

City of Marion, North Carolina

Financial Statements

June 30, 2018

**Marion City Council
(As of June 30, 2018)**

Steve Little, Mayor
Billy Martin, Mayor Pro Tem

Woody Ayers
Juanita Doggett
Ann Harkey
Don Ramsey

City Manager
Bob Boyette

Prepared under the direction of:
Finance Officer
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**CITY OF MARION, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2018**

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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, 2018, 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, 2018, 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 Changes in the Total OPEB Liability and Related Ratios on page 59, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 60 and 61, respectively, the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 62, 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 63, 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 and other schedules 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 and other schedules 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 and other schedules 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 31, 2018 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 31, 2018

City of Marion, North Carolina

Management's Discussion and Analysis

June 30, 2018

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, 2018. 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

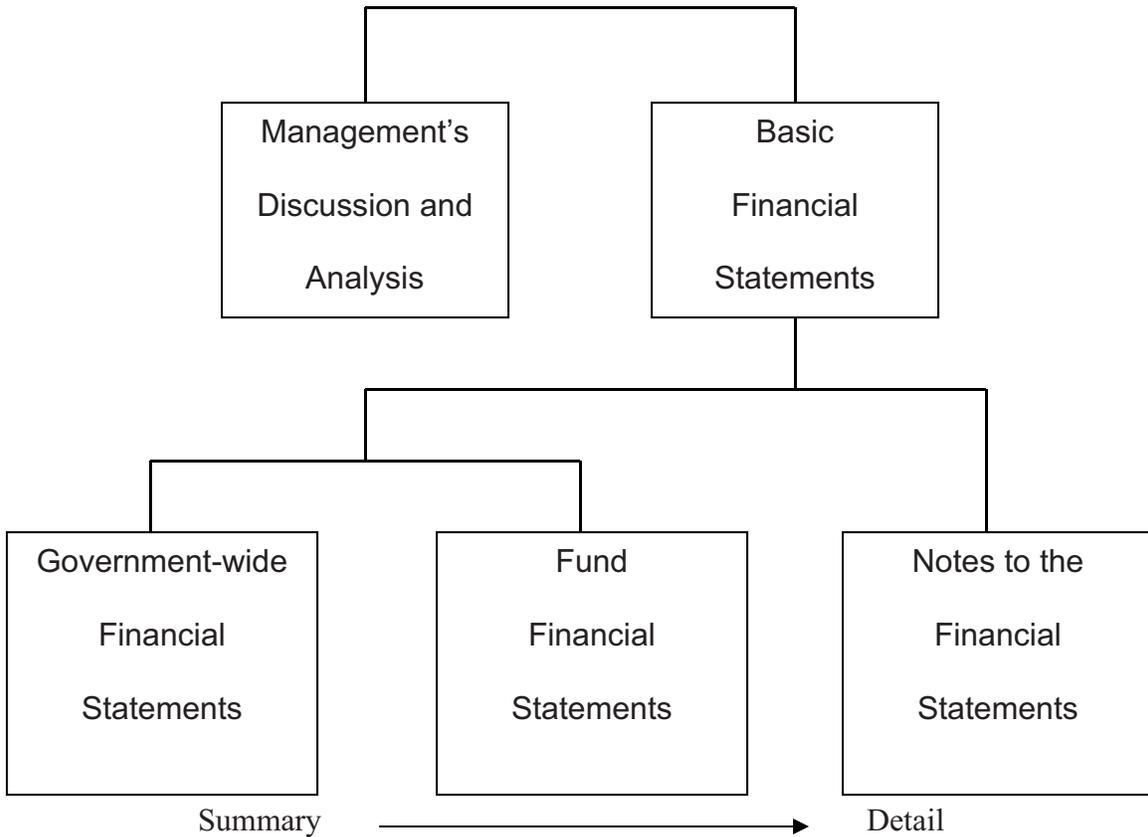
- The assets and deferred outflows of resources of the City of Marion exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$30,785,401 (*net position*).
- The government's total net position decreased by (\$577,749), consisting of decreases in the governmental activities net position of (\$293,005) and decreases in the business-type activities net position of (\$284,744).
- As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balances of \$4,001,883 with a net increase of \$107,326 in fund balance. Approximately 37% of this total amount, or \$1,461,183, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,026,400, or 33% of general fund expenditures for the fiscal year. Total fund balance for the General Fund was \$3,784,618 or 62% of the total general fund expenditures.
- The City of Marion's total debt decreased by \$313,667 (9%) during the current fiscal year. The key factors in this decrease were regularly scheduled principal payments on existing debt of \$426,435 offset by the issuance of an installment note of \$112,768 for a backhoe.
- The City of Marion maintained a stable property tax rate of \$.51 per \$100 of valuation for the 50th 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 59 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 4,023,605	\$ 4,071,094	\$ 2,311,706	\$ 2,109,266	\$ 6,335,311	\$ 6,180,360
Restricted assets	398,399	229,046	241,113	235,510	639,512	464,556
Capital assets	9,337,935	9,751,906	19,452,665	20,147,591	28,790,600	29,899,497
Deferred outflows of resources	614,013	821,486	142,672	232,082	756,685	1,053,568
Total assets and deferred outflows of resources	14,373,952	14,873,532	22,148,156	22,724,449	36,522,108	37,597,981
Long-term liabilities outstanding	2,689,840	2,925,512	1,775,994	2,131,065	4,465,834	5,056,577
Current liabilities	544,659	501,113	644,757	576,652	1,189,416	1,077,765
Deferred inflows of resources	67,067	81,516	14,390	18,973	81,457	100,489
Total liabilities and deferred inflows of resources	3,301,566	3,508,141	2,435,141	2,726,690	5,736,707	6,234,831
Net position:						
Net investment in capital assets	8,039,138	8,408,720	17,609,126	18,034,774	25,648,264	26,443,494
Restricted	1,341,708	1,102,915	-	-	1,341,708	1,102,915
Unrestricted	1,691,540	1,853,756	2,103,889	1,962,985	3,795,429	3,816,741
Total net position	\$11,072,386	\$11,365,391	\$19,713,015	\$19,997,759	\$30,785,401	\$31,363,150

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 \$30,785,401 as of June 30, 2018, 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, \$1,341,708 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,795,429 is unrestricted.

The City's total net position decreased by (\$577,749) for the fiscal year ended June 30, 2018 mainly due to the following:

- Total assets and deferred outflows of resources declined \$1,075,873. Although the City had capital additions during the year, total capital assets net of depreciation declined \$1,108,897 due to depreciation expense exceeding additions.
- Total liabilities and deferred inflows of resources declined \$498,124. The City of Marion's total debt decreased by \$313,667 due to regularly scheduled principal payments on existing debt of \$426,435 offset by the issuance of an installment note of \$112,768 for a backhoe.
- The City implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the City to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the City related to OPEB during the measurement period (fiscal year ending June 30, 2017). While the restatement is not a component of the current year change in net position, it did result in a decrease of \$125,594 in the net position for the governmental activities from amounts previously reported.

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 98.85% compared to 98.33% in the prior fiscal year.
- 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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,067,450	\$ 1,015,461	\$ 3,423,232	\$ 3,294,632	\$ 4,490,682	\$ 4,310,093
Operating grants and contributions	520,814	330,612	51,968	51,968	572,782	382,580
Capital grants and contributions	97,556	383,979	-	-	97,556	383,979
General revenues:						
Property taxes	2,426,800	2,410,255	-	-	2,426,800	2,410,255
Other taxes	2,121,953	2,228,081	-	-	2,121,953	2,228,081
Investment earnings	-	-	4,724	5,373	4,724	5,373
Other	51,767	156,091	2,505	7,002	54,272	163,093
Total revenues	<u>6,286,340</u>	<u>6,524,479</u>	<u>3,482,429</u>	<u>3,358,975</u>	<u>9,768,769</u>	<u>9,883,454</u>
Expenses:						
General government	1,081,277	1,180,542	-	-	1,081,277	1,180,542
Public safety	3,345,081	3,365,565	-	-	3,345,081	3,365,565
Transportation	1,318,827	1,424,738	-	-	1,318,827	1,424,738
Environmental protection	621,013	589,479	-	-	621,013	589,479
Cultural and recreation	277,553	205,226	-	-	277,553	205,226
Interest on long-term debt	38,347	42,134	-	-	38,347	42,134
Water and sewer	-	-	3,664,420	3,448,743	3,664,420	3,448,743
Total expenses	<u>6,682,098</u>	<u>6,807,684</u>	<u>3,664,420</u>	<u>3,448,743</u>	<u>10,346,518</u>	<u>10,256,427</u>
Change in net position before transfers	(395,758)	(283,205)	(181,991)	(89,768)	(577,749)	(372,973)
Transfers	102,753	101,859	(102,753)	(101,859)	-	-
Change in net position	<u>(293,005)</u>	<u>(181,346)</u>	<u>(284,744)</u>	<u>(191,627)</u>	<u>(577,749)</u>	<u>(372,973)</u>
Net position, July 1	11,490,985	11,672,331	19,997,759	20,189,386	31,488,744	31,861,717
Restatements	(125,594)	(125,594)	-	-	(125,594)	(125,594)
Net position, June 30	<u>\$ 11,072,386</u>	<u>\$ 11,365,391</u>	<u>\$ 19,713,015</u>	<u>\$ 19,997,759</u>	<u>\$ 30,785,401</u>	<u>\$ 31,363,150</u>

Governmental activities. Governmental activities decreased the City's net position by (\$293,005). Public Safety accounted for 50% and Transportation accounted for 20% of governmental activities for fiscal year 2017-2018. The City's governmental activities cover a wide range of services. Several factors affected the governmental activities net position:

- A 13% decrease in grants and contributions due to one-time grants received in the prior year that were not received in fiscal year 2017-2018 such as the \$94,340 Department of Commerce Downtown Revitalization grant and the Department of Commerce Building Reuse grants totaling \$64,504.
- A 1% increase in property tax revenues due to moderate growth in both the values and the collection rate.
- A 5% decrease in other taxes and licenses, primarily utility franchise taxes.
- An overall increase in expenses of approximately 2% which occurred across most functional areas, due mainly to a increase in capital and grant-funded expenditures.

Business-type activities. Business-type activities decreased the City of Marion's net position by (\$284,744). The key elements of the decrease were additional costs due to flooding and increasing depreciation expense as the system continues to grow, which were not fully offset by increasing revenues from structured rate increases.

