

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2006

CITY OF MARION MUNICIPAL UTILITIES

GRANT COUNTY, INDIANA



**FILED**  
06/06/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Director	William M. McElhanev	01-01-06 to 12-31-07
Office Manager	Mendv S. Cox	01-01-06 to 12-31-07
Controller	B. Kay Wildoner Cindy Wright	01-01-06 to 07-18-06 07-19-06 to 12-31-07
Mayor	Wayne W. Seybold	01-01-04 to 12-31-07
President of the Utility Service Board	Robert Logan	01-01-06 to 12-31-07
President of the Board of Public Works and Safety	Ray Harris	01-01-06 to 12-31-07
President of the Common Council	Delmiro Garcia David K. Homer	01-01-06 to 12-31-06 01-01-07 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF MARION MUNICIPAL UTILITIES, GRANT COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the City of Marion Municipal Utilities (Utilities), a department of the City of Marion, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Marion as of December 31, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Utilities, as of December 31, 2006, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities have not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

STATE BOARD OF ACCOUNTS

May 9, 2007

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2006

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 294,501	\$ 258,450	\$ 173,586
Interest receivable	5,006	4,451	3,206
Accounts receivable (net of allowance)	360,620	157,566	292,047
Accounts receivable - other	14,688	9,845	2,429
Inventories	99,392	2,452	24,046
Prepaid items	<u>35,819</u>	<u>26,658</u>	<u>12,080</u>
Total current assets	<u>810,026</u>	<u>459,422</u>	<u>507,394</u>
<b>Noncurrent assets:</b>			
<b>Restricted cash, cash equivalents and investments:</b>			
Depreciation cash and investments	264,648	221,776	145,841
Depreciation equipment reserve cash and investments	-	-	153,201
Bond and interest cash and investments	82,801	-	308,196
Bond and interest reserve cash and investments	397,500	-	555,301
Construction cash and investments	917,271	123,619	123,729
Customer deposits cash and investments	231,268	177,150	-
Quail hollow cash and investments	21,700	-	-
EPA plant replacement cash and investments	<u>-</u>	<u>1,226,809</u>	<u>-</u>
Total restricted assets	<u>1,915,188</u>	<u>1,749,354</u>	<u>1,286,268</u>
Deferred charges	<u>44,848</u>	<u>-</u>	<u>-</u>
<b>Capital assets:</b>			
Land and construction in progress	374,629	249,597	107,574
Other capital assets (net of accumulated depreciation)	<u>17,261,421</u>	<u>25,387,945</u>	<u>14,352,452</u>
Total capital assets	<u>17,636,050</u>	<u>25,637,542</u>	<u>14,460,026</u>
Total noncurrent assets	<u>19,596,086</u>	<u>27,386,896</u>	<u>15,746,294</u>
<b>Total assets</b>	<u>20,406,112</u>	<u>27,846,318</u>	<u>16,253,688</u>
<b><u>Liabilities</u></b>			
<b>Current liabilities:</b>			
Accounts payable	89,129	58,050	15,586
Accrued payroll	23,458	26,931	13,685
Taxes payable	18,997	-	-
Compensated absences	58,353	52,507	37,246
<b>Current liabilities payable from restricted assets:</b>			
Accounts payable	6,145	3,814	10,575
Contracts payable	27,655	7,336	18,530
Customer deposits	231,268	177,150	-
Revenue bonds payable	405,000	-	-
Loan payable	<u>-</u>	<u>-</u>	<u>279,394</u>
Total current liabilities	<u>860,005</u>	<u>325,788</u>	<u>375,016</u>
<b>Noncurrent liabilities:</b>			
Revenue bonds payable (net of unamortized premium and deferred amount on refunding)	1,194,575	-	-
Loan payable	<u>-</u>	<u>-</u>	<u>3,672,884</u>
Total noncurrent liabilities	<u>1,194,575</u>	<u>-</u>	<u>3,672,884</u>
<b>Total liabilities</b>	<u>2,054,580</u>	<u>325,788</u>	<u>4,047,900</u>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	16,036,475	25,637,542	10,507,748
Restricted for debt service	480,301	-	863,497
Unrestricted	<u>1,834,756</u>	<u>1,882,988</u>	<u>834,543</u>
<b>Total net assets</b>	<u>\$ 18,351,532</u>	<u>\$ 27,520,530</u>	<u>\$ 12,205,788</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
For The Year Ended December 31, 2006

