

**City of Marion, North Carolina**

**Financial Statements**

**June 30, 2019**



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

**Marion City Council  
(As of June 30, 2019)**

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:  
Assistant City Manager/Finance Director  
Julie Scherer, CPA, NCCLGFO



**CITY OF MARION, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2019**

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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 aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Marion, North Carolina, as of and for the year ended June 30, 2019, 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 aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Marion, North Carolina, as of June 30, 2019, 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 62, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 63 and 64, respectively, the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 65, 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 66, 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 30, 2019 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 30, 2019



# City of Marion, North Carolina

## Management's Discussion and Analysis

June 30, 2019

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, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### Financial Highlights

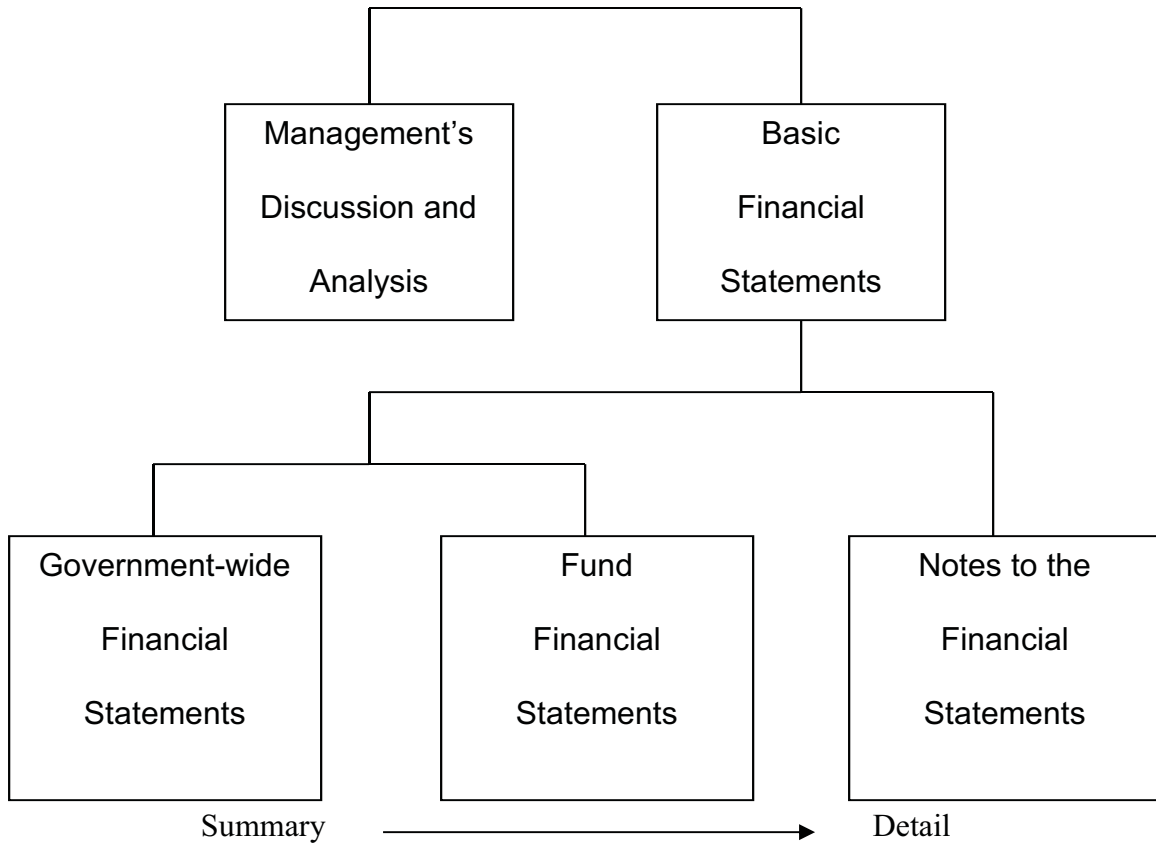
- The assets and deferred outflows of resources of the City of Marion exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$31,956,206 (*net position*).
- The government's total net position increased by \$1,170,805, consisting of increases in the governmental activities net position of \$1,210,312 and decreases in the business-type activities net position of (\$39,507).
- As of the close of the current fiscal year, the City of Marion's governmental funds reported combined ending fund balances of \$4,024,084 with a net increase of \$22,201 in fund balance. Approximately 41% of this total amount, or \$1,665,229, is non-spendable or restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$2,612,428, or 38% of general fund expenditures, as adjusted for the fiscal year. Total fund balance for the General Fund was \$3,934,495 or 58% of the total general fund expenditures, as adjusted.
- The City of Marion's total debt decreased by \$457,828 (15%) during the current fiscal year. The key factors in this decrease were regularly scheduled principal payments on existing debt of \$457,828.
- The City of Marion maintained a stable property tax rate of \$.51 per \$100 of valuation for the 51<sup>st</sup> consecutive year.

### Overview of the Financial Statements

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

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City’s financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City’s government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City’s individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

## Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the water and sewer services offered by the City of Marion. The final category is the component unit. Although legally separate from the City, the ABC Board and Municipal Event Center, LLC (MEC) are important to the City. The City exercises control over the ABC Board by appointing its members and the Board is required to distribute its profits to the City. The City exercises control over the MEC by appointing one-half of its voting members, providing capital contributions, and approving capital expenditures of \$5,000 or more.

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 62 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 4,084,249	\$ 4,023,605	\$ 2,425,857	\$ 2,311,706	\$ 6,510,106	\$ 6,335,311
Restricted assets	354,827	398,399	241,721	241,113	596,548	639,512
Capital assets	10,444,827	9,337,935	19,104,515	19,452,665	29,549,342	28,790,600
Deferred outflows of resources	920,027	614,013	215,044	142,672	1,135,071	756,685
Total assets and deferred outflows of resources	15,803,930	14,373,952	21,987,137	22,148,156	37,791,067	36,522,108
Long-term liabilities outstanding	2,858,073	2,689,840	1,575,002	1,775,994	4,433,075	4,465,834
Current liabilities	576,027	544,659	726,616	644,757	1,302,643	1,189,416
Deferred inflows of resources	87,132	67,067	12,011	14,390	99,143	81,457
Total liabilities and deferred inflows of resources	3,521,232	3,301,566	2,313,629	2,435,141	5,834,861	5,736,707
Net position:						
Net investment in capital assets	9,328,813	8,039,138	17,536,021	17,609,126	26,864,834	25,648,264
Restricted	1,620,357	1,341,708	-	-	1,620,357	1,341,708
Unrestricted	1,333,528	1,691,540	2,137,487	2,103,889	3,471,015	3,795,429
Total net position	\$12,282,698	\$11,072,386	\$19,673,508	\$19,713,015	\$31,956,206	\$30,785,401

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Marion exceeded liabilities and deferred inflows by \$31,956,206 as of June 30, 2019, 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, \$1,620,357 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,471,015 is unrestricted.

The City's total net position increased by \$1,170,805 for the fiscal year ended June 30, 2019 mainly due to the increase of \$1,268,959 in total assets and deferred outflows of resources. The majority of this increase, \$758,752, occurred in Capital Assets. Capital Assets in the Governmental Activities increased \$1,106,892 mainly due to the demolition and cleanup costs associated with the former Drexel facility as of June 30, 2019, financed in large part by grants and contributions, such as the donation of the former Drexel land to the City. The City also purchased a new Sanitation truck. Capital Assets in the Business-type Activities declined \$348,150 due to depreciation expense exceeding additions.

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

- Continued diligence in the collection of property taxes as shown by the increase in the tax collection rate (excluding registered motor vehicles) in the current fiscal year of 99.01% compared to 98.85% in the prior fiscal year.
- Increased sales tax revenues of approximately \$230,000 due to economic growth.
- 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	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 1,303,905	\$ 1,067,450	\$ 3,572,687	\$ 3,423,232	\$ 4,876,592	\$ 4,490,682
Operating grants and contributions	368,150	520,814	76,211	51,968	444,361	572,782
Capital grants and contributions	1,288,538	97,556	156,300	-	1,444,838	97,556
General revenues:						
Property taxes	2,446,896	2,426,800	-	-	2,446,896	2,426,800
Other taxes	2,354,692	2,121,953	-	-	2,354,692	2,121,953
Investment earnings	-	-	4,911	4,724	4,911	4,724
Other	273,422	51,767	8,001	2,505	281,423	54,272
Total revenues	<u>8,035,603</u>	<u>6,286,340</u>	<u>3,818,110</u>	<u>3,482,429</u>	<u>11,853,713</u>	<u>9,768,769</u>
Expenses:						
General government	1,276,583	1,081,277	-	-	1,276,583	1,081,277
Public safety	3,381,133	3,345,081	-	-	3,381,133	3,345,081
Transportation	1,345,558	1,318,827	-	-	1,345,558	1,318,827
Environmental protection	704,119	621,013	-	-	704,119	621,013
Cultural and recreation	254,614	277,553	-	-	254,614	277,553
Interest on long-term debt	36,284	38,347	-	-	36,284	38,347
Water and sewer	-	-	3,684,617	3,664,420	3,684,617	3,664,420
Total expenses	<u>6,998,291</u>	<u>6,682,098</u>	<u>3,684,617</u>	<u>3,664,420</u>	<u>10,682,908</u>	<u>10,346,518</u>
Change in net position before transfers	1,037,312	(395,758)	133,493	(181,991)	1,170,805	(577,749)
Transfers	173,000	102,753	(173,000)	(102,753)	-	-
Change in net position	<u>1,210,312</u>	<u>(293,005)</u>	<u>(39,507)</u>	<u>(284,744)</u>	<u>1,170,805</u>	<u>(577,749)</u>
Net position, July 1	11,072,386	11,365,391	19,713,015	19,997,759	30,785,401	31,363,150
Net position, June 30	<u>\$ 12,282,698</u>	<u>\$ 11,072,386</u>	<u>\$ 19,673,508</u>	<u>\$ 19,713,015</u>	<u>\$ 31,956,206</u>	<u>\$ 30,785,401</u>

**Governmental activities.** Governmental activities increased the City's net position by \$1,210,312. Public Safety accounted for 48% and Transportation accounted for 19% of governmental activities for fiscal year 2018-2019. The City's governmental activities cover a wide range of services. Several factors affected the governmental activities net position:

- A 22% increase in charges for services mainly due to the implementation of a residential garbage fee of \$3 per month per household resulting in approximately \$97,000 in revenue, the receipt of approximately \$64,000 in sales tax funds from the County for fire protection services, and the receipt of approximately \$27,000 in first-time PEG channel revenues.

- A 168% increase in grants and contributions due to one-time grants receipts including \$417,417 in Community Development Block Grant funds, \$150,000 in NC Rural Center Grant funds, and \$300,000 in NC Department of Commerce State Appropriation funds for the demolition and cleanup of the former Drexel site.
- A 1% increase in property tax revenues due to moderate growth in both the values and the collection rate.
- An 11% increase in other taxes, primarily due to the \$230,000 increase in sales tax revenue.
- An overall increase in expenses of approximately 4.75% due mainly to an increase in capital and grant-funded expenditures.

**Business-type activities.** Business-type activities decreased the City of Marion's net position by (\$39,507).

### 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 \$149,877 during fiscal year 2018-2019. Overall revenues increased approximately \$467,000, or 8%, due mainly to increases in garbage fees and sales tax revenue as discussed above. Increases in sales tax indicate the continuing growth in the economy. Ad valorem taxes, which represent 38% of general fund revenues, increased approximately \$20,000, or 1%, due to continuing gradual growth of the tax base. Unrestricted intergovernmental revenue increased by approximately \$57,000, or 26%, due to increased ABC revenue and the first receipt of \$27,000 in PEG channel revenues. Building permit revenue increased \$19,425, or 23%. Overall expenditures increased \$606,000 mainly due to an increase in capital expenditures and an overall increase in cost of operation. The City also added two new full time positions, an additional Fire Engineer and an additional position in the Street Department.

At the end of the current fiscal year, the City of Marion's available fund balance in the General Fund was \$2,612,428, while total fund balance reached \$3,934,495. The Governing Body of the City of Marion has determined that the City should maintain an available fund balance of 25% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the City. The City currently has an available fund balance of 38% of general fund expenditures, and total fund balance represents 58% of the same amount.