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 \$167,862 during fiscal year 2017-2018. Overall revenues remained relatively flat. Increases did occur in some revenue areas mainly due to the continuing recovery of the economy. Ad valorem taxes, which represent 40% of general fund revenues, increased approximately \$40,000, or 2%, due to continuing gradual growth of the tax base. Unrestricted intergovernmental revenue increased by approximately \$22,000, or 11%, due to increased ABC revenue. Restricted intergovernmental revenue increased by approximately \$48,000, or 6%, mainly due to the receipt of \$73,717 in federal forfeiture funds for law enforcement. Building permit revenue increased \$47,686, or 79%, due to projects such as the demolition of the old Mission McDowell Hospital building. Overall expenditures decreased \$153,304 mainly due to a decrease in capital expenditures.

At the end of the current fiscal year, the City of Marion's unassigned fund balance in the General Fund was \$2,026,400, while total fund balance reached \$3,784,618. 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 33% of general fund expenditures, and total fund balance represents 62% of the same amount.

At June 30, 2018, the governmental funds of the City of Marion reported a combined fund balance of \$4,001,883 with a net increase in fund balance of \$107,326. This increase is the result of 1) the general fund increase of \$167,862 (discussed earlier) and 2) a decrease in the capital project fund of \$60,536 due mainly to the Community Building Park and Stormwater expenditures that exceeded revenues for \$61,548.

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 2017-2018 were to increase revenues for 1) increased current year property taxes due to growth in the amount of \$40,873, 2) increased restricted intergovernmental revenue in the amount of \$74,058 mainly due to the receipt of grants during the year such as the \$43,000 Governor's Highway Safety Program Grant, and other miscellaneous 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) unexpected capital outlay purchases in the amount of \$76,796 for items such as a sanitation collection truck, fleet maintenance lift machine, an electric vehicle charging station which was funded through a Duke Energy grant, a Police Department radar sign, and a salt spreader, 2) anticipated expenses of \$146,950 for a stormwater project (which was postponed until FY 2018-2019 due to the complexity and increased scope of the project), 3) various street projects such as the paving of Bakersville Road and Burgin Street \$81,500, 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 \$2,160,327 and the total decrease in net position for the Water and Sewer and the Internal Service Funds was (\$280,761) and (\$10,481), 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, 2018, totals \$28,790,600 (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:

- Purchase of a John Deere 401L backhoe loader - \$112,768
- Purchase and upfit of 2 Police sport utility vehicles - \$91,504
- Purchase of 2 Utility Line Maintenance vehicles - \$53,548
- Purchase of a 80KW diesel generator for the Wastewater Treatment Plant - \$42,390
- Purchase of a Sanitation collection truck - \$39,223
- Purchase of a truck for the Wastewater Treatment Plant - \$30,829
- Purchase of a Fire Department vehicle - \$26,658
- Purchase of a basic driving simulator machine with impairment option- \$20,010
- Purchase of 2 computer servers - \$16,439
- Purchase of an 18,000 pound vehicle lift - \$15,313

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,630,172	\$1,630,172	\$ 101,245	\$101,245	\$ 1,731,417	\$ 1,731,417
Buildings and system Improvements other than buildings	2,973,092	3,090,945	18,124,069	18,805,689	21,097,161	21,896,634
Equipment and furniture	1,747,900	1,809,668	538,839	565,376	2,286,739	2,375,044
Infrastructure	569,821	532,214	570,375	601,857	1,140,196	1,134,071
Vehicles and motorized equipment	1,806,243	1,870,647	-	-	1,806,243	1,870,647
Construction in progress	457,548	797,681	114,917	73,424	572,465	871,105
Total	153,159	20,579	3,220	-	156,379	20,579
	<u>\$ 9,337,935</u>	<u>\$ 9,751,906</u>	<u>\$ 19,452,665</u>	<u>\$ 20,147,591</u>	<u>\$ 28,790,600</u>	<u>\$ 29,899,497</u>

Additional information on the City's capital assets can be found in Note 3A - 5 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2018, the City of Marion had total installment debt outstanding of \$3,142,336. Of this, \$749,371 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 \$313,667 (9%) during the past fiscal year, primarily due to the issuance of an installment note of approximately \$113,000 for a backhoe and regularly scheduled principal payments of \$426,435 on existing debt.

City of Marion's Outstanding Debt
Figure 5

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment debt	\$ 1,298,797	\$ 1,343,186	\$ 1,843,539	\$ 2,112,817	\$ 3,142,336	\$ 3,456,003
Net pension liability (LGERS)	685,729	936,282	191,948	273,024	877,677	1,209,306
Total pension liability (LEO)	687,673	590,935	-	-	687,673	590,935
Total OPEB liability	137,749	148,745	-	-	137,749	148,745
Compensated absences	187,564	190,421	46,552	43,600	234,116	234,021
Total	\$ 2,997,512	\$ 3,209,569	\$ 2,082,039	\$ 2,429,441	\$ 5,079,551	\$ 5,639,010

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 \$35,000,000. The City has \$0- in bonds authorized but unissued at June 30, 2018.

Additional information regarding the City of Marion's long-term debt can be found in Note 3B - 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 3.4% in August 2018, a rate below the State average of 3.9% and equal to or below almost all of the counties in the region, including Avery (3.6%), Burke (3.6%), Caldwell (3.9%), Catawba (3.6%), Cleveland (4.1%), Mitchell (4.5%), Rutherford (5.2%) and Yancey (4.1%). As of August 2018, only six of North Carolina's 100 counties had unemployment rates lower than McDowell County and McDowell County's unemployment rate was only 0.3% higher than the lowest unemployment rate in North Carolina, which was Buncombe County at 3.1%. 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.

Continued Manufacturing Stability. For the past 10 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 increased to over 95% over the past year. This rate had remained stable for several years, before increasing in the past year or two, 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 increased to over 90% in the past year and will increase to over 95% in the next year with planned projects, a rate higher than many surrounding downtown areas. Several new businesses, including food and beverage establishments and retail stores have opened in the past few years or have been announced for the downtown area, a positive indicator for the future. Several more businesses, including a second brewery, a movie theater, a meadery, a restaurant and other retail shops, 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 three 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 2017-2018 gross taxable retail sales for McDowell County were 0.82% higher than in 2016-2017, with a record total of \$352,113,072. July 2018 gross taxable retail sales in McDowell County were 16.89% higher than in July 2017, with a record month of \$35,216,995 in sales, a very positive sign of economic growth. Since 2005, gross taxable retail sales in McDowell County have increased by 62.57%, compared to growth of 42.98% for the State as a whole. Retail sales in the City of Marion comprise approximately 80% 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 2017-18 to 9.18% and will result in an estimated sales tax revenue loss for the City of \$445,000 (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 increased to 98.85% in FY 2017-2018 as compared to 98.33%

in 2016-2017. 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, 2019

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 \$29,823, or 1.40%, higher than the budgeted amount for 2017-2018. Sales taxes are expected to increase by \$85,000, or 5.74%, over the 2017-2018 budget, due to 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. The City anticipates receiving an additional \$27,000 in State revenues in 2018-2019 due to enhancements made to the City Channel which will qualify it as a Public, Educational, or Government Access Channel. County Fire Protection revenues are expected to increase \$70,000, or 21.54%, due to additional anticipated sales tax revenues to be received from the County. ABC profit distributions are expected to increase \$12,500, or 11.11%, over the 2017-2018 budgeted amount based on actual 2017-2018 sales and anticipated continued increases in sales. The City implemented a \$3 per month per household residential garbage fee July 1, 2018 which is anticipated to result in \$112,000 in additional revenues over the FY 2017-2018 budgeted amount. Other revenues are expected to remain relatively flat in 2018-2019. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2018-2019. For the 51st consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 1.72% to \$6,501,308. This increase is mainly due to increases in inflation.

Business-type Activities:

The water and sewer rates for inside the City and outside customers will increase by approximately 3%, the fifth year of five years of planned 3% rate increases. Expenses in the Water and Sewer Fund will increase by 3.23%, mainly due to increased capital outlay spending.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, City of Marion, 194 N. Main Street, Marion, NC 28752. One can also call (828) 652-3551, visit our website www.marionnc.org or send an email to jscherer@marionnc.org for more information.

BASIC FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2018

	Primary Government			Component Unit
	Governmental	Business-type	Total	City of Marion ABC Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,855,894	\$ 1,645,707	\$ 4,501,601	\$ 111,412
Taxes receivable, net	75,825	-	75,825	-
Accrued interest receivable	17,218	-	17,218	-
Accounts receivable, net	72,220	526,769	598,989	-
Internal balances	56,438	(56,438)	-	-
Due from other governments	757,808	21,197	779,005	-
Due from component unit	37,398	-	37,398	-
Inventories	89,754	56,120	145,874	480,661
Prepaid items	61,050	4,250	65,300	10,411
Restricted cash	398,399	241,113	639,512	-
Total current assets	4,422,004	2,438,718	6,860,722	602,484
Noncurrent assets:				
Notes receivable	-	114,101	114,101	-
Capital assets:				
Land and construction in progress	1,783,331	104,465	1,887,796	59,832
Other capital assets, net	7,554,604	19,348,200	26,902,804	523,729
Total capital assets	9,337,935	19,452,665	28,790,600	583,561
Total noncurrent assets	9,337,935	19,566,766	28,904,701	583,561
Total assets	13,759,939	22,005,484	35,765,423	1,186,045
DEFERRED OUTFLOWS OF RESOURCES				
	614,013	142,672	756,685	34,064
LIABILITIES				
Current liabilities:				
Accounts payable	214,478	94,760	309,238	281,712
Accrued interest payable	8,527	2,839	11,366	-
Liabilities payable from restricted assets:				
Customer deposits	13,982	241,113	255,095	-
Current portion of				
long-term liabilities	307,672	306,045	613,717	23,243
Total current liabilities	544,659	644,757	1,189,416	304,955