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Operating revenues:			
Metered water revenue:			
Residential	\$ 2,388,119	\$ -	\$ -
Commercial	1,127,695	-	-
Industrial	246,328	-	-
Fire protection revenue	758,934	-	-
Penalties	34,575	42,893	34,075
Flat rate revenues	5,424	-	-
Measured revenue:			
Residential	-	1,217,338	627,468
Commercial	-	836,200	1,267,658
Other	<u>28,624</u>	<u>105,698</u>	<u>5,302</u>
 Total operating revenues	 <u>4,589,699</u>	 <u>2,202,129</u>	 <u>1,934,503</u>
Operating expenses:			
Source of supply and expense - operations and maintenance	175,314	-	-
Water treatment expense - operations and maintenance	1,043,906	-	-
Transmission and distribution	578,800	-	-
Collection system - operations and maintenance	-	-	652,205
Treatment and disposal - operations and maintenance	-	1,480,369	-
Customer accounts	334,201	343,722	50,173
Administration and general	435,990	291,869	386,436
Bad debt expense	21,047	6,492	8,563
Depreciation	<u>553,024</u>	<u>699,898</u>	<u>283,275</u>
 Total operating expenses	 <u>3,142,282</u>	 <u>2,822,350</u>	 <u>1,380,652</u>
 Operating income (loss)	 <u>1,447,417</u>	 <u>(620,221)</u>	 <u>553,851</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	93,763	98,479	80,070
Miscellaneous revenue	17,203	1,200	6,670
Gain on sale of asset	2,400	-	75,000
Interest expense	(88,004)	-	(118,551)
Amortization of bond issue costs	<u>(22,424)</u>	<u>-</u>	<u>-</u>
 Total nonoperating revenues (expenses)	 <u>2,938</u>	 <u>99,679</u>	 <u>43,189</u>
 Income (loss) before contributions	 1,450,355	 (520,542)	 597,040
Capital contributions	<u>-</u>	<u>30,991</u>	<u>-</u>
 Change in net assets	 1,450,355	 (489,551)	 597,040
Total net assets - beginning	<u>16,901,177</u>	<u>28,010,081</u>	<u>11,608,748</u>
Total net assets - ending	<u>\$ 18,351,532</u>	<u>\$ 27,520,530</u>	<u>\$ 12,205,788</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,557,317	\$ 2,210,910	\$ 1,861,774
Payments to suppliers and contractors	(1,306,557)	(560,766)	(252,657)
Payments to employees	(1,240,044)	(1,545,908)	(810,620)
Net cash provided by operating activities	<u>2,010,716</u>	<u>104,236</u>	<u>798,497</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(537,453)	(596,968)	(955,542)
Principal paid on capital debt	(795,000)	-	(271,407)
Interest paid on capital debt	(63,042)	-	(118,551)
Nonoperating revenues	9,506	1,200	6,670
Proceeds from sales of capital assets	2,400	-	-
Net cash used by capital and related financing activities	<u>(1,383,589)</u>	<u>(595,768)</u>	<u>(1,338,830)</u>
Cash flows from investing activities:			
Interest received	125,155	150,527	118,901
Net increase (decrease) in cash and cash equivalents	752,282	(341,005)	(421,432)
Cash and cash equivalents, January 1	<u>1,457,407</u>	<u>2,348,809</u>	<u>1,881,286</u>
Cash and cash equivalents, December 31	<u>\$ 2,209,689</u>	<u>\$ 2,007,804</u>	<u>\$ 1,459,854</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,447,417	\$ (620,221)	\$ 553,851
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	553,024	699,898	283,275
Bad debt expense	21,047	6,492	8,563
(Increase) decrease in assets:			
Accounts receivable - customers	(27,715)	11,755	(72,801)
Accounts receivable - other	(4,667)	(2,974)	72
Inventories	(19,397)	147	10,766
Prepaid items	1,030	(3,098)	(160)
Increase (decrease) in liabilities:			
Accounts payable	15,058	6,009	11,072
Accrued payroll	(165)	(3,254)	(1,547)
Taxes payable	5,171	-	-
Compensated absence payable	10,816	(6,513)	5,406
Customer deposits	9,097	15,995	-
Total adjustments	<u>563,299</u>	<u>724,457</u>	<u>244,646</u>
Net cash provided by operating activities	<u>\$ 2,010,716</u>	<u>\$ 104,236</u>	<u>\$ 798,497</u>
Noncash capital and financing activities:			
Capital assets acquired through accounts payable	\$ 6,145	\$ 3,814	\$ -
Capital assets acquired through contracts payable	27,655	7,336	18,530
Capital assets acquired through inventories	20,012	-	-
Capital assets acquired through contributions	-	30,991	-