At June 30, 2019, the governmental funds of the City of Marion reported a combined fund balance of \$4,024,084 with a net increase in fund balance of \$22,201. This increase is the result of 1) the general fund increase of \$149,877 (discussed earlier) and 2) a decrease in the capital project fund of (\$127,676) due mainly to the Community Building Park and Stormwater expenditures that exceeded revenues in the amount of \$148,039.



**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 2018-2019 were to increase revenues for 1) increased property tax and sales tax revenues due to growth and increased collections in the amounts of \$68,555 and \$84,895, respectively, 2) the receipt of insurance funds for various losses totaling \$228,317 which included a totaled sanitation truck and two totaled Police patrol vehicles, 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 approximately \$225,000 for items such as replacements for a totaled sanitation collection truck and two totaled patrol vehicles, 2) additional estimated expenses related to the Drexel demolition and cleanup project, 3) expenses related to using off duty officers to staff the City elementary schools with School Resource Officers at all times, 4) the receipt of various unanticipated grants, 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 \$2,196,552 and the total decrease in net position for the Water and Sewer and the Internal Service Funds was (\$36,880) and (\$6,914), 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, 2019, totals \$29,549,342 (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:

- Progress on demolition and cleanup of former Drexel property - \$924,133
- Engineering studies related to the Community Building stormwater repair project - \$96,542
- Purchase of 2 salt spreaders - \$29,565
- Receipt of donated property, including the former Drexel property - \$323,240
- Purchase of Sanitation garbage collection truck - \$236,958
- Purchase of Inspections truck - \$24,034
- Purchase of 5 Police Department vehicles - \$195,823
- Purchase of Sanitation truck - \$29,175
- Progress on construction of Holiday Inn Express water and sewer line extensions - \$320,485
- Purchase of sewer jetter - \$64,084
- Purchase of turbidity meters - \$10,750
- Purchase of 2 wastewater pumps - \$26,584
- Purchase of 4 wheel drive truck with snow plow - \$58,433

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

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,951,369	\$ 1,630,172	\$ 101,245	\$101,245	\$ 2,052,614	\$ 1,731,417
Buildings and system Improvements other than buildings	2,855,493	2,973,092	17,426,191	18,124,069	20,281,684	21,097,161
Equipment and furniture	1,680,928	1,747,900	512,302	538,839	2,193,230	2,286,739
Infrastructure	444,796	569,821	623,431	570,375	1,068,227	1,140,196
Vehicles and motorized equipment	1,741,839	1,806,243	-	-	1,741,839	1,806,243
Construction in progress	594,558	457,548	117,641	114,917	712,199	572,465
Total	1,175,844	153,159	323,705	3,220	1,499,549	156,379
	\$ 10,444,827	\$ 9,337,935	\$ 19,104,515	\$ 19,452,665	\$ 29,549,342	\$ 28,790,600

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

**Long-term Debt.** As of June 30, 2019, the City of Marion had total installment debt outstanding of \$2,684,508. Of this, \$686,922 is debt backed by the full faith and credit of the City. The remainder of the City's debt is secured by the related assets purchased or constructed.

**City of Marion's Outstanding Debt**

The City of Marion's total direct borrowing installment purchases debt and other loans decreased by \$457,828 (15%) during the past fiscal year, due to regularly scheduled principal payments of \$457,828 on existing debt.

**City of Marion's Outstanding Debt**

**Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Direct borrowing installment purchases	\$ 561,988	\$ 705,226	\$ 881,572	\$1,094,170	\$ 1,443,560	\$1,799,396
Direct borrowing USDA loan	554,026	593,571	686,922	749,369	1,240,948	1,342,940
Net pension liability (LGERS)	1,045,026	685,729	277,792	191,948	1,322,818	877,677
Total pension liability (LEOSSA)	684,323	687,673	-	-	684,323	687,673
Total OPEB liability	130,107	137,749	-	-	130,107	137,749
Compensated absences	209,814	187,564	48,696	46,552	258,510	234,116
Total	\$ 3,185,284	\$ 2,997,512	\$ 1,894,982	\$ 2,082,039	\$ 5,080,266	\$ 5,079,551

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 \$36,000,000. The City has \$-0- in bonds authorized but unissued at June 30, 2019.

Additional information regarding the City of Marion's long-term debt can be found in Note 2B - 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 been very steady in recent years and was at 4.4% in August 2019, a rate almost equal to the State average of 4.3% and equal to or below many counties in the region, including Caldwell (4.6%), Cleveland (4.5%), Jackson (4.5%), Mitchell (5.1%), Rutherford (5.5%) and Wilkes (4.6%). As of August 2019, McDowell County had a lower unemployment rate than more than half of North Carolina's 100 counties and McDowell County's unemployment rate was only 1.1% higher than the lowest unemployment rate in North Carolina, which was Buncombe County at 3.3%. The stable 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 11 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 recent years, some new manufacturing companies have opened in the City and some manufacturing plant expansions have taken place in the City. These projects have resulted in 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 sales 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 two years. 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 two years, 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 95% in the past year and will increase even more 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, an arcade/bar, 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 four 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 2018-2019 gross taxable retail sales for McDowell County were 12.50% higher than in 2017-2018, with a record total of \$396,142,610. June 2019 gross taxable retail sales in McDowell County were 26.45% higher than in June 2018, with a record month of \$37,663,849 in sales, a very positive sign of economic growth. Since 2005, gross taxable retail sales in McDowell County have increased by 82.90%, compared to growth of 54.17% 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, action taken by the County in 2018-19 not to extend a Sales Tax Agreement with the City will reduce the sales tax reimbursement from the County to the City by \$185,000 in 2019-20 and by an additional \$100,000 over the next three Fiscal Years. The City's share of the County's sales tax revenues for 2019-20 is 8.41%.

**Property Tax Collection.** The City of Marion's tax collection percentage for property excluding motor vehicles increased to 99.01% in FY 2018-2019 as compared to 98.85% in 2017-2018. 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, 2020**

### **Governmental Activities:**

Growth is expected in overall revenues in the General Fund. The City's property tax base increased modestly due to natural growth and more because of the following two items: 1) the addition of the Mission McDowell Hospital's real property value to the ad valorem tax base, and 2) the octennial property revaluation. The Hospital, which was previously owned by Mission Health (a non-profit organization which was considered exempt from ad valorem taxes), was recently sold to HCA (a for profit organization), resulting in the real property being subject to property taxation in Fiscal Year 2019-2020 and personal property being subject to property taxation in Fiscal Year 2020-2021. The Hospital as a taxable property increased values by approximately \$34.7 million resulting in a City tax levy of approximately \$177,000. As mentioned previously, the County recently completed its octennial property revaluation. There has been a modest increase of 1.89 percent in average annual property values since the last revaluation in 2011. Tax rates were not increased during that time and unavoidable increases in costs were absorbed through either budget decreases in other areas or delayed projects. Growth due to the revaluation increased City property values by approximately 6.6 percent, with a growth in value of approximately \$29.2 million and an increase in levy of approximately \$149,000.

Sales tax revenues are expected to decrease by \$15,000, or one percent, in 2019-20, due to a change in the Interlocal Agreement between the City and McDowell County regarding sales tax

distribution. McDowell County capped the City's sales tax reimbursement from the County for 2019-20 at \$100,000 which resulted in a reduction in City sales tax revenues, as noted above. Retail sales in the City and County have been good in recent years, exceeding the growth in Statewide retail sales for eight of the past thirteen years, and continued growth in local retail sales is expected to continue in 2019-20. Even though sales tax revenues aside from the County sales tax reimbursement are forecasted to increase, that growth is projected to be more than offset by the reduction in the County sales tax reimbursement, resulting in a projected decrease of sales tax revenues of \$15,000 in 2019-20.

ABC profit distributions are expected to increase \$25,000 based on actual 2018-2019 sales and anticipated continued increases in sales. The City increased its residential garbage fee from \$3 per month to \$4 per month per household which is anticipated to result in approximately \$31,000 in additional revenues over the FY 2018-2019 budgeted amount. The City also increased commercial garbage rates 20% to offset increases in County tipping fees. The Marion Area Fire District ad valorem tax rate was increased by \$.02 to \$.08/\$100 of value to help fund the addition of one Fire Engineer in FY 2018-2019 and two Fire Engineers and a part-time Administrative Assistant in FY 2019-2020. Other revenues are expected to remain relatively flat in 2019-2020. The City will use available revenues to finance programs currently in place and will not seek to add new programs and functions for 2019-2020. For the 52<sup>nd</sup> consecutive year, the City of Marion will not increase the property tax rate.

Budgeted expenditures in the General Fund are expected to increase by 9.14% as compared to the original FY 2018-2019 budget to \$7,095,360. This increase is due to several factors including increased capital spending, the addition of three employees, general increases in inflation, and additional proposed spending on various projects.

### **Business-type Activities:**

The water and sewer rates for inside the City and outside customers will increase by approximately 3% in order to provide necessary funds for continued maintenance of the system and to cover overall increases in costs. Expenses in the Water and Sewer Fund will increase by 1.62%, mainly due to the overall increase in costs.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

CITY OF MARION, NORTH CAROLINA

Exhibit 1

Statement of Net Position  
June 30, 2019

	Primary Government			Component Units	
	Governmental	Business-type	Total	City of Marion ABC Board	Municipal Event Center
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 2,674,936	\$ 1,563,515	\$ 4,238,451	\$ 56,310	\$ 10,729
Taxes receivable, net	55,976	-	55,976	-	-
Accrued interest receivable	12,502	-	12,502	-	-
Accounts receivable, net	91,981	515,577	607,558	-	-
Internal balances	59,065	(59,065)	-	-	-
Due from other governments	1,010,719	202,031	1,212,750	-	-
Due from component unit	53,319	-	53,319	-	-
Inventories	79,830	66,508	146,338	496,234	-
Prepaid items	45,921	18,626	64,547	26,287	5,000
Restricted cash	354,827	241,721	596,548	-	-
Total current assets	<u>4,439,076</u>	<u>2,548,913</u>	<u>6,987,989</u>	<u>578,831</u>	<u>15,729</u>
Noncurrent assets:					
Notes receivable	-	118,665	118,665	-	-
Capital assets:					
Land and construction					
in progress	3,127,213	424,950	3,552,163	59,832	-
Other capital assets, net	7,317,614	18,679,565	25,997,179	489,759	126,187
Total capital assets	<u>10,444,827</u>	<u>19,104,515</u>	<u>29,549,342</u>	<u>549,591</u>	<u>126,187</u>
Total noncurrent assets	<u>10,444,827</u>	<u>19,223,180</u>	<u>29,668,007</u>	<u>549,591</u>	<u>126,187</u>
Total assets	<u>14,883,903</u>	<u>21,772,093</u>	<u>36,655,996</u>	<u>1,128,422</u>	<u>141,916</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
	<u>920,027</u>	<u>215,044</u>	<u>1,135,071</u>	<u>41,583</u>	<u>-</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	228,519	162,945	391,464	223,871	-
Accrued interest payable	7,065	1,970	9,035	-	-
Other current liabilities	-	-	-	-	2,500
Liabilities payable from restricted assets:					
Customer deposits	13,232	241,721	254,953	-	4,000
Current portion of					
long-term liabilities	<u>327,211</u>	<u>319,980</u>	<u>647,191</u>	<u>24,300</u>	<u>-</u>
Total current liabilities	<u>576,027</u>	<u>726,616</u>	<u>1,302,643</u>	<u>248,171</u>	<u>6,500</u>

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

Statement of Net Position  
June 30, 2019

	Primary Government			Component Units	
	Governmental	Business-type	Total	City of Marion ABC Board	Municipal Event Center
Long-term liabilities:					
Net pension liability-LGERS	1,045,026	277,792	1,322,818	48,633	-
Total pension liability-LEOSSA	684,323	-	684,323	-	-
Total OPEB liability	130,107	-	130,107	-	-
Due in more than one year	998,617	1,297,210	2,295,827	491,527	-
Total long-term liabilities	2,858,073	1,575,002	4,433,075	540,160	-
Total liabilities	3,434,100	2,301,618	5,735,718	788,331	6,500
<b>DEFERRED INFLOWS OF RESOURCES</b>	87,132	12,011	99,143	3,764	-
<b>NET POSITION</b>					
Net investment in capital assets	9,328,813	17,536,021	26,864,834	33,764	126,187
Restricted for:					
Stabilization by State statute	1,277,195	-	1,277,195	-	-
Streets	189,534	-	189,534	-	-
Public safety	88,745	-	88,745	-	-
Community development	5,883	-	5,883	-	-
Capital projects	59,000	-	59,000	-	-
Working capital	-	-	-	87,400	-
Unrestricted	1,333,528	2,137,487	3,471,015	256,746	9,229
Total net position	\$ 12,282,698	\$ 19,673,508	\$ 31,956,206	\$ 377,910	\$ 135,416