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

Statement of Net Position
June 30, 2018

	Primary Government			Component Unit
	Governmental	Business-type	Total	City of Marion ABC Board
Long-term liabilities:				
Net pension liability - LGERS	685,729	191,948	877,677	40,790
Total pension liability - LEOSSA	687,673	-	687,673	-
Total OPEB liability	137,749	-	137,749	-
Due in more than one year	1,178,689	1,584,046	2,762,735	522,697
Total long-term liabilities	<u>2,689,840</u>	<u>1,775,994</u>	<u>4,465,834</u>	<u>563,487</u>
Total liabilities	<u>3,234,499</u>	<u>2,420,751</u>	<u>5,655,250</u>	<u>868,442</u>
DEFERRED INFLOWS OF RESOURCES	<u>67,067</u>	<u>14,390</u>	<u>81,457</u>	<u>1,656</u>
NET POSITION				
Net investment in capital assets	8,039,138	17,609,126	25,648,264	37,621
Restricted for:				
Stabilization by State statute	973,098	-	973,098	-
Streets	78,284	-	78,284	-
Public safety	147,612	-	147,612	-
Community development	142,714	-	142,714	-
Working capital	-	-	-	79,900
Unrestricted	<u>1,691,540</u>	<u>2,103,889</u>	<u>3,795,429</u>	<u>232,490</u>
Total net position	<u>\$ 11,072,386</u>	<u>\$ 19,713,015</u>	<u>\$ 30,785,401</u>	<u>\$ 350,011</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, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit City of Marion ABC Board
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental	Business-type	Total	
Primary government:								
Governmental Activities:								
General government	\$ 1,081,277	\$ 360,706	\$ 137,776	\$ 96,629	\$ (486,166)	\$ -	\$ (486,166)	
Public safety	3,345,081	455,700	158,228	927	(2,730,226)	-	(2,730,226)	
Transportation	1,318,827	-	220,610	-	(1,098,217)	-	(1,098,217)	
Environmental protection	621,013	210,603	4,200	-	(406,210)	-	(406,210)	
Cultural and recreation	277,553	40,441	-	-	(237,112)	-	(237,112)	
Interest on long-term debt	38,347	-	-	-	(38,347)	-	(38,347)	
Total governmental activities	<u>6,682,098</u>	<u>1,067,450</u>	<u>520,814</u>	<u>97,556</u>	<u>(4,996,278)</u>	<u>-</u>	<u>(4,996,278)</u>	
Business-type activities:								
Water and sewer	3,664,420	3,423,232	51,968	-	-	(189,220)	(189,220)	
Total primary government	<u>\$ 10,346,518</u>	<u>\$ 4,490,682</u>	<u>\$ 572,782</u>	<u>\$ 97,556</u>	<u>(4,996,278)</u>	<u>(189,220)</u>	<u>(5,185,498)</u>	
Component unit:								
City of Marion ABC Board	\$ 2,507,213	\$ 2,524,948	\$ -	\$ -				\$ 22,188
Total component unit	<u>\$ 2,507,213</u>	<u>\$ 2,524,948</u>	<u>\$ -</u>	<u>\$ -</u>				<u>22,188</u>
General revenues:								
Taxes:								
Property taxes, levied for general purpose					2,426,800	-	2,426,800	-
Other taxes					2,121,953	-	2,121,953	-
Unrestricted investment earnings					17,665	4,724	22,389	-
Gain on disposal of capital assets					9,569	2,505	12,074	-
Miscellaneous					24,533	-	24,533	-
Total general revenues					<u>4,600,520</u>	<u>7,229</u>	<u>4,607,749</u>	-
Transfers					102,753	(102,753)	-	-
Total general revenues and transfers					<u>4,703,273</u>	<u>(95,524)</u>	<u>4,607,749</u>	-
Changes in net position					(293,005)	(284,744)	(577,749)	22,188
Net position, beginning, as previously stated					11,490,985	19,997,759	31,488,744	327,823
Restatement (Note 8)					(125,594)	-	(125,594)	-
Net position, beginning of year, restated					<u>11,365,391</u>	<u>19,997,759</u>	<u>31,363,150</u>	<u>327,823</u>
Net position, ending					<u>\$ 11,072,386</u>	<u>\$ 19,713,015</u>	<u>\$ 30,785,401</u>	<u>\$ 350,011</u>

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

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2018

	<u>Major Fund</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Non-Major Funds</u>	
ASSETS			
Cash and cash equivalents	\$ 2,726,781	\$ 129,113	\$ 2,855,894
Restricted cash and cash equivalents	239,878	158,521	398,399
Taxes receivable, net	75,825	-	75,825
Accounts receivable, net	72,220	-	72,220
Prepaid items	60,475	-	60,475
Due from other governments	749,859	2,406	752,265
Due from other funds	153,951	-	153,951
Due from component unit	37,398	-	37,398
Total assets	<u>\$ 4,116,387</u>	<u>\$ 290,040</u>	<u>\$ 4,406,427</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 197,089	\$ 16,271	\$ 213,360
Due to other funds	-	56,504	56,504
Liabilities payable from restricted assets:			
Customer deposits	<u>13,982</u>	<u>-</u>	<u>13,982</u>
Total liabilities	<u>211,071</u>	<u>72,775</u>	<u>283,846</u>
DEFERRED INFLOWS OF RESOURCES	<u>120,698</u>	<u>-</u>	<u>120,698</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	60,475	-	60,475
Restricted for:			
Stabilization by State statute	973,098	-	973,098
Streets	78,284	-	78,284
Public safety	147,612	-	147,612
Community development	-	142,714	142,714
Capital projects	-	59,000	59,000
Committed for:			
Cemetery	128,413	-	128,413
Capital projects	-	77,099	77,099
Assigned - subsequent year's expenditures	370,336	-	370,336
Unassigned	<u>2,026,400</u>	<u>(61,548)</u>	<u>1,964,852</u>
Total fund balances	<u>3,784,618</u>	<u>217,265</u>	<u>4,001,883</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,116,387</u>	<u>\$ 290,040</u>	<u>\$ 4,406,427</u>

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

GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2018

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

Fund balances of governmental funds		\$	4,001,883
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			9,337,935
Deferred outflows of resources related to pensions and OPEB are not reported in the funds.			614,013
Accrued interest receivable is not available to pay for current-period expenditures and, therefore, is not reported in the funds.			17,218
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	\$	95,872	
Current liabilities		(98,565)	
Portion allocated to the enterprise fund		<u>56,438</u>	53,745
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			116,155
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable		(1,298,797)	
Accrued interest		(8,527)	
Net pension liability - LGERS		(685,729)	
Total pension liability - LEOSSA		(687,673)	
Total OPEB liability		(137,749)	
Compensated absences		<u>(187,564)</u>	(3,006,039)
Deferred inflows of resources related to pension and OPEB are not reported in the funds.			<u>(62,524)</u>
Net position of governmental activities		\$	<u>11,072,386</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, 2018

	<u>Major Fund</u>		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 2,428,244	\$ -	\$ 2,428,244
Other taxes and licenses	2,121,953	-	2,121,953
Unrestricted intergovernmental	221,683	151,176	372,859
Restricted intergovernmental	820,864	39,667	860,531
Licenses and permits	110,976	-	110,976
Sales and services	274,273	-	274,273
Investment earnings	17,665	-	17,665
Restricted contributions	34,211	-	34,211
Miscellaneous	70,010	-	70,010
Total revenues	<u>6,099,879</u>	<u>190,843</u>	<u>6,290,722</u>
EXPENDITURES			
Current:			
General government	914,776	-	914,776
Public safety	3,022,775	-	3,022,775
Transportation	1,350,837	-	1,350,837
Environmental protection	550,076	-	550,076
Cultural and recreation	112,378	98,341	210,719
Capital outlay	-	153,038	153,038
Debt service:			
Principal	157,157	-	157,157
Interest	39,539	-	39,539
Total expenditures	<u>6,147,538</u>	<u>251,379</u>	<u>6,398,917</u>
Revenues under expenditures	<u>(47,659)</u>	<u>(60,536)</u>	<u>(108,195)</u>
OTHER FINANCING SOURCES			
Installment obligations issued	112,768	-	112,768
Transfers from other funds	102,753	-	102,753
Total other financing sources	<u>215,521</u>	<u>-</u>	<u>215,521</u>
Net change in fund balances	167,862	(60,536)	107,326
Fund balances, beginning of year	<u>3,616,756</u>	<u>277,801</u>	<u>3,894,557</u>
Fund balances, end of year	<u>\$ 3,784,618</u>	<u>\$ 217,265</u>	<u>\$ 4,001,883</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, 2018

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

Net changes in fund balances - total governmental funds	\$	107,326
<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	\$	518,088
Depreciation expense for governmental assets	<u>(929,121)</u>	(411,033)
<p>In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.</p>		
		(2,938)
<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>		
		203,497
<p>Benefit payments paid and administrative expenses for the LEOSSA are not included on the Statement of Activities.</p>		
		23,766
<p>OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities.</p>		
		11,385
<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	(1,260)	
Change in unavailable tax revenues	<u>(184)</u>	(1,444)
<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	(112,768)	
Principal payments on long-term debt	157,157	
Accrued interest expense	<u>1,192</u>	45,581
<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	2,857	
Pension expense (LGERS)	(225,476)	
Pension expense (LEO)	(41,651)	
Other postemployment benefits	<u>1,844</u>	(262,426)
<p>Remaining consolidation adjustment for the internal service fund and the governmental funds, not included elsewhere.</p>		
		<u>(6,719)</u>
Total changes in net position of governmental activities	\$	<u>(293,005)</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, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 2,354,164	\$ 2,395,037	\$ 2,428,244	\$ 33,207
Other taxes	2,102,800	2,102,800	2,121,953	19,153
Unrestricted intergovernmental	181,100	181,100	221,683	40,583
Restricted intergovernmental	665,847	729,905	820,864	90,959
Licenses and permits	62,100	62,100	110,976	48,876
Sales and services	237,980	240,980	274,273	33,293
Investment earnings	6,000	6,000	17,665	11,665
Restricted contributions	12,000	36,000	34,211	(1,789)
Miscellaneous	50,930	65,187	70,010	4,823
Total revenues	<u>5,672,921</u>	<u>5,819,109</u>	<u>6,099,879</u>	<u>280,770</u>
Expenditures:				
Current:				
General government	909,170	1,020,829	914,776	106,053
Public safety	3,055,174	3,145,937	3,022,775	123,162
Transportation	1,456,190	1,565,171	1,350,837	214,334
Environmental protection	586,174	622,174	550,076	72,098
Cultural and recreation	126,500	279,950	112,378	167,572
Debt service:				
Principal retirement	170,869	170,869	157,157	13,712
Interest and other charges	39,540	39,540	39,539	1
Total expenditures	<u>6,343,617</u>	<u>6,844,470</u>	<u>6,147,538</u>	<u>696,932</u>
Revenues under expenditures	<u>(670,696)</u>	<u>(1,025,361)</u>	<u>(47,659)</u>	<u>977,702</u>
Other financing sources (uses):				
Fund balance appropriated	492,196	799,361	-	(799,361)
Installment obligations issued	120,000	120,000	112,768	(7,232)
Transfer from water and sewer fund	106,000	106,000	102,753	(3,247)
Transfer to capital projects funds, net	(47,500)	-	-	-
Total other financing sources (uses)	<u>670,696</u>	<u>1,025,361</u>	<u>215,521</u>	<u>(809,840)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	167,862	<u>\$ 167,862</u>
Fund balance, beginning of year			<u>3,616,756</u>	
Fund balance, end of year			<u>\$ 3,784,618</u>	

