9,399	-
	\$ 149,272	\$ 2,403,226	\$ 2,411,391	141,107
Less: allowance for uncollectible accounts:				
General Fund				51,000
Ad valorem taxes receivable, net				\$ 90,107
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,388,188
Reconciling items:				
Releases				10,193
Discount				8,109
Amounts written off for the 2006 levy per the statute of limitations				8,310
Other				11,982
				2,426,782
Less: interest collected				(15,391)
Total collections and credits				\$ 2,411,391

**CITY OF MARION, NORTH CAROLINA**

GENERAL FUND  
 Analysis of Current Tax Levy  
 For the year ended June 30, 2017

	City-Wide		Total Levy			
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	Registered Motor Vehicles
Original levy:						
Original levy	\$ 452,155,100	\$ 0.51	\$ 2,305,992	\$ 2,112,579	\$ 193,413	
Penalties			<u>1,822</u>	<u>1,822</u>	<u>-</u>	
Total			<u>2,307,814</u>	<u>2,114,401</u>	<u>193,413</u>	
Discoveries:						
Current year taxes and penalties	26,351,482	0.51	134,392	134,392	-	
Abatements	<u>(7,643,371)</u>	0.51	<u>(38,980)</u>	<u>(38,980)</u>	<u>-</u>	
Total property valuation	<u>\$ 470,863,211</u>					
Net levy			2,403,226	2,209,813	193,413	
Uncollected taxes at June 30, 2017			<u>36,835</u>	<u>36,835</u>	<u>-</u>	
Current year's taxes collected			<u>\$ 2,366,391</u>	<u>\$ 2,172,978</u>	<u>\$ 193,413</u>	
Current levy collection percentage			<u>98.47%</u>	<u>98.33%</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, 2017, which collectively comprise the City of Marion's basic financial statements, and have issued our report thereon dated October 27, 2017. 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 27, 2017