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, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			City of Marion	Municipal
					Governmental	Business-type	Total	ABC Board	Event Center
<b>Primary government:</b>									
Governmental Activities:									
General government	\$ 1,276,583	\$ 408,551	\$ 36,287	\$ 1,287,449	\$ 455,704	\$ -	\$ 455,704		
Public safety	3,381,133	545,064	89,823	589	(2,745,657)	-	(2,745,657)		
Transportation	1,345,558	-	227,840	-	(1,117,718)	-	(1,117,718)		
Environmental protection	704,119	305,814	4,200	-	(394,105)	-	(394,105)		
Cultural and recreation	254,614	44,476	10,000	500	(199,638)	-	(199,638)		
Interest on long-term debt	36,284	-	-	-	(36,284)	-	(36,284)		
Total governmental activities	6,998,291	1,303,905	368,150	1,288,538	(4,037,698)	-	(4,037,698)		
Business-type activities:									
Water and sewer	3,684,617	3,572,687	76,211	156,300	-	120,581	120,581		
Total primary government	\$ 10,682,908	\$ 4,876,592	\$ 444,361	\$ 1,444,838	(4,037,698)	120,581	(3,917,117)		
Component units:									
City of Marion ABC Board	\$ 2,939,630	\$ 2,962,680	\$ -	\$ -			\$ 23,050	\$ -	\$ -
Municipal Events Center	52,129	9,545	53,000	125,000			-	-	135,416
Total component units	\$ 2,991,759	\$ 2,972,225	\$ 53,000	\$ 125,000			23,050	4,849	135,416
General revenues:									
Taxes:									
Property taxes, levied for general purpose					2,446,896	-	2,446,896	-	-
Other taxes					2,354,692	-	2,354,692	-	-
Unrestricted investment earnings					30,812	4,911	35,723	-	-
Gain/insurance proceeds on disposal of capital assets					195,507	8,001	203,508	4,849	-
Miscellaneous					47,103	-	47,103	-	-
Total general revenues					5,075,010	12,912	5,087,922	4,849	-
Transfers					173,000	(173,000)	-	-	-
Total general revenues and transfers					5,248,010	(160,088)	5,087,922	4,849	-
Changes in net position					1,210,312	(39,507)	1,170,805	27,899	135,416
Net position, beginning of year					11,072,386	19,713,015	30,785,401	350,011	-
Net position, ending					\$ 12,282,698	\$ 19,673,508	\$ 31,956,206	\$ 377,910	\$ 135,416

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

## GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2019

	Major Funds		Total Governmental Funds
	General Fund	Capital Project Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,555,804	\$ 119,132	\$ 2,674,936
Restricted cash and cash equivalents	291,511	63,316	354,827
Taxes receivable, net	55,976	-	55,976
Accounts receivable, net	88,063	3,918	91,981
Prepaid items	44,872	-	44,872
Due from other governments	942,461	62,838	1,005,299
Due from other funds	238,667	-	238,667
Due from component unit	53,319	-	53,319
Total assets	<u>\$ 4,270,673</u>	<u>\$ 249,204</u>	<u>\$ 4,519,877</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 213,588	\$ 14,282	\$ 227,870
Due to other funds	-	145,333	145,333
Liabilities payable from restricted assets:			
Customer deposits	13,232	-	13,232
Total liabilities	<u>226,820</u>	<u>159,615</u>	<u>386,435</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>109,358</u>	<u>-</u>	<u>109,358</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	44,872	-	44,872
Restricted for:			
Stabilization by State statute	1,277,195	-	1,277,195
Streets	189,534	-	189,534
Public safety	88,745	-	88,745
Community development	-	5,883	5,883
Capital projects	-	59,000	59,000
Committed for:			
Cemetery	136,071	-	136,071
Capital projects	-	172,745	172,745
Assigned - subsequent year's expenditures	426,608	-	426,608
Unassigned (deficit)	1,771,470	(148,039)	1,623,431
Total fund balances	<u>3,934,495</u>	<u>89,589</u>	<u>4,024,084</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,270,673</u>	<u>\$ 249,204</u>	<u>\$ 4,519,877</u>

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

## GOVERNMENTAL FUNDS

Balance Sheet

June 30, 2019

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

Fund balances of governmental funds	\$ 4,024,084
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	10,437,325
Deferred outflows of resources related to pensions and OPEB are not reported in the funds.	909,787
Accrued interest receivable is not available to pay for current-period expenditures and, therefore, is not reported in the funds.	12,502
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	54,231
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	101,290
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Notes and loans payable	(1,116,014)
Accrued interest	(7,065)
Net pension liability - LGERS	(1,031,798)
Total pension liability - LEOSA	(684,323)
Total OPEB liability	(130,107)
Compensated absences	<u>(208,722)</u>
	(3,178,029)
Deferred inflows of resources related to pension and OPEB are not reported in the funds.	<u>(78,492)</u>
Net position of governmental activities	<u>\$ 12,282,698</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, 2019

	Major Funds		Total Governmental Funds
	General Fund	Capital Project Fund	
<b>REVENUES</b>			
Ad valorem taxes	\$ 2,466,477	\$ -	\$ 2,466,477
Other taxes and licenses	2,354,692	-	2,354,692
Unrestricted intergovernmental	279,313	-	279,313
Restricted intergovernmental	835,505	964,711	1,800,216
Licenses and permits	130,946	-	130,946
Sales and services	366,218	-	366,218
Investment earnings	30,812	-	30,812
Restricted contributions	19,886	3,918	23,804
Miscellaneous	83,959	-	83,959
Total revenues	<u>6,567,808</u>	<u>968,629</u>	<u>7,536,437</u>
<b>EXPENDITURES</b>			
Current:			
General government	963,725	141,249	1,104,974
Public safety	3,287,081	-	3,287,081
Transportation	1,258,470	-	1,258,470
Environmental protection	839,998	-	839,998
Cultural and recreation	183,827	-	183,827
Capital outlay	-	1,020,674	1,020,674
Debt service:			
Principal	182,783	-	182,783
Interest	37,746	-	37,746
Total expenditures	<u>6,753,630</u>	<u>1,161,923</u>	<u>7,915,553</u>
Revenues under expenditures	<u>(185,822)</u>	<u>(193,294)</u>	<u>(379,116)</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from insurance	228,317	-	228,317
Transfers from other funds	173,000	65,618	238,618
Transfers to other funds	(65,618)	-	(65,618)
Total other financing sources	<u>335,699</u>	<u>65,618</u>	<u>401,317</u>
Net change in fund balances	149,877	(127,676)	22,201
Fund balances, beginning of year	<u>3,784,618</u>	<u>217,265</u>	<u>4,001,883</u>
Fund balances, end of year	<u>\$ 3,934,495</u>	<u>\$ 89,589</u>	<u>\$ 4,024,084</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, 2019

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

Net changes in fund balances - total governmental funds	\$	22,201
<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.</p>		
Capital outlay expenditures which were capitalized	\$ 1,574,410	
Depreciation expense for governmental assets	<u>(756,183)</u>	818,227
<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>		
		(32,810)
<p>Contributions to the LGERS pension plan in the current fiscal year are not included in the statement of activities.</p>		
		223,100
<p>Benefit payments paid and administrative expenses for the LEOWSA are not included on the Statement of Activities.</p>		
		27,034
<p>OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities.</p>		
		12,063
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In addition, some revenues reported in the fund statements are not reported as revenues in the statement of activities.</p>		
Donated assets	323,240	
Change in accrued interest receivable on taxes	(4,716)	
Change in unavailable tax revenues	<u>(14,865)</u>	303,659
<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>		
Principal payments on long-term debt	182,783	
Accrued interest expense	<u>1,462</u>	184,245
<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	(21,983)	
Pension expense (LGERS)	(277,004)	
Pension expense (LEO)	(40,390)	
Other postemployment benefits	<u>(3,743)</u>	(343,120)
<p>The change in net position of the internal service fund reported with governmental activities.</p>		
		<u>(4,287)</u>
Total changes in net position of governmental activities	\$	<u>1,210,312</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, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,383,487	\$ 2,452,042	\$ 2,466,477	\$ 14,435
Other taxes	2,145,300	2,230,195	2,354,692	124,497
Unrestricted intergovernmental	216,500	231,500	279,313	47,813
Restricted intergovernmental	724,380	782,880	835,505	52,625
Licenses, permits, and fees	62,100	82,100	130,946	48,846
Sales and services	351,080	353,480	366,218	12,738
Investment earnings	15,000	15,000	30,812	15,812
Restricted contributions	10,195	30,085	19,886	(10,199)
Miscellaneous	49,930	61,180	83,959	22,779
Total revenues	<u>5,957,972</u>	<u>6,238,462</u>	<u>6,567,808</u>	<u>329,346</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	962,200	1,031,879	963,725	68,154
Public safety	3,143,433	3,401,808	3,287,081	114,727
Transportation	1,429,098	1,547,201	1,258,470	288,731
Environmental protection	617,247	881,049	839,998	41,051
Cultural and recreation	128,800	248,691	183,827	64,864
<b>Debt service:</b>				
Principal retirement	182,783	182,783	182,783	-
Interest and other charges	37,747	37,747	37,746	1
Total expenditures	<u>6,501,308</u>	<u>7,331,158</u>	<u>6,753,630</u>	<u>577,528</u>
Revenues under expenditures	<u>(543,336)</u>	<u>(1,092,696)</u>	<u>(185,822)</u>	<u>906,874</u>
<b>Other financing sources (uses):</b>				
Fund balance appropriated	370,336	756,997	-	(756,997)
Proceeds from insurance	-	228,317	228,317	-
Transfer from water and sewer fund	173,000	173,000	173,000	-
Transfer to capital projects fund	-	(65,618)	(65,618)	-
Total other financing sources (uses)	<u>543,336</u>	<u>1,092,696</u>	<u>335,699</u>	<u>(756,997)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	149,877	<u>\$ 149,877</u>
Fund balance, beginning of year			<u>3,784,618</u>	
Fund balance, end of year			<u>\$ 3,934,495</u>	

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

PROPRIETARY FUNDS  
Statement of Fund Net Position  
June 30, 2019

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,563,515	\$ -
Accounts receivable, net	515,577	-
Due from other governments	202,031	5,420
Inventories	66,508	79,830
Prepaid items	18,626	1,049
Restricted cash and cash equivalents	241,721	-
Total current assets	<u>2,607,978</u>	<u>86,299</u>
Noncurrent assets:		
Notes receivable	118,665	-
Capital assets:		
Land and other non-depreciable assets	424,950	-
Other capital assets, net of depreciation	18,679,565	7,502
Capital assets, net	<u>19,104,515</u>	<u>7,502</u>
Noncurrent assets	<u>19,223,180</u>	<u>7,502</u>
Total assets	<u>21,831,158</u>	<u>93,801</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>215,044</u>	<u>10,240</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	162,945	649
Accrued interest payable	1,970	-
Due to general fund	-	93,334
Liabilities payable from restricted assets:		
Customer deposits	241,721	-
Compensated absences, current	39,000	-
Current portion of long-term debt	280,980	-
Total current liabilities	<u>726,616</u>	<u>93,983</u>

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

PROPRIETARY FUNDS  
Statement of Fund Net Position  
June 30, 2019

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
Noncurrent liabilities:		
Compensated absences, net	9,696	1,092
Net pension liability - LGERS	277,792	13,228
Long-term debt, net of current portion	1,287,514	-
Total noncurrent liabilities	<u>1,575,002</u>	<u>14,320</u>
Total liabilities	<u>2,301,618</u>	<u>108,303</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>12,011</u>	<u>572</u>
<b>NET POSITION</b>		
Net investment in capital assets	17,536,021	7,502
Unrestricted	<u>2,196,552</u>	<u>(12,336)</u>
Total net position	<u>\$ 19,732,573</u>	<u>\$ (4,834)</u>
<b>Reconciliation with Statement of Net Position - Business-type Activities:</b>		
Total net position - proprietary fund presentation	\$ 19,732,573	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund	<u>(59,065)</u>	
Net position of business-type activities	<u>\$ 19,673,508</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, 2019