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

PROPRIETARY FUNDS
Statement of Fund Net Position
June 30, 2018

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,645,707	\$ -
Accounts receivable, net	526,769	-
Due from other governments	21,197	5,543
Inventories	56,120	89,754
Prepaid items	4,250	575
Restricted cash and cash equivalents	<u>241,113</u>	<u>-</u>
Total current assets	<u>2,495,156</u>	<u>95,872</u>
Noncurrent assets:		
Notes receivable	114,101	-
Capital assets:		
Land and other non-depreciable assets	104,465	-
Other capital assets, net of depreciation	<u>19,348,200</u>	<u>9,267</u>
Capital assets, net	<u>19,452,665</u>	<u>9,267</u>
Noncurrent assets	<u>19,566,766</u>	<u>9,267</u>
Total assets	<u>22,061,922</u>	<u>105,139</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>142,672</u>	<u>8,220</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	94,760	1,118
Accrued interest payable	2,839	-
Due to general fund	-	97,447
Liabilities payable from restricted assets:		
Customer deposits	241,113	-
Compensated absences, current	31,000	-
Current portion of long-term debt	<u>275,045</u>	<u>-</u>
Total current liabilities	<u>644,757</u>	<u>98,565</u>

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

PROPRIETARY FUNDS
Statement of Fund Net Position
June 30, 2018

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Noncurrent liabilities:		
Compensated absences, net	15,552	825
Net pension liability	191,948	11,060
Long-term debt, net of current portion	1,568,494	-
Total noncurrent liabilities	<u>1,775,994</u>	<u>11,885</u>
Total liabilities	<u>2,420,751</u>	<u>110,450</u>
DEFERRED INFLOWS OF RESOURCES	<u>14,390</u>	<u>829</u>
NET POSITION		
Net investment in capital assets	17,609,126	9,267
Unrestricted	<u>2,160,327</u>	<u>(7,187)</u>
Total net position	<u>\$ 19,769,453</u>	<u>\$ 2,080</u>
Reconciliation with Statement of Net Position - Business-type Activities:		
Total net position - proprietary fund presentation	\$ 19,769,453	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(56,438)</u>	
Net position of business-type activities	<u>\$ 19,713,015</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, 2018

	Major	
	<u>Enterprise Fund</u>	Internal Service
	Water and Sewer	Fund
	Fund	Fund
OPERATING REVENUES		
Charges for services	\$ 3,362,850	\$ 278,279
Water and sewer taps	26,633	-
Other operating revenue	33,749	-
Total operating revenues	<u>3,423,232</u>	<u>278,279</u>
OPERATING EXPENSES		
Utility line maintenance	1,227,649	-
Water filter plant	538,683	-
Waste treatment plant	891,552	-
Operating expenses	-	53,118
Materials	-	233,582
Insurance and bonding	86,047	-
Miscellaneous	3,514	-
Depreciation	882,831	2,060
Total operating expenses	<u>3,630,276</u>	<u>288,760</u>
Operating loss	<u>(207,044)</u>	<u>(10,481)</u>
NONOPERATING REVENUE (EXPENSE)		
County reimbursements - Sugar Hill	51,968	-
Investment earnings	4,724	-
Gain on sale of capital assets	2,505	-
Interest on long-term debt	(30,161)	-
Total nonoperating revenue (expense)	<u>29,036</u>	<u>-</u>
Loss before transfers	(178,008)	(10,481)
Transfer to general fund - payment in lieu of taxes	<u>(102,753)</u>	<u>-</u>
Change in net position	(280,761)	(10,481)
Net position, beginning of year	<u>20,050,214</u>	<u>12,561</u>
Net position, end of year	<u>\$ 19,769,453</u>	<u>\$ 2,080</u>
Reconciliation with Statement of Activities - Change in Net Position -		
Business-type Activities:		
Change in net position - fund perspective	\$ (280,761)	
Internal service fund loss allocated to business-type activities	<u>(3,983)</u>	
Change in net position - government-wide perspective	<u>\$ (284,744)</u>	

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

PROPRIETARY FUNDS
Statement of Cash Flows
For the year ended June 30, 2018

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Cash flows from operating activities:		
Cash received from customers and users	\$ 3,417,470	\$ 278,279
Cash paid for goods and services	(1,532,723)	(215,786)
Cash paid to or on behalf of employees for services	(1,132,281)	(71,273)
Net cash provided (used) by operating activities	<u>752,466</u>	<u>(8,780)</u>
Cash flows from noncapital and related financing activities:		
Transfer to General Fund	(102,753)	-
Due to other funds	-	8,780
County reimbursements	51,968	-
Net cash provided (used) by noncapital and related financing activities	<u>(50,785)</u>	<u>8,780</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(187,905)	-
Proceeds from the sale of capital assets	2,505	-
Principal payments on long-term debt	(269,278)	-
Interest on long-term debt	(30,958)	-
Net cash used by capital and related financing activities	<u>(485,636)</u>	<u>-</u>
Cash flows from investing activities:		
Interest received	335	-
Net cash provided by investing activities	<u>335</u>	<u>-</u>
Net increase in cash and cash equivalents	216,380	-
Cash and cash equivalents, beginning of year	<u>1,670,440</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 1,886,820</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, 2018

	Major Enterprise Fund	
	Water and Sewer Fund	Internal Service Fund
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (207,044)	\$ (10,481)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	882,831	2,060
Bad debts written off	7,796	-
Changes in assets deferred outflows of resources and liabilities:		
(Increase) decrease in accounts receivable	(19,161)	-
(Increase) decrease in due from other governments	10,747	224
(Increase) decrease in inventories	7,515	3,334
(Increase) decrease in prepaid items	1,846	(575)
(Increase) decrease in deferred outflows of resources - pensions	89,410	11,490
Increase (decrease) in accounts payable and accrued liabilities	55,631	(1,061)
Increase (decrease) in customer deposits	5,603	-
Increase (decrease) in compensated absences	2,951	(862)
Increase (decrease) in net pension liability	(81,076)	(12,127)
Increase (decrease) in deferred inflows of resources - pensions	(4,583)	(782)
Total adjustments	<u>959,510</u>	<u>1,701</u>
Net cash provided (used) by operating activities	<u>\$ 752,466</u>	<u>\$ (8,780)</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, 2018

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 projects to acquire or construct capital assets.

Grant Project Funds. These funds are used to account for multi-year grant projects that are not capital in nature.

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.

Water and Sewer Capital Project Fund. This fund is used to account for the multi-year project to extend a sewer line to the site of the Holiday Inn Express located at the intersection of Interstate 40 and Highway 226. The Water and Sewer Capital Project Fund is consolidated with the Water and Sewer Fund for financial reporting purposes.

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 Capital Project and Grant 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. 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. The Public Safety funds are reserved for proceeds from a few different sources including federal drug asset seizures and a loan reserve on a USDA grant.

Governmental Activities

General Fund:

Streets	\$ 78,284
Public Safety	147,612
Customer deposits	13,982

Capital project funds:

Unspent grant proceeds	158,521
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Total governmental activities	<u>398,399</u>
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Business Type Activities

Water and Sewer Fund:

Customer deposits	241,113
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Total restricted cash	<u>\$ 639,512</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 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City’s General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

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:

Asset Class	Rate
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 and OPEB plans in the 2018 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 liability, 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 – Stewardship, Compliance and Accountability

Deficit Fund Balance

The non-major capital project fund, community building park/main street stormwater project improvements fund, had a \$61,548 deficit fund balance at June 30, 2018. The general fund advanced the cash for preliminary project expenditures, to be repaid with future installment financing proceeds. The City expects to receive the installment financing of \$500,000 in 2019 which will cover the initial and future costs of the project and eliminate the current deficit.

Note 3 – 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, 2018, the City’s deposits had a carrying amount of \$3,854,273 and a bank balance of \$3,917,218. Of the bank balance, \$251,500 was covered by federal depository insurance and the remaining balance was covered by collateral held under the pooling method. At June 30, 2018, the City’s petty cash fund totaled \$1,850.

At June 30, 2018, the carrying amount of deposits for the ABC Board was \$108,187 and the bank balance was \$114,649. All of the bank balance was covered by Federal depository insurance. At June 30, 2018, the Board’s petty cash fund totaled \$3,225.