	<b>Major Enterprise Fund Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 3,451,083	\$ 291,858
Water and sewer taps and development fees	68,107	-
Other operating revenue	53,497	-
Total operating revenues	<u>3,572,687</u>	<u>291,858</u>
<b>OPERATING EXPENSES</b>		
Utility line maintenance	1,221,251	-
Water filter plant	543,000	-
Waste treatment plant	909,578	-
Operating expenses	-	54,085
Materials	-	242,922
Insurance and bonding	85,811	-
Miscellaneous	3,438	-
Depreciation	894,589	1,765
Total operating expenses	<u>3,657,667</u>	<u>298,772</u>
Operating loss	<u>(84,980)</u>	<u>(6,914)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
County reimbursements - Sugar Hill	51,968	-
Investment earnings	4,911	-
Gain on sale of capital assets	8,001	-
FEMA grants	24,243	-
Interest on long-term debt	(24,323)	-
Total nonoperating revenue (expense)	<u>64,800</u>	<u>-</u>
Loss before capital contributions and transfers	(20,180)	(6,914)
Capital contributions	156,300	-
Transfer to general fund - payment in lieu of taxes	<u>(173,000)</u>	<u>-</u>
Change in net position	(36,880)	(6,914)
Net position, beginning of year	<u>19,769,453</u>	<u>2,080</u>
Net position (deficit), end of year	<u>\$ 19,732,573</u>	<u>\$ (4,834)</u>
<b>Reconciliation with Statement of Activities - Change in Net Position - Business-type Activities:</b>		
Change in net position - fund perspective	\$ (36,880)	
Internal service fund loss allocated to business-type activities	<u>(2,627)</u>	
Change in net position - government-wide perspective	<u>\$ (39,507)</u>	

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

PROPRIETARY FUNDS  
Statement of Cash Flows  
For the year ended June 30, 2019

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers and users	\$ 3,584,487	\$ 291,858
Cash paid for goods and services	(1,723,538)	(240,675)
Cash paid to or on behalf of employees for services	(1,163,716)	(47,070)
Net cash provided by operating activities	<u>697,233</u>	<u>4,113</u>
<b>Cash flows from noncapital and related financing activities:</b>		
Transfer to General Fund	(173,000)	-
Due to other funds	-	(4,113)
Federal, state and local contributions	<u>76,211</u>	<u>-</u>
Net cash used by noncapital and related financing activities	<u>(96,789)</u>	<u>(4,113)</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(546,439)	-
Capital contribution	156,300	-
Proceeds from the sale of capital assets	8,001	-
Principal payments on long-term debt	(275,045)	-
Interest on long-term debt	<u>(25,192)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(682,375)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>		
Interest received	<u>347</u>	<u>-</u>
Net cash provided by investing activities	<u>347</u>	<u>-</u>
Net decrease in cash and cash equivalents	(81,584)	-
Cash and cash equivalents, beginning of year	<u>1,886,820</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 1,805,236</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, 2019

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Internal Service Fund</b>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (84,980)	\$ (6,914)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	894,589	1,765
Bad debts written off	12,554	-
Changes in assets deferred outflows of resources and liabilities:		
(Increase) decrease in accounts receivable	(1,362)	-
(Increase) decrease in due from other governments	(180,834)	123
(Increase) decrease in inventories	(10,388)	9,924
(Increase) decrease in prepaid items	(14,376)	(475)
(Increase) decrease in deferred outflows of resources - pensions	(72,372)	(2,020)
Increase (decrease) in accounts payable and accrued liabilities	68,185	(469)
Increase (decrease) in customer deposits	608	-
Increase (decrease) in compensated absences	2,144	267
Increase (decrease) in net pension liability	85,844	2,169
Increase (decrease) in deferred inflows of resources - pensions	(2,379)	(257)
Total adjustments	<u>782,213</u>	<u>11,027</u>
Net cash provided by operating activities	<u>\$ 697,233</u>	<u>\$ 4,113</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, 2019

**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 units 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 units, legally-separate entities for which the City is financially accountable. The discretely presented component units presented below are reported in separate columns in the City’s financial statements in order to emphasize that they are 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.

Municipal Event Center

The Municipal Event Center, LLC (Center) was formed as a joint venture between the City of Marion and the McDowell Chamber of Commerce as part of an interlocal agreement for the purpose of developing and operating a municipal event center in Marion, NC to promote economic and community development in Marion and McDowell County. The agreement states that the City and Chamber will operate the Center through the oversight of the Municipal Event Center Alliance which will consist of four voting members – two representatives appointed by the City Council and two representatives appointed by the Chamber Board of Directors – with capital expenditures of \$5,000 or more requiring approval by both the City Council and the Chamber Board. The Center is presented as if it were a proprietary fund (discrete presentation.) Separate financial statements for the Center are not prepared.

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 units. 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 funds:

*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.

*Capital Project Fund.* This fund is used to account for multi-year governmental fund type construction projects to acquire or construct capital assets, as well as multi-year governmental fund type grant projects that are not capital in nature.

The City reports the following major enterprise funds:

*Water and Sewer Fund.* This fund is used to account for the City's water and sewer operations.

*Water and Sewer Capital Reserve Fund.* This fund is used to account for the receipt of system development fees. Transfers from this fund to the Water and Sewer Fund are for authorized expenditures in accordance with General Statutes. The City employed the buy-in method to establish its system development fees. Transfers in the current year were for debt payments related to prior year capital projects which resulted in capacity to serve the new development from which these fees were collected.

*Water and Sewer Capital Project Fund.* This fund is used to account for multi-year water and sewer construction projects to acquire or construct capital assets, as well as multi-year water and sewer grant projects that are not capital in nature. The Water and Sewer Capital Project Fund is consolidated with the Water and Sewer Fund for financial reporting purposes.

Additionally, the City reports the following fund type:

*Internal Service Fund.* The Central Warehouse Fund purchases, 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 Warehouse 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 \$5,000. 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), a SEC registered money market mutual fund allowable by G.S. 159-30(c)(8).

The NCCMT Government Portfolio is a SEC-registered 2a-7 fund maintaining an AAAM rating from S&P. The NCCMT Term Portfolio is a bond fund, has no rating and has a duration of .11 years. Both the NCCMT Government and Term Portfolios are reported at fair value.

2. Cash and Cash Equivalents

All cash and investments of the City are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

The unexpended balances of grants are classified as restricted assets for the 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	\$ 189,534
Public Safety	88,745
Customer deposits	13,232
Capital Project Fund:	
Unspent grant proceeds	<u>63,316</u>
Total governmental activities	<u>354,827</u>

**Business Type Activities**

Water and Sewer Fund:	
Customer deposits	<u>241,721</u>
Total restricted cash	<u>\$ 596,548</u>

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

6. Inventory 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:

<u>Asset Class</u>	<u>Rate</u>
Infrastructure	3%
Maintenance and construction equipment	12%
Vehicles – medium and heavy duty	16%
Furniture and office equipment	10%
Vehicles – automobile and light duty	30%

Property and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

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

Property and equipment of the Center are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	39 years
Furniture and fixtures	5 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 criteria, pension and OPEB related 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 criteria for this category - property taxes receivable, other receivables, prepaid taxes, and pension and OPEB related 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 – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute." Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal

year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of restricted net position on the statement of net position and restricted fund balance on the face of the balance sheet.

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.

Restricted for Capital Projects – portion of fund balance restricted by revenue source for specific capital activities or 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.

The following schedule provides management and citizens with information on the fund balance in the General Fund:

<b>Total Fund Balance - General Fund</b>	<b>\$ 3,934,495</b>
Less:	
Nonspendable - prepaids	44,872
Stabilization by State statute	1,277,195
Streets	189,534
Public safety	88,745
Cemetery	136,071
Appropriated fund balance in next year's budget	426,608
Fund balance policy - 25% of budgeted expenditures	<u>1,771,470</u>
Remaining fund balance	<u>\$ -</u>

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 – 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, 2019, the City’s deposits had a carrying amount of \$3,680,201 and a bank balance of \$3,827,462. 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, 2019, the City’s petty cash fund totaled \$1,850.

At June 30, 2019, the carrying amount of deposits for the ABC Board was \$53,085 and the bank balance was \$105,903. All of the bank balance was covered by Federal depository insurance. At June 30, 2019, the Board’s petty cash fund totaled \$3,225.

2. Investments

At June 30, 2019 the City’s investments consisted of the following:

<b>Investment Type</b>	<b>Valuation Measurement Method</b>	<b>Fair Value</b>	<b>Less Than 6 Months</b>
NCCMT - Term Portfolio	Fair Value-Level 1	\$ 259,012	\$ 259,012
NCCMT - Government Portfolio	Fair Value-Level 1	893,936	893,936
Total investments		\$ 1,152,948	\$ 1,152,948

\* As of June 30, 2019, the NCCMT Term Portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

*Interest Rate Risk.* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The City has no policy regarding credit risk. The City’s investment in the NC Capital Management Trust Government Portfolio carried a rating of AAAM by Standard & Poor’s as of June 30,2019. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

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>\$ 40,000</u>
Enterprise Funds	<u>\$ 106,000</u>

4. Due from Other Governments

Due from other governments consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Local option sales tax	\$ 672,476	\$ -	\$ 672,476
Sales tax refund	50,358	31,267	81,625
Vehicle taxes/tag fees	24,707	-	24,707
Fire district tax	1,075	-	1,075
Franchise/video programming tax	141,310	-	141,310
Solid waste tax	1,579	-	1,579
Federal and State grants	62,838	22,871	85,709
McDowell County	-	147,893	147,893
Other	56,376	-	56,376
	<u>\$ 1,010,719</u>	<u>\$ 202,031</u>	<u>\$ 1,212,750</u>

5. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2019 was as follows:

<b>Governmental Activities</b>	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets not being depreciated:				
Land	\$ 1,630,172	\$ 323,240	\$ 2,043	\$ 1,951,369
Construction in progress	153,159	1,022,685	-	1,175,844
Total capital assets not being depreciated	<u>1,783,331</u>	<u>1,345,925</u>	<u>2,043</u>	<u>3,127,213</u>
Capital assets being depreciated:				
Building improvements	2,955,249	-	-	2,955,249
Buildings	1,652,498	-	-	1,652,498
Equipment	2,422,062	65,734	17,343	2,470,453
Equipment – ISF	28,085	-	-	28,085
Furniture and fixtures	231,985	-	-	231,985
Land improvements	2,191,223	-	-	2,191,223
Vehicles	4,999,156	485,991	303,688	5,181,459
Infrastructure	2,239,230	-	-	2,239,230
Total capital assets being depreciated	<u>16,719,488</u>	<u>551,725</u>	<u>321,031</u>	<u>16,950,182</u>
Less accumulated depreciation for:				
Building improvements	897,051	81,723	-	978,774
Buildings	737,604	35,876	-	773,480
Equipment	1,887,187	179,650	11,981	2,054,856
Equipment – ISF	18,818	1,765	-	20,583
Furniture and fixtures	206,306	3,982	-	210,288
Land improvements	443,323	66,972	-	510,295
Vehicles	4,541,608	323,576	278,283	4,586,901
Infrastructure	432,987	64,404	-	497,391
Total accumulated depreciation	<u>9,164,884</u>	<u>757,948</u>	<u>290,264</u>	<u>9,632,568</u>
Total capital assets being depreciated, net	<u>7,554,604</u>			<u>7,317,614</u>
Governmental activities capital assets, net	<u>\$ 9,337,935</u>			<u>\$10,444,827</u>

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

General government	\$ 163,499
Public safety	277,730
Transportation	116,829
Environmental protection	129,103
Culture and recreation	70,787
Total depreciation expense	<u>\$ 757,948</u>

Capital asset activity for business-type activities for the year ended June 30, 2019 was as follows:

<b>Business-type Activities</b>	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets not being depreciated:				
Land	\$ 101,245	\$ -	\$ -	\$ 101,245
Construction in progress	3,220	320,485	-	323,705
Total capital assets not being depreciated	<u>104,465</u>	<u>320,485</u>	<u>-</u>	<u>424,950</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	24,243,427	-	-	24,243,427
Equipment	1,784,003	167,521	47,494	1,904,030
Furniture and fixtures	647,437	-	-	647,437
Land improvements	1,165,048	-	-	1,165,048
Vehicles	<u>552,071</u>	<u>58,433</u>	<u>-</u>	<u>610,504</u>
Total capital assets being depreciated	<u>35,912,996</u>	<u>225,954</u>	<u>47,494</u>	<u>36,091,456</u>
Less accumulated depreciation for:				
Building improvements	529,727	7,016	-	536,743
Buildings	4,437,029	126,538	-	4,563,567
Water and sewer mains, fittings, and lines	8,673,612	564,324	-	9,237,936
Equipment	1,488,702	101,327	47,494	1,542,535
Furniture and fixtures	372,363	13,138	-	385,501
Land improvements	626,209	26,537	-	652,746
Vehicles	<u>437,154</u>	<u>55,709</u>	<u>-</u>	<u>492,863</u>
Total accumulated depreciation	<u>16,564,796</u>	<u>894,589</u>	<u>47,494</u>	<u>17,411,891</u>
Total capital assets being depreciated, net	<u>19,348,200</u>			<u>18,679,565</u>
Business-type activities capital assets, net	<u>\$19,452,665</u>			<u>\$19,104,515</u>

#### Construction Commitments

The City had the following material construction commitments at June 30, 2019: Demolition and cleanup of the former Drexel facility - \$225,028.



**Discretely Presented Component Unit:**

Activity for the ABC Board for the year ended June 30, 2019 was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets not being depreciated:				
Land	\$ 59,832	\$ -	\$ -	\$ 59,832
Capital assets being depreciated:				
Buildings	691,638	6,689	4,385	693,942
Land improvements	19,493	-	-	19,493
Equipment	243,750	1,325	-	245,075
Total capital assets being depreciated	954,881	8,014	4,385	958,510
Less accumulated depreciation for:				
Buildings	207,254	27,439	3,728	230,965
Land improvements	19,493	-	-	19,493
Equipment	204,405	13,888	-	218,293
Total accumulated depreciation	431,152	41,327	3,728	468,751
Total capital assets being depreciated, net	523,729			489,759
ABC Board capital assets, net	<u>\$ 583,561</u>			<u>\$ 549,591</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, 2019, the loan has been discounted to the present value of \$118,665.

**B. Liabilities**

1. Accounts Payable – Disaggregate Information

	<b>Governmental Business-type</b>		<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	
Vendor payables	\$ 103,073	\$ 145,939	\$ 249,012
Accrued salaries and expenses	125,446	17,006	142,452
Total	<u>\$ 228,519</u>	<u>\$ 162,945</u>	<u>\$ 391,464</u>

## 2. Pension Plan Obligations

### a. Local Governmental Employees' Retirement System

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

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Marion employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Marion's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.84% 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 \$286,026 for the year ended June 30, 2019. Contributions to the pension plan from the ABC Board were \$12,500 for the same period.

*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, 2019, the City reported a liability of \$1,322,818 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2019, the City's proportion was 0.05576%, which was a decrease of 0.00169% from its proportion measured as of June 30, 2018. The ABC Board reported a liability of \$48,633 for its proportionate share of the net pension liability.

For the year ended June 30, 2019, the City recognized pension expense of \$350,914. At June 30, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 204,079	\$ 6,848
Changes of assumptions	351,025	-
Net difference between projected and actual earnings on pension plan investments	181,583	-
Changes in proportion and differences between City contributions and proportionate share of contributions	1,306	50,349
City contributions subsequent to the measurement date	<u>286,026</u>	<u>-</u>
Total	<u>\$ 1,024,019</u>	<u>\$ 57,197</u>

\$286,026 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, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2020	\$ 335,814
2021	213,115
2022	32,696
2023	99,171
2024	-
Thereafter	<u>-</u>
	<u>\$ 680,796</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.50 percent
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan actuary currently uses mortality rates based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table 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, 2017 valuation were based on the results of an actuarial experience study as of 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, 2019 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 2017 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 3.05%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.00%. 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 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
	<b>(6.00%)</b>	<b>Discount Rate</b>	<b>(8.00%)</b>
	<b>(6.00%)</b>	<b>(7.00%)</b>	<b>(8.00%)</b>
City's proportionate share of the net pension liability (asset)	\$ 3,177,523	\$ 1,322,818	\$ (227,003)

*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, 2017 (valuation date), the Separation Allowance’s membership consisted of:

Inactive members receiving benefits	3
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>25</u>
Total	<u><u>28</u></u>

## 2. Summary of Significant Accounting Policies

*Basis of Accounting.* The City has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

## 3. Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate used to measure the total pension liability is S&P Municipal Bond 20 Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2017 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 \$50,383 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, 2019, the City reported a total pension liability of \$684,323. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the City recognized pension expense of \$40,390.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 43,308	\$ -
Changes of assumptions and other inputs	28,647	33,878
City benefit payments and plan administrative expense made subsequent to the measurement date	<u>27,034</u>	<u>-</u>
Total	<u>\$ 98,989</u>	<u>\$ 33,878</u>

\$27,034 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, 2020.

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

<b>Year ended June 30:</b>	
2020	\$ 9,547
2021	9,547
2022	9,547
2023	10,284
2024	(765)
Thereafter	<u>(83)</u>
	<u>\$ 38,077</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 3.64 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 (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	<b>1% Decrease (2.64%)</b>	<b>Current Discount Rate (3.64%)</b>	<b>1% Increase (4.64%)</b>
Total pension liability	\$ 748,717	\$ 684,323	\$ 626,128

**Schedule of Changes in Total Pension Liability**

Total pension liability as of December 31, 2017	\$ 687,673
Changes for the year:	
Service cost at end of year	36,526
Interest	20,934
Change in benefit terms	-
Difference between expected and actual experience	19,681
Changes of assumptions and other inputs	(30,108)
Benefit payments	(50,383)
Other	-
Net changes	<u>(3,350)</u>
Total pension liability as of December 31, 2018	<u>\$ 684,323</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	\$ 350,914	\$ 40,390	\$ 391,304
Pension liability	1,322,818	684,323	2,007,141
Proportionate share of the net pension liability	0.05576%	n/a	
Deferred Outflows of Resources:			
Differences between expected and actual experience	\$ 204,079	\$ 43,308	\$ 247,387
Changes of assumptions	351,025	28,647	379,672
Net difference between projected and actual earnings on plan investments	181,583	-	181,583
Changes in proportion and differences between contributions and proportionate share of contributions	1,306	-	1,306
Benefit payments and administrative costs paid subsequent to the measurement date	<u>286,026</u>	<u>27,034</u>	<u>313,060</u>
	<u>\$ 1,024,019</u>	<u>\$ 98,989</u>	<u>\$ 1,123,008</u>
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 6,848	\$ -	\$ 6,848
Changes of assumptions	-	33,878	33,878
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>50,349</u>	<u>-</u>	<u>50,349</u>
	<u>\$ 57,197</u>	<u>\$ 33,878</u>	<u>\$ 91,075</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 \$55,099 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 \$122,619 for the reporting year. No amounts were forfeited.

## e. Firefighters' and Rescue Squad Workers' Pension Fund

*Plan Description.* The State of North Carolina contributes, on behalf of the City of Marion, to the Firefighter's Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. FRSWPF provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

*Contributions.* Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2018, the State contributed \$17,952,000 to the plan. The City's proportionate share of the State's contribution is \$6,579.

*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, 2019, 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 \$17,898. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 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, 2019 and at June 30, 2018 was 0%.

For the year ended June 30, 2019, the City recognized pension expense of \$5,090 and revenue of \$5,090 for support provided by the State. At June 30, 2019, 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, 2017 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	7.00 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 7.00%. 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 A 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.

*Plan A 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.

*Plan B Description.* During the fiscal year ended June 30, 2005, the City introduced a Retirement Medicare Supplement Incentive Plan for a limited period. Any full-time employee eligible to receive an early service or disability retirement benefit from the North Carolina Local Government Employees’ Retirement System was eligible for this benefit. 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.

*Plan B Benefits Provided.* This Plan consists of Medicare eligible retirees receiving monthly Medicare Supplement J coverage (or similar coverage that is available upon the retiree reaching Medicare eligible age) through the City’s insurance carrier or a monthly payment of \$375 to purchase a supplement for the remainder of the retiree’s life. The plan was effective from May 1, 2005 to December 31, 2005 and required those accepting the offer to retire on or before December 31, 2005. 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	-
Total	<u><u>2</u></u>

**Total OPEB Liability**

The City’s total OPEB liability of \$130,107 was measured as of June 30, 2018 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	3.89%
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, 2018.

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 3.56% to 3.89%.

**Schedule of Changes in Total OPEB Liability**

Total OPEB liability as of June 30, 2018	\$ 137,749
Changes for the year:	
Service cost	-
Interest	4,743
Changes of benefit terms	-
Differences between expected and actual experience	473
Changes in assumptions or other inputs	(3,743)
Benefit payments	(9,115)
Net changes	<u>(7,642)</u>
Total OPEB liability as of June 30, 2019	<u>\$ 130,107</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 (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	1% Decrease (2.89%)	Discount Rate (3.89%)	1% Increase (4.89%)
Total OPEB liability	\$ 142,000	\$ 130,107	\$ 119,736

*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 (4.5%)	Discount Rate (5.5%)	1% Increase (6.5%)
Total OPEB liability	\$ 119,187	\$ 130,107	\$ 142,405

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$3,743. At June 30, 2019, 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	12,063	-
<b>Total</b>	<b>\$ 12,063</b>	<b>\$ -</b>

\$12,063 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, 2020. The City does not have any amounts reported as deferred inflows of resources as of June 30, 2019.

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, 2019 were as follows:

Contributions to pension plan in current fiscal year	\$ 286,026
Benefit payments and admin expenses for LEOSSA made subsequent to measurement date	27,034
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	12,063
Other pension and OPEB deferrals	809,948
	<u>\$ 1,135,071</u>

Deferred inflows of resources at June 30, 2019 were as follows:

	<b>Governmental Funds</b>	<b>Government- Wide</b>
Prepaid taxes (General Fund)	\$ 8,068	\$ 8,068
Taxes receivable, net (General Fund)	55,976	-
Other receivables (General Fund)	45,314	-
Pension deferrals	-	91,075
Total	<u>\$ 109,358</u>	<u>\$ 99,143</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in one self-funded risk financing pool administered by the North Carolina League of Municipalities. Through this pool, the City has workers’ compensation coverage up to statutory limits. The pool is audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

The City carries commercial coverage for risks of loss. The City’s health insurance plan is administered by United Healthcare through a fully-insured plan. The City’s vision, dental, and life insurance plans are administered through the Municipal Insurance Trust. The City maintains 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.

A separate cybersecurity insurance policy for up to \$1,000,000 single and aggregate limit is carried by the City to insure against losses and damages and address major cyber risks such as media liability, security breach liability, replacement or restoration of electronic data, extortion threats, public relations expense, and security breach expense.

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:**

Direct Borrowing Installment Purchases:

During the year ended June 30, 2018, the City entered into a \$112,768 direct borrowing installment purchase to finance a backhoe. Semiannual payments of \$11,916, including interest at 2.03%, began September 5, 2018. The backhoe is pledged as collateral for the debt while the debt is outstanding.	\$ 91,116
During the year ended June 30, 2017, the City entered into a \$171,000 direct borrowing installment purchase to finance a sanitation truck. Semiannual payments of \$18,021, including interest at 1.93%, began July 13, 2017. The truck is pledged as collateral for the debt while the debt is outstanding.	104,564
During the year ended June 30, 2017, the City entered into a \$171,000 direct borrowing installment purchase to finance a sanitation truck. Semiannual payments of \$18,021, including interest at 1.93%, began July 13, 2017. The truck is pledged as collateral for the debt while the debt is outstanding.	82,481
During the year ended June 30, 2015, the City entered into a \$491,571 direct borrowing installment purchase to finance a fire truck. Semiannual payments of \$27,565, including interest at 2.24%, began March 15, 2015. The fire truck is pledged as collateral for the debt while the debt is outstanding.	283,827
Total direct borrowing installment purchases	<u>\$ 561,988</u>

Direct Borrowing USDA Loan:

During the year ended June 30, 2010, the City entered into a \$860,000 USDA community facilities loan to finance an aerial ladder fire truck. Twenty annual payments of \$63,288, including interest at 4.00%, began April 30, 2011. The aerial ladder truck is pledged as collateral for the debt while the debt is outstanding.