2. Investments

At June 30, 2018 the City of Marion had \$1,284,990 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>\$ 49,000</u>
Enterprise Funds	<u>\$ 94,000</u>

4. Due from Other Governments

Due from other governments consisted of the following:

	Governmental Activities	Business-type Activities	Total
Local option sales tax	\$ 502,790	\$ -	\$ 502,790
Sales tax refund	58,051	21,197	79,248
Vehicle taxes/tag fees	23,734	-	23,734
Fire district tax	1,182	-	1,182
Franchise/video programming tax	145,549	-	145,549
Solid waste tax	1,143	-	1,143
Federal and State grants	6,932	-	6,932
Miscellaneous reimbursements	18,427	-	18,427
	<u>\$ 757,808</u>	<u>\$ 21,197</u>	<u>\$ 779,005</u>

5. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2018 was as follows:

Governmental Activities	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,630,172	\$ -	\$ -	\$ 1,630,172
Construction in progress	20,579	132,580	-	153,159
Total capital assets not being depreciated	<u>1,650,751</u>	<u>132,580</u>	<u>-</u>	<u>1,783,331</u>
Capital assets being depreciated:				
Building improvements	2,955,249	-	-	2,955,249
Buildings	1,652,498	-	-	1,652,498
Equipment	2,199,114	222,948	-	2,422,062
Equipment – ISF	28,085	-	-	28,085
Furniture and fixtures	231,985	-	-	231,985
Land improvements	2,186,048	5,175	-	2,191,223
Vehicles	5,128,640	157,385	286,869	4,999,156
Infrastructure	2,239,230	-	-	2,239,230
Total capital assets being depreciated	<u>16,620,849</u>	<u>385,508</u>	<u>286,869</u>	<u>16,719,488</u>
Less accumulated depreciation for:				
Building improvements	815,090	81,961	-	897,051
Buildings	701,712	35,892	-	737,604
Equipment	1,708,589	178,598	-	1,887,187
Equipment – ISF	16,758	2,060	-	18,818
Furniture and fixtures	201,623	4,683	-	206,306
Land improvements	376,380	66,943	-	443,323
Vehicles	4,330,959	494,580	283,931	4,541,608
Infrastructure	368,583	64,404	-	432,987
Total accumulated depreciation	<u>8,519,694</u>	<u>929,121</u>	<u>283,931</u>	<u>9,164,884</u>
Total capital assets being depreciated, net	<u>8,101,155</u>			<u>7,554,604</u>
Governmental activities capital assets, net	<u>\$ 9,751,906</u>			<u>\$ 9,337,935</u>

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

General government	\$ 164,672
Public safety	453,504
Transportation	122,716
Environmental protection	116,220
Culture and recreation	72,009
Total depreciation expense	<u>\$ 929,121</u>

Capital asset activity for business-type activities for the year ended June 30, 2018 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	-	3,220	-	3,220
Total capital assets not being depreciated	<u>101,245</u>	<u>3,220</u>	<u>-</u>	<u>104,465</u>
Capital assets being depreciated:				
Building improvements	629,641	-	-	629,641
Buildings	6,891,369	-	-	6,891,369
Water and sewer mains, fittings, and lines	24,224,036	19,391	-	24,243,427
Equipment	1,703,086	80,917	-	1,784,003
Furniture and fixtures	647,437	-	-	647,437
Land improvements	1,165,048	-	-	1,165,048
Vehicles	527,369	84,377	59,675	552,071
Total capital assets being depreciated	<u>35,787,986</u>	<u>184,685</u>	<u>59,675</u>	<u>35,912,996</u>
Less accumulated depreciation for:				
Building improvements	522,544	7,183	-	529,727
Buildings	4,310,491	126,538	-	4,437,029
Water and sewer mains, fittings, and lines	8,106,322	567,290	-	8,673,612
Equipment	1,389,441	99,261	-	1,488,702
Furniture and fixtures	359,225	13,138	-	372,363
Land improvements	599,672	26,537	-	626,209
Vehicles	453,945	42,884	59,675	437,154
Total accumulated depreciation	<u>15,741,640</u>	<u>882,831</u>	<u>59,675</u>	<u>16,564,796</u>
Total capital assets being depreciated, net	<u>20,046,346</u>			<u>19,348,200</u>
Business-type activities capital assets, net	<u>\$20,147,591</u>			<u>\$19,452,665</u>

Construction Commitments

The City had no material construction commitments at June 30, 2018.

Discretely Presented Component Unit:

Activity for the ABC Board for the year ended June 30, 2018 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	7,000	-	645,696
Leasehold improvements	45,942	-	-	45,942
Land improvements	19,493	-	-	19,493
Equipment	238,750	5,000	-	243,750
Total capital assets being depreciated	<u>942,881</u>	<u>12,000</u>	<u>-</u>	<u>954,881</u>
Less accumulated depreciation for:				
Buildings	146,601	27,121	-	173,722
Leasehold improvements	33,532	-	-	33,532
Land improvements	19,493	-	-	19,493
Equipment	190,832	13,573	-	204,405
Total accumulated depreciation	<u>390,458</u>	<u>40,694</u>	<u>-</u>	<u>431,152</u>
Total capital assets being depreciated, net	<u>552,423</u>			<u>523,729</u>
ABC Board capital assets, net	<u>\$ 612,255</u>			<u>\$ 583,561</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, 2018, the loan has been discounted to the present value of \$114,101.

B. Liabilities1. Accounts Payable – Disaggregate Information

	Governmental Activities	Business-type Activities	Total
Vendor payables	\$ 88,392	\$ 79,077	\$167,469
Accrued salaries and expenses	126,086	15,683	141,769
Total	<u>\$ 214,478</u>	<u>\$ 94,760</u>	<u>\$309,238</u>

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Marion and the ABC Board are participating employers in the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Marion employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Marion's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.59% 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 \$260,460 for the year ended June 30, 2018.

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, 2018, the City reported a liability of \$877,677 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the City's proportion was 0.05745%, which was an increase of 0.00047% from its proportion measured as of June 30, 2016. The ABC Board reported a liability of \$40,790 for its proportionate share of the net pension liability.

For the year ended June 30, 2018, the City recognized pension expense of \$286,188. At June 30, 2018, 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	\$ 50,562	\$ 24,844
Changes of assumptions	125,344	-
Net difference between projected and actual earnings on pension plan investments	213,101	-
Changes in proportion and differences between City contributions and proportionate share of contributions	2,898	40,952
City contributions subsequent to the measurement date	<u>260,460</u>	<u>-</u>
Total	<u>\$ 652,365</u>	<u>\$ 65,796</u>

\$260,460 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 32,656
2020	244,133
2021	117,718
2022	(68,398)
2023	-
Thereafter	<u>-</u>
	<u>\$ 326,109</u>

Actuarial Assumptions. The total pension liability in the December 31, 2016 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 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, 2017 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	1% Decrease	Current	1% Increase
	(6.20%)	Discount Rate (7.20%)	(8.20%)
	<u> </u>	<u> </u>	<u> </u>
City's proportionate share of the net pension liability (asset)	\$ 2,634,806	\$ 877,677	\$ (588,971)

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, 2016 (valuation date), the Separation Allowance’s membership consisted of:

Inactive members receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>21</u>
Total	<u><u>23</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, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the total OPEB liability is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer as of December 31, 2016.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an experienced study completed by the actuary for the Local Government Employees Retirement System for the five year period ending December 31, 2014.

The plan uses the RP-2014 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.

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 \$43,807 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, 2018, the City reported a total pension liability of \$687,673. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the City recognized pension expense of \$41,651.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,484	\$ -
Changes of assumptions and other inputs	35,685	11,118
City benefit payments and plan administrative expense made subsequent to the measurement date	23,766	-
Total	<u>\$ 92,935</u>	<u>\$ 11,118</u>

\$23,766 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, 2019.

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

Year ended June 30:	
2019	\$ 11,271
2020	11,271
2021	11,271
2022	11,271
2023	12,008
Thereafter	<u>959</u>
	<u>\$ 58,051</u>

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 3.16 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 (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	\$ 751,374	\$ 687,673	\$ 629,789

Schedule of Changes in Total Pension Liability

Total pension liability as of December 31, 2016	\$ 590,935
Changes for the year:	
Service cost at end of year	28,315
Interest	22,106
Change in benefit terms	-
Difference between expected and actual experience	40,088
Changes of assumptions and other inputs	42,723
Benefit payments	(36,494)
Other	-
Net changes	<u>96,738</u>
Total pension liability as of December 31, 2017	<u>\$ 687,673</u>

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 286,188	\$ 41,651	\$ 327,839
Pension Liability	877,677	687,673	1,565,350
Proportionate share of the net pension liability	0.05745%	n/a	
 Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 50,562	\$ 33,484	\$ 84,046
Changes of assumptions	125,344	35,685	161,029
Net difference between projected and actual earnings on plan investments	213,101	-	213,101
Changes in proportion and differences between contributions and proportionate share of contributions	2,898	-	2,898
Benefit payments and administrative costs paid subsequent to the measurement date	<u>260,460</u>	<u>23,766</u>	<u>284,226</u>
	<u>\$ 652,365</u>	<u>\$ 92,935</u>	<u>\$ 745,300</u>
 Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 24,844	\$ -	\$ 24,844
Changes of assumptions	-	11,118	11,118
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>40,952</u>	<u>-</u>	<u>40,952</u>
	<u>\$ 65,796</u>	<u>\$ 11,118</u>	<u>\$ 76,914</u>

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 \$52,913 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 \$114,125 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.

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, 2017, the State contributed \$17,602,000 to the plan. The City's proportionate share of the State's contribution is \$6,221.

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, 2018, 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 \$17,144. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017 and at June 30, 2016 was 0%.

For the year ended June 30, 2018, the City recognized pension expense of \$3,751 and revenue of \$3,737 for support provided by the State. At June 30, 2018, 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, 2016 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	7.20 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 7.20%. 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. Other Post-Employment Benefits

Healthcare Benefits

Plan Description. Under the terms of a City resolution, the City administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The City Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. The Plan provides post-employment healthcare benefits to retirees of the City up to age 65, provided they participate in the North Carolina Local Governmental Employees'

Retirement System, were hired prior to July 1, 2011, and were covered by the Authority’s group health plan for the three years immediately preceding retirement. The City pays the full cost of coverage for these benefits through private insurers. Also, the City’s retirees can purchase coverage for their dependents at the City’s group rates. Employees hired on or after July 1, 2011, are not eligible for the City’s post-employment healthcare benefits. The Plan is closed to all active employees as of July 1, 2014. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will no longer be eligible for post-employment healthcare benefits by the City. The City Council may amend the benefit provisions. A separate report was not issued for the Plan.

Membership of the Retiree Health Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

	General <u>Employees</u>
Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>-</u>
Total	<u><u>2</u></u>

Total OPEB Liability

The City’s total OPEB liability of \$137,749 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% – 7.75%, including wage inflation
Discount rate	3.56%
Healthcare cost trends	
Medicare	5.50% for 2017 decreasing to an ultimate 5.0% by 2020

The discount rate is based on the June average of the Bond Buyer General Obligation 20 Year Municipal Bond Index published weekly by The Bond Buyer, as of June 30, 2017.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 - December 31, 2014, adopted by the LGERS. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

Schedule of Changes in Total OPEB Liability

Total OPEB liability as of June 30, 2017	\$ 148,745
Changes for the year:	
Service cost	-
Interest	4,341
Changes of benefit terms	-
Differences between expected and actual experience	967
Changes in assumptions or other inputs	(7,152)
Benefit payments	<u>(9,152)</u>
Net changes	<u>(10,996)</u>
Total OPEB liability as of June 30, 2018	<u>\$ 137,749</u>

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
	<u>(2.56%)</u>	<u>(3.56%)</u>	<u>(4.56%)</u>
Total OPEB liability	\$ 151,196	\$ 137,749	\$ 126,101

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Discount Rate	1% Increase
	<u>(4.5%)</u>	<u>(5.5%)</u>	<u>(6.5%)</u>
Total OPEB liability	\$ 126,765	\$ 137,749	\$ 150,135

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense (benefit) of (\$1,844) . At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Benefit payments and administrative costs made subsequent to the measurement date	11,385	-
Total	<u>\$ 11,385</u>	<u>\$ -</u>

\$11,385 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 OPEB liability in the year ended June 30, 2019. The City does not have any amounts reported as deferred inflows of resources as of June 30, 2018.