\$ 554,026

**Serviced by the Water and Sewer Fund:**Direct Borrowing Installment Purchases:

During the year ended June 30, 2016, the City entered into a \$500,000 direct borrowing installment purchase for the construction of a sewer line extension on Airport Road. Semiannual payments of \$27,666, including interest at 1.97%, began December 28, 2016. The system improvements are pledged as collateral for the debt while the debt is outstanding.

\$ 360,151

During the year ended June 30, 2015, the City entered into a \$470,000 direct borrowing installment purchase to finance the purchase and installation of water meters. Semiannual payments of \$26,269, including interest at 2.17%, began June 19, 2015. The water meters are pledged as collateral for the debt while the debt is outstanding.

270,996

During the year ended June 30, 2011, the City entered into a \$1,102,225 direct borrowing installment purchase to finance the construction of a water and sewer line extension. Forty quarterly payments of \$32,480, including interest at 3.31%, began July 14, 2011. The system improvements are pledged as collateral for the debt while the debt is outstanding.

250,425

Total direct borrowing installment purchases

\$ 881,572

Direct Borrowing CWSRF Loan:

During the year ended June 30, 2010, the City entered into a \$2,503,072 CWSRF loan for the construction of a sanitary sewer project, 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 of the City while the debt is outstanding.

\$ 686,922



At June 30, 2019, the City of Marion had a legal debt margin of approximately \$36,000,000. Annual debt service requirements to maturity for long-term obligations are as follows:

Year Ending	Governmental Activities			
	Direct Borrowing Installment Purchases		Direct Borrowing USDA Loan	
	Principal	Interest	Principal	Interest
June 30				
2020	\$ 146,184	\$ 11,056	\$ 41,127	\$ 22,161
2021	149,190	8,051	42,772	20,516
2022	109,818	5,185	44,483	18,805
2023	75,915	3,048	46,262	17,026
2024	53,620	1,510	48,113	15,175
2025-2029	27,261	305	271,018	45,422
2030	-	-	60,251	2,410
Total	<u>\$ 561,988</u>	<u>\$ 29,155</u>	<u>\$ 554,026</u>	<u>\$ 141,515</u>

Year Ending	Business-Type Activities			
	Direct Borrowing Installment Purchases		Direct Borrowing CWSRF Loan	
	Principal	Interest	Principal	Interest
June 30				
2020	\$ 218,533	\$ 19,256	\$ 62,447	\$ -
2021	224,643	13,146	62,447	-
2022	99,392	8,477	62,447	-
2023	101,459	6,411	62,447	-
2024	103,568	4,301	62,447	-
2025-2029	133,977	2,954	312,235	-
2030	-	2,410	62,452	-
Total	<u>\$ 881,572</u>	<u>\$ 56,955</u>	<u>\$ 686,922</u>	<u>\$ -</u>

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

	<u>Balance</u> <u>7/1/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2019</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
<u>Governmental Activities:</u>					
Direct borrowing installment purchases	\$ 705,226	\$ -	\$ 143,238	\$ 561,988	\$ 146,184
Direct borrowing USDA loan	593,571	-	39,545	554,026	41,127
Total pension liability (LEO)	687,673	-	3,350	684,323	-
Total OPEB liability	137,749	-	7,642	130,107	-
Net pension liability (LGERS)	685,729	359,297	-	1,045,026	-
Compensated absences	187,564	125,347	103,097	209,814	139,900
Total	<u>\$ 2,997,512</u>	<u>\$ 484,644</u>	<u>\$ 296,872</u>	<u>\$ 3,185,284</u>	<u>\$ 327,211</u>
<u>Business-type Activities:</u>					
Direct borrowing installment purchases	\$ 1,094,170	\$ -	\$ 212,598	\$ 881,572	\$ 218,533
Direct borrowing CWSRF loan	749,369	-	62,447	686,922	62,447
Net pension liability (LGERS)	191,948	85,844	-	277,792	-
Compensated absences	46,552	32,586	30,442	48,696	39,000
Total	<u>\$ 2,082,039</u>	<u>\$ 118,430</u>	<u>\$ 305,487</u>	<u>\$ 1,894,982</u>	<u>\$ 319,980</u>
<u>Marion ABC Board:</u>					
Notes payable	<u>\$ 545,940</u>	<u>\$ -</u>	<u>\$ 30,113</u>	<u>\$ 515,827</u>	<u>\$ 24,300</u>

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

8. Interfund Balances and Activity:

Balances due to the General Fund from other funds at June 30, 2019, consist of the following:

Internal Service Fund	\$ 93,334
Capital Project Fund	<u>145,333</u>
Total	<u>\$ 238,667</u>

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

Transfers to/from other funds during the year ended June 30, 2019 consist of the following:

From the Water and Sewer Fund to the General Fund for payments in lieu of taxes	<u>\$ 173,000</u>
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From the General Fund to the Capital Projects Fund for City matching funds for the Drexel building demolition and cleanup capital project	\$ 55,568
From the General Fund to the Capital Projects Fund to fund the community building park/Main Street stormwater capital project	<u>10,050</u>
	<u>\$ 65,618</u>

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

### Note 3 – Summary Disclosure of Significant Contingencies

*Federal and State Assisted Programs* – The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

### Note 4 – Jointly Governed Organization

The City, in conjunction with four counties and twenty other municipalities, established the Isothermal Planning and Development Commission. Participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Commission's governing board. The City paid membership fees of \$6,013 to the Commission during the fiscal year ended June 30, 2019.

### Note 5 – Joint Ventures

The City and the members of the City's fire department each appoint two members to the five-member local Board of Trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local Board of the Firefighter's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the Board of Trustees. During the fiscal year ended June 30, 2019, the City reported revenue and expenditures for the payments of \$9,500 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, 2019. 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.

**REQUIRED SUPPLEMENTARY FINANCIAL DATA**

**CITY OF MARION, NORTH CAROLINA**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LAST TWO FISCAL YEARS**

**Schedule of Changes in the Total OPEB Liability and Related Ratios**

	<u>2019</u>	<u>2018</u>
Service cost	\$ -	\$ -
Interest	4,743	4,341
Changes of benefit terms	-	-
Differences between expected and actual experience	473	967
Changes of assumptions	(3,743)	(7,152)
Benefit payments	<u>(9,115)</u>	<u>(9,152)</u>
Net change in total OPEB liability	<u>(7,642)</u>	<u>(10,996)</u>
Total OPEB liability - beginning	<u>137,749</u>	<u>148,745</u>
Total OPEB liability - ending	<u>\$ 130,107</u>	<u>\$ 137,749</u>
Covered payroll*	\$ -	\$ -
Total OPEB liability a percentage of covered payroll	N/A	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:

<u>Fiscal year</u>	<u>Rate</u>
2018	3.56%
2019	3.89%

\* 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 SIX FISCAL YEARS \*

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<b>Local Governmental Employees' Retirement System</b>						
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportionate share of the net pension liability (asset) (%)	0.05576%	0.05745%	0.05698%	0.06210%	0.05892%	6.02000%
City's proportion of the net pension liability (asset) (\$)	\$ 1,322,818	\$ 877,677	\$ 1,209,306	\$ 278,701	\$ (347,478)	\$ 725,641
City's covered payroll	3,339,620	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 covered payroll	39.61%	26.61%	36.08%	8.56%	( 10.83%)	23.30%
Plan fiduciary net position as a percentage of the total pension liability (asset)	91.63%	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 SIX FISCAL YEARS**

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**Local Governmental Employees' Retirement System**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 286,026	\$ 260,460	\$ 249,331	\$ 231,085	\$ 235,131	\$ 228,621
Contribution in relation to the contractually required contribution	<u>286,026</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 3,555,511	\$ 3,339,620	\$ 3,298,574	\$ 3,351,821	\$ 3,254,764	\$ 3,207,416
Contributions as a percentage of covered payroll	8.04%	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 FIVE FISCAL YEARS \*

**Firefighters' and Rescue Squad Workers' Pension**

	<u>2019</u>	<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%	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>17,898</u>	<u>17,144</u>	<u>12,736</u>	<u>12,644</u>	<u>13,629</u>
Total	<u>\$ 17,898</u>	<u>\$ 17,144</u>	<u>\$ 12,736</u>	<u>\$ 12,644</u>	<u>\$ 13,629</u>
City's covered payroll	\$ 296,412	\$ 250,782	\$ 255,627	\$ 250,678	\$ 244,449
City's proportionate share of the net pension liability as a percentage of its covered payroll	6.04%	6.84%	4.98%	5.04%	5.58%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	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 THREE FISCAL YEARS \***

**Schedule of Changes in Total Pension Liability**

	2019	2018	2017
Beginning balance	\$ 687,673	\$ 590,935	\$ 575,080
Changes for the year:			
Service cost at end of year	36,526	28,315	30,667
Interest	20,934	22,106	20,189
Change in benefit terms	-	-	-
Difference between expected and actual experience	19,681	40,088	-
Changes of assumptions and other inputs	(30,108)	42,723	(15,860)
Benefit payments	(50,383)	(36,494)	(19,141)
Net changes	(3,350)	96,738	15,855
Ending balance of the total pension liability	<u>\$ 684,323</u>	<u>\$ 687,673</u>	<u>\$ 590,935</u>

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

Total Pension Liability	\$ 684,323	\$ 687,673	\$ 590,935
Covered Payroll	1,110,442	981,280	1,121,051
Total pension liability as a percentage of covered payroll	61.63%	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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
<b>Revenues:</b>			
<b>Ad Valorem Taxes:</b>			
Current year taxes	\$ 2,196,487	\$ 2,211,158	\$ 14,671
Prior year taxes	51,000	40,977	(10,023)
Motor vehicle taxes, net	181,000	194,229	13,229
Penalties and interest	<u>23,555</u>	<u>20,113</u>	<u>(3,442)</u>
	<u>2,452,042</u>	<u>2,466,477</u>	<u>14,435</u>
<b>Other Taxes and Licenses:</b>			
Local option sales tax	1,649,895	1,749,959	100,064
Utilities sales tax	530,000	550,542	20,542
Solid waste disposal tax	5,300	6,339	1,039
Licenses and permits	9,000	10,987	1,987
Wine tax	<u>36,000</u>	<u>36,865</u>	<u>865</u>
	<u>2,230,195</u>	<u>2,354,692</u>	<u>124,497</u>
<b>Unrestricted Intergovernmental:</b>			
Court revenue	3,500	4,626	1,126
ABC revenues	140,000	186,554	46,554
Video franchise fees	<u>88,000</u>	<u>88,133</u>	<u>133</u>
	<u>231,500</u>	<u>279,313</u>	<u>47,813</u>
<b>Restricted Intergovernmental:</b>			
Powell Bill allocation	218,000	225,321	7,321
ABC revenue for law enforcement	3,000	7,404	4,404
Parking violations	4,500	3,942	(558)
County fire protection	395,000	403,189	8,189
County recycling	9,200	7,705	(1,495)
NCDOT reimbursements	2,500	2,519	19
Federal drug asset revenue	-	3,043	3,043
DARE fund revenue	6,000	6,000	-
State controlled substance revenue	-	679	679
State of NC fire protection	1,680	2,169	489
McDowell County schools officer	91,000	90,248	(752)
Public safety grants	42,000	12,769	(29,231)
FEMA grants	-	45,927	45,927
Mt. Glory contribution	10,000	10,000	-
On-behalf payments for fire and rescue	<u>-</u>	<u>14,590</u>	<u>14,590</u>
	<u>782,880</u>	<u>835,505</u>	<u>52,625</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, 2019

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive/ (Negative)
License, Permits and Fees:			
City vehicle license	24,000	26,270	2,270
Building permits (zoning and inspections)	58,100	104,676	46,576
	<u>82,100</u>	<u>130,946</u>	<u>48,846</u>
Sales and Services:			
Rents and concessions	38,300	45,560	7,260
Cemetery revenues	6,400	7,620	1,220
Garbage fees	303,180	302,309	(871)
Copies and fingerprints	600	510	(90)
Sale of surplus equipment	5,000	4,755	(245)
	<u>353,480</u>	<u>366,218</u>	<u>12,738</u>
Miscellaneous	<u>61,180</u>	<u>83,959</u>	<u>22,779</u>
Investment earnings	<u>15,000</u>	<u>30,812</u>	<u>15,812</u>
Restricted contributions	<u>30,085</u>	<u>19,886</u>	<u>(10,199)</u>
Total revenues	<u>6,238,462</u>	<u>6,567,808</u>	<u>329,346</u>
Expenditures:			
General government:			
Administration:			
Salaries and employee benefits		723,954	
Operating expenditures		147,569	
Capital outlay		3,913	
Allocation to Water and Sewer		(332,329)	
	<u>557,400</u>	<u>543,107</u>	<u>14,293</u>
Cemetery:			
Operating expenditures		38,401	
	<u>41,550</u>	<u>38,401</u>	<u>3,149</u>
Non-departmental:			
Operating expenditures		382,217	
	<u>432,929</u>	<u>382,217</u>	<u>50,712</u>
Total general government	<u>1,031,879</u>	<u>963,725</u>	<u>68,154</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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
Public safety:			
Police department:			
Salaries and employee benefits		1,702,663	
Operating expenditures		471,429	
Capital outlay		201,823	
	<u>2,454,824</u>	<u>2,375,915</u>	<u>78,909</u>
Fire department:			
Salaries and employee benefits		401,447	
Operating expenditures		191,711	
Capital outlay		13,672	
	<u>625,363</u>	<u>606,830</u>	<u>18,533</u>
Inspections:			
Salaries and employee benefits		223,305	
Operating expenditures		56,996	
Capital outlay		24,035	
	<u>321,621</u>	<u>304,336</u>	<u>17,285</u>
Total public safety	<u>3,401,808</u>	<u>3,287,081</u>	<u>114,727</u>
Transportation:			
Public works administration:			
Salaries and employee benefits		162,672	
Other operating expenditures		22,442	
Capital outlay		7,095	
Allocation to Water and Sewer		(73,039)	
	<u>148,795</u>	<u>119,170</u>	<u>29,625</u>
Street department:			
Salaries and employee benefits		498,964	
Other operating expenditures		413,509	
Capital outlay		29,565	
	<u>1,031,358</u>	<u>942,038</u>	<u>89,320</u>
Powell Bill:			
Other operating expenditures		114,715	
	<u>278,790</u>	<u>114,715</u>	<u>164,075</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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
Fleet maintenance:			
Salaries and employee benefits		109,592	
Other operating expenditures		16,048	
Capital outlay		7,500	
Allocation to Water and Sewer		(50,593)	
	<u>88,258</u>	<u>82,547</u>	<u>5,711</u>
 Total transportation	 <u>1,547,201</u>	 <u>1,258,470</u>	 <u>288,731</u>
Environmental protection:			
Salaries and employee benefits		298,811	
Other operating expenditures		275,054	
Capital outlay		266,133	
	<u>881,049</u>	<u>839,998</u>	<u>41,051</u>
 Total environmental protection	 <u>881,049</u>	 <u>839,998</u>	 <u>41,051</u>
Cultural and recreation:			
Community building and recreation:			
Other operating expenditures		183,827	
	<u>248,691</u>	<u>183,827</u>	<u>64,864</u>
 Total cultural and recreation	 <u>248,691</u>	 <u>183,827</u>	 <u>64,864</u>
Debt service:			
Principal retirement		182,783	
Interest and other charges		37,746	
	<u>220,530</u>	<u>220,529</u>	<u>1</u>
 Total debt service	 <u>220,530</u>	 <u>220,529</u>	 <u>1</u>
 Total expenditures	 <u>7,331,158</u>	 <u>6,753,630</u>	 <u>577,528</u>
 Revenues under expenditures	 <u>(1,092,696)</u>	 <u>(185,822)</u>	 <u>906,874</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, 2019

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	<u>Final Budget</u>	<u>Actual</u>	Variance Positive/ (Negative)
Other Financing Sources (Uses):			
Fund balance appropriated	756,997	-	(756,997)
Proceeds from insurance	228,317	228,317	-
Transfer from water and sewer fund	173,000	173,000	-
Transfer to capital projects funds	<u>(65,618)</u>	<u>(65,618)</u>	<u>-</u>
 Total other financing sources	 <u>1,092,696</u>	 <u>335,699</u>	 <u>(756,997)</u>
 Revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 149,877	 <u>\$ 149,877</u>
 Fund balance, beginning of year		<u>3,784,618</u>	
 Fund balance, end of year		<u>\$ 3,934,495</u>	

**CITY OF MARION, NORTH CAROLINA**

**MAJOR CAPITAL PROJECT FUND**

Combining Balance Sheet

June 30, 2019

	West Marion Forum Group Grant Project	General Grant Projects	Drexel Building		Building Park		Community Building Park/ Main St.		Total Capital Project Fund
			Demolition and Cleanup Capital Project	Playground Equipment Capital Project	Stormwater Capital Project	Stormwater Capital Project			
<b>Assets</b>									
Cash and investments	\$ -	\$ -	\$ 119,132	\$ -	\$ -	\$ -	\$ -	\$ 119,132	
Restricted cash	4,316	-	-	59,000	-	-	-	63,316	
Due from other governments	1,667	500	60,671	-	-	-	-	62,838	
Accounts receivable	3,918	-	-	-	-	-	-	3,918	
Total assets	\$ 9,901	\$ 500	\$ 179,803	\$ 59,000	\$ -	\$ -	\$ -	\$ 249,204	
<b>Liabilities and Fund Balances</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 4,018	\$ -	\$ 7,058	\$ -	\$ -	\$ 3,206	\$ -	14,282	
Due to General Fund	-	500	-	-	-	144,833	-	145,333	
Total liabilities	4,018	500	7,058	-	-	148,039	-	159,615	
<b>Fund balances:</b>									
<b>Restricted:</b>									
Community development Capital projects	5,883	-	-	-	-	-	-	5,883	
Committed: Capital projects	-	-	-	59,000	-	-	-	59,000	
Unassigned (deficit)	-	-	172,745	-	-	-	(148,039)	172,745 (148,039)	
Total fund balances (deficit)	5,883	-	172,745	59,000	-	(148,039)	-	89,589	
Total liabilities and fund balances	\$ 9,901	\$ 500	\$ 179,803	\$ 59,000	\$ -	\$ -	\$ -	\$ 249,204	



**CITY OF MARION, NORTH CAROLINA**

**MAJOR CAPITAL PROJECT FUND**  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 For the year ended June 30, 2019

	West Marion Forum Group Grant Project	General Grant Projects	Drexel Building Demolition and Cleanup Capital Project	Building Park Playground Equipment Capital Project	Community			Total Capital Project Fund
					Building Park/ Main St.	Stormwater Capital Project		
<b>Revenues</b>								
Restricted intergovernmental	\$ -	\$ 500	\$ 964,211	\$ -	\$ -	\$ -	\$ -	\$ 964,711
Other grants and contributions	3,918	-	-	-	-	-	-	3,918
Total revenues	3,918	500	964,211	-	-	-	-	968,629
<b>Expenditures</b>								
Capital outlay:								
Engineering	-	-	-	-	85,383	-	-	85,383
Planning and administration	-	-	25,888	-	11,158	-	-	37,046
Clearance activities	-	-	898,245	-	-	-	-	898,245
Operating:								
Community development	98,449	42,800	-	-	-	-	-	141,249
Total expenditures	98,449	42,800	924,133	-	96,541	-	-	1,161,923
Revenues over (under) expenditures	(94,531)	(42,300)	40,078	-	(96,541)	-	-	(193,294)
<b>Other Financing Sources</b>								
Transfers in	-	-	55,568	-	10,050	-	-	65,618
Net change in fund balance	(94,531)	(42,300)	95,646	-	(86,491)	-	-	(127,676)
Fund balances (deficit), beginning of year	100,414	42,300	77,099	59,000	(61,548)	-	-	217,265
Fund balances (deficit), end of year	\$ 5,883	\$ -	\$ 172,745	\$ 59,000	\$ (148,039)	\$ -	\$ -	\$ 89,589

**CITY OF MARION, NORTH CAROLINA**

GRANT PROJECT - 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, 2019

	Actual through June 30, 2019			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
Kate B Reynolds grant	\$ 344,436	\$ 232,289	\$ 3,918	\$ 236,207
Expenditures:				
Operating-community development	344,436	131,875	98,449	230,324
Net change in fund balance	<u>\$ -</u>	<u>\$ 100,414</u>	(94,531)	<u>\$ 5,883</u>
Fund balance, beginning of year			<u>100,414</u>	
Fund balance, end of year			<u>\$ 5,883</u>	

**CITY OF MARION, NORTH CAROLINA**

**GRANT PROJECT - GENERAL PROJECTS**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
From inception and for the year ended June 30, 2019

	Actual through June 30, 2019			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
NC Recreational Trail Programs Grant	\$ 30,000	-	\$ 500	\$ 500
Contribution from McDowell County	5,300	5,300	-	5,300
Private donations	<u>37,000</u>	<u>37,000</u>	<u>-</u>	<u>37,000</u>
Total revenues	<u>72,300</u>	<u>42,300</u>	<u>500</u>	<u>42,800</u>
Expenditures:				
Operating-community development	<u>72,300</u>	<u>-</u>	<u>42,800</u>	<u>42,800</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 42,300</u>	<u>(42,300)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>42,300</u>	
Fund balance, end of year			<u>\$ -</u>	

**CITY OF MARION, NORTH CAROLINA**

CAPITAL PROJECT - DREXEL BUILDING DEMOLITION AND CLEANUP PROJECT  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 From inception and for the year ended June 30, 2019

	Project Authorization	Actual through June 30, 2019		
		Reported in Prior Years	Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
CDBG	\$ 500,000	\$ -	\$ 417,418	\$ 417,418
NC Rural Center grant	150,000	-	150,000	150,000
NC Department of Commerce - State appropriation	300,000	-	300,000	300,000
McDowell County contribution	180,567	43,711	96,793	140,504
Total revenues	<u>1,130,567</u>	<u>43,711</u>	<u>964,211</u>	<u>1,007,922</u>
Expenditures:				
Planning and administration	47,000	17,140	25,888	43,028
Clearance activities	<u>1,264,135</u>	<u>74,472</u>	<u>898,245</u>	<u>972,717</u>
Total expenditures	<u>1,311,135</u>	<u>91,612</u>	<u>924,133</u>	<u>1,015,745</u>
Revenues over (under) expenditures	<u>(180,568)</u>	<u>(47,901)</u>	<u>40,078</u>	<u>(7,823)</u>
Other Financing Sources:				
Transfers in	<u>180,568</u>	<u>125,000</u>	<u>55,568</u>	<u>180,568</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 77,099</u>	95,646	<u>\$ 172,745</u>
Fund balance, beginning of year			<u>77,099</u>	
Fund balance, end of year			<u>\$ 172,745</u>	

**CITY OF MARION, NORTH CAROLINA**

CAPITAL PROJECT - 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, 2019

	Actual through June 30, 2019			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
Kate B Reynolds grant	\$ -	\$ 59,000	\$ -	\$ 59,000
Expenditures:				
Operating	-	-	-	-
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**

**CAPITAL PROJECT - COMMUNITY BUILDING PARK/MAIN STREET STORMWATER PROJECT**

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

From inception and for the year ended June 30, 2019

	Project Authorization	Actual through June 30, 2019		
		Reported in Prior Years	Current Year	Total to Date
<b>Expenditures:</b>				
Engineering	\$ 184,325	\$ 61,548	\$ 85,383	\$ 146,931
Construction	344,750	-	-	-
Administration	32,500	-	11,158	11,158
Contingency	34,475	-	-	-
Total expenditures	<u>596,050</u>	<u>61,548</u>	<u>96,541</u>	<u>158,089</u>
<b>Other financing sources:</b>				
Transfer from general fund	10,050	-	10,050	10,050
Installment purchase obligations issued	<u>586,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>596,050</u>	<u>-</u>	<u>10,050</u>	<u>10,050</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (61,548)</u>	<u>(86,491)</u>	<u>\$ (148,039)</u>
Fund balance (deficit), beginning of year			<u>(61,548)</u>	
Fund balance (deficit), end of year			<u>\$ (148,039)</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, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>Revenues:</b>			
<b>Operating revenues:</b>			
Water sales	\$ 1,097,600	\$ 1,088,437	\$ (9,163)
Sewer sales	762,200	754,082	(8,118)
Sewer taps	7,500	9,088	1,588
Water taps	10,000	22,239	12,239
Cut-on fees/penalties	110,800	125,067	14,267
Water service charges	968,200	964,858	(3,342)
Sewer service charges	518,090	518,639	549
Other operating income	25,919	53,497	27,578
Total operating revenues	<u>3,500,309</u>	<u>3,535,907</u>	<u>35,598</u>
<b>Non-operating revenues:</b>			
Interest	500	347	(153)
County reimbursements - Sugar Hill	51,968	51,968	-
FEMA grants	-	24,243	24,243
Total non-operating income	<u>52,468</u>	<u>76,558</u>	<u>24,090</u>
Total revenues	<u>3,552,777</u>	<u>3,612,465</u>	<u>59,688</u>
<b>Expenditures:</b>			
<b>Utility line maintenance:</b>			
Salaries and employee benefits		440,770	
Operating expenditures		255,986	
Repairs and maintenance		73,494	
Capital outlay		212,590	
Overhead allocation		455,961	
	<u>1,592,314</u>	<u>1,438,801</u>	<u>153,513</u>
<b>Water filter plant:</b>			
Salaries and employee benefits		235,014	
Operating expenditures		277,288	
Repairs and maintenance		28,316	
Capital outlay		10,750	
	<u>670,127</u>	<u>551,368</u>	<u>118,759</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, 2019