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, 2018 were as follows:

Contributions to pension plan in current fiscal year	\$ 260,460
Benefit payments and admin expenses for LEOSSA made subsequent to measurement date	23,766
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	11,385
Other pension and OPEB deferrals	<u>461,074</u>
	<u>\$ 756,685</u>

Deferred inflows of resources at June 30, 2018 were as follows:

	Governmental Funds	Government- Wide
Prepaid taxes (General Fund)	\$ 4,543	\$ 4,543
Taxes receivable, net (General Fund)	75,825	-
Other receivables (General Fund)	40,330	-
Pension deferrals	-	76,914
Total	\$ 120,698	\$ 81,457

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 \$100,000.

7. Long-Term Obligations

Serviced by the General Fund:

During the year ended June 30, 2018, the City issued a note payable for the purchase of a backhoe for \$112,768. Semiannual payments of \$11,916 including interest at 2.03% beginning September 5, 2018. The note is secured by the equipment purchased. \$ 112,768

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 1.93% beginning July 13, 2017. The note is secured by the equipment purchased.	138,101
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.	122,552
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.	331,805
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.	593,571
	<u>\$ 1,298,797</u>

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.	\$ 407,683
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.	316,904
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.	369,581
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.	749,371
	<u>\$ 1,843,539</u>

At June 30, 2018, the City of Marion had a legal debt margin of approximately \$35,000,000. 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
2019	\$ 182,672	\$ 37,887	\$ 275,045	\$ 25,191
2020	187,229	33,327	280,980	19,255
2021	191,908	28,650	287,090	13,146
2022	154,276	24,044	161,839	8,477
2023	75,608	3,071	163,905	6,411
2024-2034	507,104	81,849	674,680	7,256
Total	\$ 1,298,797	\$ 208,828	\$ 1,843,539	\$ 79,736

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

	Balance 7/1/2017	Increases	Decreases	Balance 6/30/2018	Current Portion of Balance
<u>Governmental Activities:</u>					
Notes payable	\$ 1,343,186	\$ 112,768	\$ 157,157	\$ 1,298,797	\$ 182,672
Total pension liability (LEO)	590,935	133,232	36,494	687,673	-
Total OPEB liability	148,745	-	10,996	137,749	-
Net pension liability (LGERS)	936,282	-	250,553	685,729	-
Compensated absences	190,421	173,563	176,420	187,564	125,000
Total	\$ 3,209,569	\$ 419,563	\$ 631,620	\$ 2,997,512	\$ 307,672
<u>Business-type Activities:</u>					
Notes payable	\$ 2,112,817	\$ -	\$ 269,278	\$ 1,843,539	\$ 275,045
Net pension liability (LGERS)	273,024	-	81,076	191,948	-
Compensated absences	43,600	46,552	43,600	46,552	31,000
Total	\$ 2,429,441	\$ 46,552	\$ 393,954	\$ 2,082,039	\$ 306,045
<u>Marion ABC Board:</u>					
Notes payable	\$ 568,129	\$ -	\$ 22,189	\$ 545,940	\$ 23,243
Net pension liability (LGERS)	47,540	-	6,750	40,790	-
Total	\$ 615,669	\$ -	\$ 28,939	\$ 586,730	\$ 23,243

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, 2018, consist of the following:

Internal Service Fund	\$ 97,447
Capital Project Fund	56,504
Total	\$ 153,951

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, 2018 consist of the following:

From the Water and Sewer Fund to the General Fund	
for payments in lieu of taxes	<u>\$ 102,753</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 4 – 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 5 – Jointly Governed Organization

The City, in conjunction with four counties and twenty other municipalities, established the Isothermal Planning and Development Commission. Participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Commission's governing board. The City paid membership fees of \$5,355 to the Commission during the fiscal year ended June 30, 2018.

Note 6 – Joint Ventures

The City and the members of the City's fire department each appoint two members to the five-member local Board of Trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local Board of the Firefighter's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the Board of Trustees. During the fiscal year ended June 30, 2018, the City reported revenue and expenditures for the payments of \$11,751 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, 2018. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Raleigh, North Carolina 27603.

Note 7 – Fund Balance

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

Total Fund Balance - General Fund	\$ 3,784,618
<u>Less:</u>	
Nonspendable - prepaids	60,475
Stabilization by State statute	973,098
Streets	78,284
Public safety	147,612
Cemetery	128,413
Appropriated fund balance in next year's budget	370,336
Working Capital/Fund Balance Policy	<u>1,711,118</u>
Remaining Fund Balance	<u><u>\$ 315,282</u></u>

The City of Marion has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the City in such a manner that available fund balance is at least equal to, or greater than, 25% of budgeted expenditures. This balance was \$1,711,118 as of June 30, 2018.

Note 8 – Change in Accounting Principles/Restatement

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the City to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the City related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$125,594.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

CITY OF MARION, NORTH CAROLINA
OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Schedule of Changes in the Total OPEB Liability and Related Ratios

		2018
Service cost	\$	-
Interest		4,341
Changes of benefit terms		-
Differences between expected and actual experience		967
Changes of assumptions		(7,152)
Benefit payments		(9,152)
Net change in total OPEB liability		(10,996)
Total OPEB liability - beginning		148,745
Total OPEB liability - ending	\$	137,749
Covered payroll	\$	-
Total OPEB liability a percentage of covered payroll		N/A

Notes to the schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

Fiscal year	Rate
2018	3.56%

* 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 FIVE FISCAL YEARS *

Local Government Employees' Retirement System

	2018	2017	2016	2015	2014
City's proportionate share of the net pension liability (asset) (%)	0.05745%	0.05698%	0.06210%	0.05892%	6.02000%
City's proportion of the net pension liability (asset) (\$)	\$ 877,677	\$ 1,209,306	\$ 278,701	\$ (347,478)	\$ 725,641
City's covered payroll	3,298,574	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	26.61%	36.08%	8.56%	(10.83%)	23.30%
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.18%	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 FIVE FISCAL YEARS

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 260,460	\$ 249,331	\$ 231,085	\$ 235,131	\$ 228,621
Contribution in relation to the contractually required contribution	<u>260,460</u>	<u>249,331</u>	<u>231,085</u>	<u>235,131</u>	<u>228,621</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered payroll	\$ 3,339,620	\$ 3,298,574	\$ 3,351,821	\$ 3,254,764	\$ 3,207,416
Contributions as a percentage of covered payroll	7.80%	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 FOUR FISCAL YEARS *

Firefighters' and Rescue Squad Workers' Pension

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportionate share of the net pension liability (%)	0.00000%	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>17,144</u>	<u>12,736</u>	<u>12,644</u>	<u>13,629</u>
Total	<u>\$ 17,144</u>	<u>\$ 12,736</u>	<u>\$ 12,644</u>	<u>\$ 13,629</u>
City's covered payroll	\$ 250,782	\$ 255,627	\$ 250,678	\$ 244,449
City's proportionate share of the net pension liability as a percentage of its covered payroll	6.84%	4.98%	5.04%	5.58%
Plan fiduciary net position as a percentage of the total pension liability	89.35%	84.94%	91.40%	93.42%

* The amounts presented are for the prior fiscal year

CITY OF MARION, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS *

Schedule of Changes in Total Pension Liability

	2018	2017
Beginning balance	\$ 590,935	\$ 575,080
Changes for the year:		
Service cost at end of year	28,315	30,667
Interest	22,106	20,189
Change in benefit terms	-	-
Difference between expected and actual experience	40,088	-
Changes of assumptions and other inputs	42,723	(15,860)
Benefit payments	(36,494)	(19,141)
Other	-	-
Net changes	96,738	15,855
Ending balance of the total pension liability	\$ 687,673	\$ 590,935

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Total Pension Liability	\$ 687,673	\$ 590,935
Covered Payroll	981,280	1,121,051
Total pension liability as a percentage of covered payroll	70.08%	52.71%

Notes to the schedule:

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 year ended December 31.