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Water treatment plant:			
Salaries and employee benefits		489,637	
Operating expenditures		337,245	
Repairs and maintenance		77,269	
Capital outlay		64,918	
	<u>1,052,355</u>	<u>969,069</u>	<u>83,286</u>
 Total operating expenditures	 <u>3,314,796</u>	 <u>2,959,238</u>	 <u>355,558</u>
 Miscellaneous	 <u>12,700</u>	 <u>3,438</u>	 <u>9,262</u>
 Debt service:			
Principal retirement		275,045	
Interest		25,192	
	<u>300,240</u>	<u>300,237</u>	<u>3</u>
 Insurance, bonding and workers' compensation	 <u>94,800</u>	 <u>85,811</u>	 <u>8,989</u>
 Total expenditures	 <u>3,722,536</u>	 <u>3,348,724</u>	 <u>373,812</u>
 Revenues over (under) expenditures	 <u>(169,759)</u>	 <u>263,741</u>	 <u>433,500</u>
 Other Financing Sources (Uses):			
Transfer to general fund - payment in lieu of taxes	(173,000)	(173,000)	-
Transfer to capital project fund	(6,130)	-	6,130
Transfer from capital reserve fund	40,000	36,780	(3,220)
Proceeds on sale of capital assets	-	8,001	8,001
Appropriated fund balance	308,889	-	(308,889)
	<u>169,759</u>	<u>(128,219)</u>	<u>(297,978)</u>
 Revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 <u>135,522</u>	 <u>\$ 135,522</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, 2019

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Increase in inventories		10,388	
Interest earned on long-term note receivable		4,564	
Capital outlay		288,258	
Depreciation		(894,589)	
Decrease in accrued interest		869	
Increase in accrued compensated absences		(2,144)	
Principal retirement of debt		275,045	
From Water and Sewer Capital Reserve Fund:			
Water and sewer system development fees		36,780	
Intrafund transfer		(36,780)	
From Water and Sewer Capital Project Fund:			
Capital contributions		156,300	
Contributions to pension plan in the current year		60,065	
Pension expense		(71,158)	
 Total reconciling items		 (172,402)	
 Change in net position		 \$ (36,880)	

CITY OF MARION, NORTH CAROLINA

WATER AND SEWER CAPITAL RESERVE FUND  
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)  
For the year ended June 30, 2019

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	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Water and sewer system development fees	<u>\$ 40,000</u>	<u>\$ 36,780</u>	<u>\$ (3,220)</u>
Other financing uses:			
Transfer to water and sewer fund for debt service	<u>(40,000)</u>	<u>(36,780)</u>	<u>3,220</u>
Revenues over other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MARION, NORTH CAROLINA**

WATER AND SEWER CAPITAL PROJECTS FUND  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 From inception and for the year ended June 30, 2019

	Actual through June 30, 2019			
	Project Authorization	Reported in Prior Years	Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
NC Dept of Commerce- economic infrastructure grant	\$ 60,000	\$ -	\$ 60,000	\$ 60,000
AIA grant	150,000	-	125,040	125,040
Contribution from McDowell County	120,280	-	91,300	91,300
Other revenues:				
Capital Contribution- SAHAS Hospitality	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Total revenues	<u>335,280</u>	<u>-</u>	<u>281,340</u>	<u>281,340</u>
Expenditures:				
NC 226 sewer line extension:				
Engineering	63,600	3,220	47,016	50,236
Professional services	3,000	-	135	135
Construction	227,560	-	210,550	210,550
Contingency	<u>11,400</u>	<u>-</u>	<u>480</u>	<u>480</u>
Total	<u>305,560</u>	<u>3,220</u>	<u>258,181</u>	<u>261,401</u>
AIA waste water project (non-capital):				
Engineering	150,000	-	125,040	125,040
Administrative expenses	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>157,500</u>	<u>-</u>	<u>125,040</u>	<u>125,040</u>
Total expenditures	<u>463,060</u>	<u>3,220</u>	<u>383,221</u>	<u>386,441</u>
Revenues under expenditures	<u>(127,780)</u>	<u>(3,220)</u>	<u>(101,881)</u>	<u>(105,101)</u>
Other Financing Sources:				
Transfer from Water and Sewer	<u>127,780</u>	<u>114,150</u>	<u>-</u>	<u>114,150</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 110,930</u>	<u>\$ (101,881)</u>	<u>\$ 9,049</u>

**CITY OF MARION, NORTH CAROLINA**

CENTRAL WAREHOUSE INTERNAL SERVICE FUND

Schedule of Revenues and Expenditures - Financial Plan and Actual (Non-GAAP)

For the year ended June 30, 2019

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue:			
Sales to other funds	\$ 310,526	\$ 291,858	\$ (18,668)
Expenditures:			
Salaries and employee benefits		46,760	
Operating expenditures		<u>240,164</u>	
Total expenditures	<u>310,526</u>	<u>286,924</u>	<u>23,602</u>
Revenue under expenditures	<u>\$ -</u>	4,934	<u>\$ 4,934</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Decrease in inventories		(9,924)	
Depreciation		(1,765)	
Increase in accrued compensated absences		(267)	
Contributions to pension plan in the current year		2,860	
Pension expense		<u>(2,752)</u>	
Total reconciling items		<u>(11,848)</u>	
Change in net position		<u>\$ (6,914)</u>	

## **OTHER SCHEDULES**

**CITY OF MARION, NORTH CAROLINA**

GENERAL FUND

Schedule of Ad Valorem Taxes Receivable

For the year ended June 30, 2019

Fiscal Year	Uncollected Balance 6/30/2018	Additions	Collections And Credits	Uncollected Balance 6/30/2019
2018-2019	\$ -	\$ 2,449,728	\$ 2,427,422	\$ 22,306
2017-2018	25,748	-	14,369	11,379
2016-2017	18,112	-	7,795	10,317
2015-2016	12,493	-	6,221	6,272
2014-2015	11,553	-	5,069	6,484
2013-2014	12,348	-	4,371	7,977
2012-2013	14,384	-	4,871	9,513
2011-2012	8,714	-	557	8,157
2010-2011	7,691	-	516	7,175
2009-2010	7,129	-	733	6,396
2008-2009 and prior	6,653	-	6,653	-
	\$ 124,825	\$ 2,449,728	\$ 2,478,577	95,976
Less: allowance for uncollectible accounts:				
General Fund				40,000
Ad valorem taxes receivable, net				\$ 55,976
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 2,466,477
Reconciling items:				
Releases				6,024
Discount				9,052
Amounts written off for the 2008 levy per the statute of limitations				6,026
Other				11,111
				2,498,690
Less: interest collected				(20,113)
Total collections and credits				\$ 2,478,577

**CITY OF MARION, NORTH CAROLINA**

GENERAL FUND  
 Analysis of Current Tax Levy  
 For the year ended June 30, 2019

	City-Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate	Total Levy		
Original levy:					
Real	\$ 364,883,958	\$ 0.51	\$ 1,860,910	\$ 1,860,910	\$ -
Personal	102,894,303	0.51	524,761	321,460	203,301
Exemptions	<u>(7,608,958)</u>	0.51	<u>(38,806)</u>	<u>(38,806)</u>	<u>-</u>
Total	<u>460,169,303</u>		<u>2,346,865</u>	<u>2,143,564</u>	<u>203,301</u>
Penalties			<u>4,204</u>	<u>4,204</u>	<u>-</u>
Discoveries:					
Current year taxes:					
Real	213,030	0.51	1,086	1,086	-
Personal	<u>19,131,900</u>	0.51	<u>97,573</u>	<u>97,573</u>	<u>-</u>
Total	<u>19,344,930</u>		<u>98,659</u>	<u>98,659</u>	<u>-</u>
Total property valuation	<u>\$ 479,514,233</u>				
Net levy			2,449,728	2,246,427	203,301
Uncollected taxes at June 30, 2019			<u>22,306</u>	<u>22,306</u>	<u>-</u>
Current year's taxes collected			<u>\$ 2,427,422</u>	<u>\$ 2,224,121</u>	<u>\$ 203,301</u>
Current levy collection percentage			<u>99.09%</u>	<u>99.01%</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***

**Independent Auditors' Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to 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 aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Marion, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the City of Marion's basic financial statements, and have issued our report thereon dated October 30, 2019. 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.

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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 that is 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 30, 2019



**Report On Compliance For Each Major State Program; Report on Internal Control  
Over Compliance; In accordance with OMB Uniform Guidance; and the State Single  
Audit Implementation Act**

**Independent Auditors' Report**

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

Report on Compliance for Each Major State Program

We have audited the City of Marion, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Marion's major state programs for the year ended June 30, 2019. The City of Marion's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Marion's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Government Auditors in North Carolina*, and the and the State Single Audit Implementation Act. Those standards, the OMB Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marion's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the City of Marion's compliance.

### Opinion on Each Major State Program

In our opinion, the City of Marion complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.

### Report on Internal Control Over Compliance

Management of the City of Marion is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Marion's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*David Killian CPA Group, P.A.*

Asheville, North Carolina  
October 30, 2019

**CITY OF MARION, NORTH CAROLINA**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2019

**1. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued on whether the financial statements were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?            Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?            Yes   X   None reported
- Non-compliance material to financial statements noted?            Yes   X   No

**State Awards**

Internal control over major State program:

- Material weakness(es) identified?            Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?            Yes   X   None reported

Type of auditor's report issued on compliance for major state program Unmodified

- Any findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?            Yes   X   No

Identification of major State program:

**Name of State Program**

State Appropriation  
State Rural Grant

**CITY OF MARION, NORTH CAROLINA**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2019

**1. Findings Related to the Audit of the Basic Financial Statements of the City of Marion**

None reported.

**2. State Award Findings and Questioned Costs**

None reported.

**3. Summary of Prior Audit Findings**

None reported.

**CITY OF MARION, NORTH CAROLINA**

Schedule of Expenditures of Federal and State Awards  
For the year ended June 30, 2019

<u>Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Federal (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>
<b>Federal Awards:</b>				
<u>U.S. Department of Housing and Urban Development</u>				
Passed-Through N.C. Department of Commerce: Community Development Block Grant	14.228		\$ 417,418	\$ -
<u>U.S. Department of Transportation</u>				
Passed-Through N.C. Department of Transportation: Governor's Highway Safety Program	20.600		27,430	-
<u>U.S. Department of Homeland Security</u>				
Passed-Through N.C. Department of Public Safety: Public Assistance Program	97.036		70,170	-
Total Federal Awards			\$ 515,018	-
<b>State Awards:</b>				
<u>N.C. Department of Commerce</u>				
State Appropriation		2019-030-1257-1534		300,000
State Rural Grant		2016-072-3213-2587		150,000
Economic Infrastructure		2017-154-3212-2587		60,000
Total N.C. Department of Commerce				510,000
<u>N.C. Department of Transportation</u>				
Powell Bill				117,146
Total State awards				\$ 627,146

**Notes to the Schedule of Expenditures of Federal and State Financial Awards:**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the City of Marion under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 *US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Marion, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Marion.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Marion has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3: Subrecipients**

No amounts were passed to subrecipients by the City of Marion during the year ended June 30, 2019.