**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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem Taxes:			
Current year taxes	\$ 2,168,037	\$ 2,195,824	\$ 27,787
Prior year taxes	28,000	33,065	5,065
Motor vehicle taxes, net	181,000	184,049	3,049
Penalties and interest	18,000	15,306	(2,694)
	<u>2,395,037</u>	<u>2,428,244</u>	<u>33,207</u>
Other Taxes and Licenses:			
Local option sales tax	1,480,000	1,520,070	40,070
Utilities sales tax	573,000	551,597	(21,403)
Solid waste disposal tax	5,300	5,342	42
Licenses and permits	8,500	10,121	1,621
Wine tax	36,000	34,823	(1,177)
	<u>2,102,800</u>	<u>2,121,953</u>	<u>19,153</u>
Unrestricted Intergovernmental:			
Court revenue	2,600	4,623	2,023
ABC revenues	112,500	155,300	42,800
Video franchise fees	66,000	61,760	(4,240)
	<u>181,100</u>	<u>221,683</u>	<u>40,583</u>
Restricted Intergovernmental:			
Powell Bill allocation	220,000	218,091	(1,909)
ABC revenue for law enforcement	3,000	5,705	2,705
Parking violations	5,000	5,342	342
County fire protection	325,000	328,305	3,305
County recycling	9,200	9,037	(163)
NCDOT reimbursements	2,500	2,519	19
Federal drug asset revenue	-	73,717	73,717
DARE fund revenue	4,000	4,000	-
State controlled substance revenue	-	5,838	5,838
State of NC fire protection	5,498	5,977	479
McDowell County schools officer	75,000	82,368	7,368
Public safety grants	66,417	55,674	(10,743)
Tailgate market grants	9,600	9,600	-
MIT grants	4,690	2,940	(1,750)
On-behalf payments for fire and rescue	-	11,751	11,751
	<u>729,905</u>	<u>820,864</u>	<u>90,959</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
License, Permits and Fees:			
City vehicle license	24,000	25,725	1,725
Building permits (zoning and inspections)	38,100	85,251	47,151
	<u>62,100</u>	<u>110,976</u>	<u>48,876</u>
Sales and Services:			
Rents and concessions	37,200	44,078	6,878
Cemetery revenues	7,000	7,449	449
Garbage fees	191,180	205,766	14,586
Copies and fingerprints	600	970	370
Sale of surplus equipment	5,000	16,010	11,010
	<u>240,980</u>	<u>274,273</u>	<u>33,293</u>
Miscellaneous	<u>65,187</u>	<u>70,010</u>	<u>4,823</u>
Investment earnings	<u>6,000</u>	<u>17,665</u>	<u>11,665</u>
Restricted contributions	<u>36,000</u>	<u>34,211</u>	<u>(1,789)</u>
Total revenues	<u>5,819,109</u>	<u>6,099,879</u>	<u>280,770</u>
Expenditures:			
General government:			
Administration:			
Salaries and employee benefits		683,314	
Operating expenditures		143,546	
Capital outlay		13,202	
Allocation to Water and Sewer		(319,018)	
	<u>538,809</u>	<u>521,044</u>	<u>17,765</u>
Cemetery:			
Operating expenditures		40,040	
	<u>44,200</u>	<u>40,040</u>	<u>4,160</u>
Non-departmental:			
Operating expenditures		353,692	
	<u>437,820</u>	<u>353,692</u>	<u>84,128</u>
Total general government	<u>1,020,829</u>	<u>914,776</u>	<u>106,053</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public safety:			
Police department:			
Salaries and employee benefits		1,628,602	
Operating expenditures		451,681	
Capital outlay		134,693	
	<u>2,274,878</u>	<u>2,214,976</u>	<u>59,902</u>
Fire department:			
Salaries and employee benefits		344,635	
Operating expenditures		165,107	
Capital outlay		37,243	
	<u>564,184</u>	<u>546,985</u>	<u>17,199</u>
Inspections:			
Salaries and employee benefits		206,289	
Operating expenditures		38,801	
Capital outlay		15,724	
	<u>306,875</u>	<u>260,814</u>	<u>46,061</u>
Total public safety	<u>3,145,937</u>	<u>3,022,775</u>	<u>123,162</u>
Transportation:			
Public works administration:			
Salaries and employee benefits		149,376	
Other operating expenditures		21,951	
Allocation to Water and Sewer		(65,068)	
	<u>111,648</u>	<u>106,259</u>	<u>5,389</u>
Street department:			
Salaries and employee benefits		477,388	
Other operating expenditures		420,309	
Capital outlay		124,936	
	<u>1,140,368</u>	<u>1,022,633</u>	<u>117,735</u>
Powell Bill:			
Other operating expenditures		144,840	
	<u>220,000</u>	<u>144,840</u>	<u>75,160</u>

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fleet maintenance:			
Salaries and employee benefits		94,513	
Other operating expenditures		14,105	
Capital outlay		15,313	
Allocation to Water and Sewer		(46,826)	
	<u>93,155</u>	<u>77,105</u>	<u>16,050</u>
 Total transportation	 <u>1,565,171</u>	 <u>1,350,837</u>	 <u>214,334</u>
 Environmental protection:			
Salaries and employee benefits		283,738	
Other operating expenditures		227,115	
Capital outlay		39,223	
Total environmental protection	<u>622,174</u>	<u>550,076</u>	<u>72,098</u>
 Cultural and recreation:			
Community building and recreation:			
Other operating expenditures		107,203	
Capital outlay		5,175	
Total cultural and recreation	<u>279,950</u>	<u>112,378</u>	<u>167,572</u>
 Debt service:			
Principal retirement		157,157	
Interest and fees		39,539	
Total debt service	<u>210,409</u>	<u>196,696</u>	<u>13,713</u>
 Total expenditures	 <u>6,844,470</u>	 <u>6,147,538</u>	 <u>696,932</u>
 Revenues under expenditures	 <u>(1,025,361)</u>	 <u>(47,659)</u>	 <u>977,702</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, 2018

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources:			
Fund balance appropriated	799,361	-	(799,361)
Installment obligations issued	120,000	112,768	(7,232)
Transfer from water and sewer fund	<u>106,000</u>	<u>102,753</u>	<u>(3,247)</u>
Total other financing sources	<u>1,025,361</u>	<u>215,521</u>	<u>(809,840)</u>
Revenues and other sources over expenditures	<u>\$ -</u>	167,862	<u>\$ 167,862</u>
Fund balance, beginning of year		<u>3,616,756</u>	
Fund balance, end of year		<u>\$ 3,784,618</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GOVERNMENTAL FUNDS

Combining Balance Sheet

June 30, 2018

	NC Dept of Commerce Downtown Revitalization	Kate B Reynolds West Marion Forum Group	General Projects	Former Drexel Property Demolition and Cleanup	Community Building Park Playground Equipment Project	Community Building Park/Main St. Stormwater Project Improvements	Total
Assets							
Cash and investments	\$ 7,024	\$ -	\$ 42,300	\$ 79,789	\$ -	\$ -	\$ 129,113
Restricted cash	-	99,521	-	-	59,000	-	158,521
Due from other governments	13	893	-	1,500	-	-	2,406
Total assets	<u>\$ 7,037</u>	<u>\$ 100,414</u>	<u>\$ 42,300</u>	<u>\$ 81,289</u>	<u>\$ 59,000</u>	<u>\$ -</u>	<u>\$ 290,040</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 7,037	\$ -	\$ -	\$ 4,190	\$ -	\$ 5,044	\$ 16,271
Due to General Fund	-	-	-	-	-	56,504	56,504
Total liabilities	<u>7,037</u>	<u>-</u>	<u>-</u>	<u>4,190</u>	<u>-</u>	<u>61,548</u>	<u>72,775</u>
Fund balances:							
Restricted:							
Community development	-	100,414	42,300	-	-	-	142,714
Capital projects	-	-	-	-	59,000	-	59,000
Committed:							
Capital projects	-	-	-	77,099	-	-	77,099
Unassigned (deficit)	-	-	-	-	-	(61,548)	(61,548)
Total fund balances (deficit)	<u>-</u>	<u>100,414</u>	<u>42,300</u>	<u>77,099</u>	<u>59,000</u>	<u>(61,548)</u>	<u>217,265</u>
Total liabilities and fund balances	<u>\$ 7,037</u>	<u>\$ 100,414</u>	<u>\$ 42,300</u>	<u>\$ 81,289</u>	<u>\$ 59,000</u>	<u>\$ -</u>	<u>\$ 290,040</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, 2018

	<u>NC Dept of Commerce Downtown Revitalization</u>	<u>Kate B Reynolds West Marion Forum Group</u>	<u>General Projects</u>	<u>Former Drexel Property Demolition and Cleanup</u>	<u>Community Building Park Playground Equipment Project</u>	<u>Community Building Park/ Main St. Stormwater Project Improvements</u>	<u>Total</u>
Revenues							
Restricted intergovernmental:							
Contribution from McDowell County	\$ -	\$ -	\$ 5,300	\$ 34,367	\$ -	\$ -	\$ 39,667
Other Revenue:							
Private donations	-	-	37,000	-	-	-	37,000
Kate B Reynolds grant	-	114,176	-	-	-	-	114,176
Total revenues	-	114,176	42,300	34,367	-	-	190,843
Expenditures							
Engineering	-	-	-	-	-	61,548	61,548
Planning and administration	-	-	-	4,456	-	-	4,456
Clearance activities	-	-	-	66,577	-	-	66,577
Grants to downtown businesses	500	-	-	-	-	-	500
Community development	-	98,341	-	-	-	-	98,341
Construction	19,957	-	-	-	-	-	19,957
Total expenditures	20,457	98,341	-	71,033	-	61,548	251,379
Net change in fund balance	(20,457)	15,835	42,300	(36,666)	-	(61,548)	(60,536)
Fund balances,							
beginning of year	20,457	84,579	-	113,765	59,000	-	277,801
Fund balances (deficit), end of year	\$ -	\$ 100,414	\$ 42,300	\$ 77,099	\$ 59,000	\$ (61,548)	\$ 217,265

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - NC DEPT OF COMMERCE DOWNTOWN REVITALIZATION
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2018

	Actual through June 30, 2018			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
NC Dept of Commerce grants	\$ 94,340	\$ 94,340	\$ -	\$ 94,340
Expenditures:				
Grants to downtown businesses	9,917	9,416	500	9,916
Construction costs	<u>157,189</u>	<u>137,233</u>	<u>19,957</u>	<u>157,190</u>
Total expenditures	<u>167,106</u>	<u>146,649</u>	<u>20,457</u>	<u>167,106</u>
Revenues under expenditures	<u>(72,766)</u>	<u>(52,309)</u>	<u>(20,457)</u>	<u>(72,766)</u>
Other Financing Sources:				
Transfer from General Fund	<u>72,766</u>	<u>72,766</u>	<u>-</u>	<u>72,766</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 20,457</u>	<u>(20,457)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>20,457</u>	
Fund balance, end of year			<u>\$ -</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GRANT PROJECT FUND - KATE B REYNOLDS WEST MARION FORUM PROJECT
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2018

	Actual through June 30, 2018			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
Kate B Reynolds grant	\$ 232,288	\$ 118,113	\$ 114,176	\$ 232,289
Expenditures:				
Operating	232,288	33,534	98,341	131,875
Net change in fund balance	\$ -	\$ 84,579	15,835	\$ 100,414
Fund balance, beginning of year			84,579	
Fund balance, end of year			\$ 100,414	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR GRANT PROJECT FUND - GENERAL PROJECTS

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

From inception and for the year ended June 30, 2018

	Actual through June 30, 2018			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
NC Recreational Trail Programs Grant	\$ 30,000	-	\$ -	\$ -
Private donations	37,000	-	37,000	37,000
Contribution from McDowell County	5,300	-	5,300	5,300
Total revenues	<u>72,300</u>	<u>-</u>	<u>42,300</u>	<u>42,300</u>
Expenditures:				
Operating	<u>72,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	42,300	<u>\$ 42,300</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance, end of year			<u>\$ 42,300</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - FORMER 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, 2018

	Project Authorization	Actual through June 30, 2018		
		Reported in Prior Years	Current Year	Total to Date
Revenues:				
CDBG	\$ 500,000	\$ -	\$ -	\$ -
NC Rural Center grant	150,000	-	-	-
McDowell County contribution	125,000	9,344	34,367	43,711
Total revenues	775,000	9,344	34,367	43,711
Expenditures:				
Planning and administration	35,000	12,684	4,456	17,140
Clearance activities	865,000	7,895	66,577	74,472
Total expenditures	900,000	20,579	71,033	91,612
Revenues under expenditures	(125,000)	(11,235)	(36,666)	(47,901)
Other Financing Sources:				
Transfers in	125,000	125,000	-	125,000
Net change in fund balance	\$ -	\$ 113,765	(36,666)	\$ 77,099
Fund balance, beginning of year			113,765	
Fund balance, end of year			\$ 77,099	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - COMMUNITY BUILDING PARK PLAYGROUND EQUIPMENT
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 From inception and for the year ended June 30, 2018

	Actual through June 30, 2018			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
Kate B Reynolds grant	\$ -	\$ 59,000	\$ -	\$ 59,000
Expenditures:				
Capital outlay	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 59,000</u>	-	<u>\$ 59,000</u>
Fund balance, beginning of year			<u>59,000</u>	
Fund balance, end of year			<u>\$ 59,000</u>	

CITY OF MARION, NORTH CAROLINA

NON-MAJOR CAPITAL PROJECT FUND - COMMUNITY BUILDING PARK/MAIN STREET STORMWATER
PROJECT IMPROVEMENTS

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the year ended June 30, 2018

	Actual through June 30, 2018			
	Project Authorization	Reported in Prior Years	Current Year	
Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Engineering	100,000	-	61,548	61,548
Construction	360,000	-	-	-
Contingency	40,000	-	-	-
Total expenditures	<u>500,000</u>	<u>-</u>	<u>61,548</u>	<u>61,548</u>
Revenues under expenditures	<u>(500,000)</u>	<u>-</u>	<u>(61,548)</u>	<u>(61,548)</u>
Total other financing sources:				
Proceeds from installment debt	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(61,548)</u>	<u>\$ (61,548)</u>
Fund balance, beginning of year			<u>-</u>	
Fund balance (deficit), end of year			<u>\$ (61,548)</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, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water sales	\$ 1,056,400	\$ 1,050,638	\$ (5,762)
Sewer sales	712,760	740,747	27,987
Sewer taps	15,000	7,494	(7,506)
Water taps	25,000	26,633	1,633
Cut-on fees/penalties	110,800	118,959	8,159
Water service charges	935,240	939,842	4,602
Sewer service charges	497,490	505,170	7,680
Other operating income	<u>15,919</u>	<u>33,749</u>	<u>17,830</u>
Total operating revenues	<u>3,368,609</u>	<u>3,423,232</u>	<u>54,623</u>
Non-operating revenues:			
Interest	500	335	(165)
County reimbursements - Sugar Hill	<u>51,968</u>	<u>51,968</u>	<u>-</u>
Total non-operating income	<u>52,468</u>	<u>52,303</u>	<u>(165)</u>
Total revenues	<u>3,421,077</u>	<u>3,475,535</u>	<u>54,458</u>
Expenditures:			
Utility line maintenance:			
Salaries and employee benefits		412,435	
Operating expenditures		321,196	
Repairs and maintenance		44,255	
Capital outlay		76,745	
Overhead allocation		<u>439,500</u>	
	<u>1,488,848</u>	<u>1,294,131</u>	<u>194,717</u>
Water filter plant:			
Salaries and employee benefits		236,526	
Operating expenditures		284,426	
Repairs and maintenance		16,525	
Capital outlay		<u>15,357</u>	
	<u>626,138</u>	<u>552,834</u>	<u>73,304</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, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Water treatment plant:			
Salaries and employee benefits		478,490	
Operating expenditures		348,899	
Repairs and maintenance		61,415	
Capital outlay		92,584	
	<u>1,082,090</u>	<u>981,388</u>	<u>100,702</u>
 Total operating expenditures	 <u>3,197,076</u>	 <u>2,828,353</u>	 <u>368,723</u>
 Miscellaneous	 <u>11,887</u>	 <u>3,514</u>	 <u>8,373</u>
Debt service:			
Principal retirement		269,278	
Interest		30,958	
	<u>300,238</u>	<u>300,236</u>	<u>2</u>
 Insurance, bonding and workers' compensation	 <u>95,313</u>	 <u>86,047</u>	 <u>9,266</u>
 Total expenditures	 <u>3,604,514</u>	 <u>3,218,150</u>	 <u>386,364</u>
 Revenues over (under) expenditures	 <u>(183,437)</u>	 <u>257,385</u>	 <u>440,822</u>
Other Financing Sources (Uses):			
Transfer to general fund - payment in lieu of taxes	(106,000)	(102,753)	3,247
Transfer to capital project fund	(114,150)	(114,150)	-
Proceeds on sale of capital assets	2,500	2,505	5
Appropriated fund balance	401,087	-	(401,087)
 Total other financing sources (uses)	 <u>183,437</u>	 <u>(214,398)</u>	 <u>(397,835)</u>
 Revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 42,987	 <u>\$ 42,987</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, 2018

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal retirement of debt		269,278	
Increase (decrease) in inventories		(7,515)	
(Increase) decrease in accrued compensated absences		(2,951)	
(Increase) decrease in accrued interest		797	
Interest earned on long-term note receivable		4,389	
Transfer to Capital Project Fund		114,150	
Capital outlay		184,685	
Increase (decrease) in deferred outflows of resources - pensions		(89,410)	
(Increase) decrease in net pension liability		81,076	
(Increase) decrease in deferred inflows of resources - pensions		4,584	
Depreciation		(882,831)	
Total reconciling items		(323,748)	
Change in net position		\$ (280,761)	

CITY OF MARION, NORTH CAROLINA

**WATER AND SEWER CAPITAL PROJECT FUND
HOLIDAY INN EXPRESS SEWER LINE EXTENSION**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
From inception and for the year ended June 30, 2018

	Project Authorization	Actual through June 30, 2018		
		Reported in Prior Years	Current Year	Total to Date
Revenues:				
NC Dept of Commerce- economic infrastructure grant	\$ 60,000	\$ -	\$ -	\$ -
Contribution from McDowell County	114,150	-	-	-
Capital Contribution- SAHAS Hospitality	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>179,150</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Engineering	63,600	-	3,220	3,220
Professional services	15,000	-	-	-
Construction	195,100	-	-	-
Contingency	<u>19,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>293,300</u>	<u>-</u>	<u>3,220</u>	<u>3,220</u>
Revenues under expenditures	<u>(114,150)</u>	<u>-</u>	<u>(3,220)</u>	<u>(3,220)</u>
Other Financing Sources:				
Transfer from Water and Sewer	<u>114,150</u>	<u>-</u>	<u>114,150</u>	<u>114,150</u>
Revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,930</u>	<u>\$ 110,930</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, 2018

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Sales to other funds	\$ 308,461	\$ 278,279	\$ (30,182)
Expenditures:			
Salaries and employee benefits		67,931	
Operating expenditures		239,736	
Allocation to General Fund		(13,432)	
Allocation to Water and Sewer		(8,588)	
Total expenditures	<u>308,461</u>	<u>285,647</u>	<u>22,814</u>
Revenue under expenditures	<u>\$ -</u>	(7,368)	<u>\$ (7,368)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(2,060)	
Increase (decrease) in inventories		(3,334)	
Increase (decrease) in deferred outflows of resources - pensions		(11,490)	
(Increase) decrease in accrued compensated absences		862	
(Increase) decrease in net pension liability		12,127	
(Increase) decrease in deferred inflows of resources - pensions		782	
Total reconciling items		<u>(3,113)</u>	
Change in net position		<u>\$ (10,481)</u>	

OTHER SCHEDULES

CITY OF MARION, NORTH CAROLINA

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2018

Fiscal Year	Uncollected Balance 6/30/2017	Additions	Collections And Credits	Uncollected Balance 6/30/2018
2017-2018	\$ -	\$ 2,428,328	\$ 2,402,580	\$ 25,748
2016-2017	36,835	-	18,723	18,112
2015-2016	18,085	-	5,592	12,493
2014-2015	14,357	-	2,804	11,553
2013-2014	14,210	-	1,862	12,348
2012-2013	16,163	-	1,779	14,384
2011-2012	9,769	-	1,055	8,714
2010-2011	8,879	-	1,188	7,691
2009-2010	7,897	-	768	7,129
2008-2009	8,464	-	1,811	6,653
2007-2008 and prior	6,448	-	6,448	-
	\$ 141,107	\$ 2,428,328	\$ 2,444,610	124,825
Less: allowance for uncollectible accounts:				
General Fund				49,000
Ad valorem taxes receivable, net				\$ 75,825
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,428,244
Reconciling items:				
Releases				6,574
Discount				8,733
Amounts written off for the 2007 levy per the statute of limitations				5,938
Other				10,427
				2,459,916
Less: interest collected				(15,306)
Total collections and credits				\$ 2,444,610

CITY OF MARION, NORTH CAROLINA

GENERAL FUND
 Analysis of Current Tax Levy
 For the year ended June 30, 2018

	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	\$ 464,478,193	\$ 0.51	\$ 2,368,840	\$ 2,174,923	\$ 193,917	
Penalties			<u>1,949</u>	<u>1,949</u>	<u>-</u>	
Total			<u>2,370,789</u>	<u>2,176,872</u>	<u>193,917</u>	
Discoveries:						
Current year taxes and penalties	18,860,118	0.51	96,187	96,187	-	
Abatements	<u>(7,578,090)</u>	0.51	<u>(38,648)</u>	<u>(38,648)</u>	<u>-</u>	
Total property valuation	<u>\$ 475,760,221</u>					
Net levy			2,428,328	2,234,411	193,917	
Uncollected taxes at June 30, 2018			<u>25,748</u>	<u>25,748</u>	<u>-</u>	
Current year's taxes collected			<u>\$ 2,402,580</u>	<u>\$ 2,208,663</u>	<u>\$ 193,917</u>	
Current levy collection percentage			<u>98.94%</u>	<u>98.85%</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, 2018, which collectively comprise the City of Marion's basic financial statements, and have issued our report thereon dated October 31, 2018. 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 31, 2018