The notes to the financial statements are an integral part of this statement.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the City of Marion Municipal Utilities (Utilities) and are not intended to present fairly the financial position of the City of Marion (City). The Utilities, whose operations are controlled by the City, represent all of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses 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 enterprise funds are charges to customers for sales and services. 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 nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 1,000	Composite rate	1.5%
Machinery and equipment	1,000	Composite rate	1.5% - 10%
Transportation equipment	1,000	Straight-line	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 7 days per year. Unused sick leave may be accumulated to a maximum of 37 days. Accumulated sick leave is not paid to employees upon termination, but is paid through cash payments upon retirement.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of the current year's entitlement. Accumulated vacation leave is paid to employees through cash payments upon termination/retirement.
- c. Personal Leave – Utility employees earn personal leave at the rate of 6 days per year. Personal leave does not accumulate from year to year.

Vacation and sick leave is accrued when incurred and reported as a liability.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 308,453	\$ -	\$ -	\$ 308,453
Construction in progress	221,923	512,022	667,769	66,176
 Total capital assets, not being depreciated	 530,376	 512,022	 667,769	 374,629
Capital assets, being depreciated:				
Buildings and improvements	21,311,045	657,248	-	21,968,293
Machinery and equipment	5,447,497	73,077	-	5,520,574
Transportation equipment	640,158	16,687	43,327	613,518
 Totals	 27,398,700	 747,012	 43,327	 28,102,385
Less accumulated depreciation for:				
Buildings and improvements	7,786,447	357,985	-	8,144,432
Machinery and equipment	2,108,697	151,931	-	2,260,628
Transportation equipment	436,123	43,108	43,327	435,904
 Totals	 10,331,267	 553,024	 43,327	 10,840,964
 Total capital assets, being depreciated, net	 17,067,433	 193,988	 -	 17,261,421
 Total Water Utility capital assets, net	 \$ 17,597,809	 \$ 706,010	 \$ 667,769	 \$ 17,636,050

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 213,763	\$ -	\$ -	\$ 213,763
Construction in progress	9,345	511,295	484,806	35,834
Total capital assets, not being depreciated	223,108	511,295	484,806	249,597
Capital assets, being depreciated:				
Buildings and improvements	31,570,110	497,854	-	32,067,964
Machinery and equipment	5,933,055	48,597	-	5,981,652
Transportation equipment	728,897	15,051	-	743,948
Totals	38,232,062	561,502	-	38,793,564
Less accumulated depreciation for:				
Buildings and improvements	10,102,389	481,914	-	10,584,303
Machinery and equipment	2,278,565	154,870	-	2,433,435
Transportation equipment	324,767	63,114	-	387,881
Totals	12,705,721	699,898	-	13,405,619
Total capital assets, being depreciated, net	25,526,341	(138,396)	-	25,387,945
Total Wastewater Utility capital assets, net	\$ 25,749,449	\$ 372,899	\$ 484,806	\$ 25,637,542
Storm Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 81,571	\$ -	\$ -	\$ 81,571
Construction in progress	411	807,173	781,581	26,003
Total capital assets, not being depreciated	81,982	807,173	781,581	107,574
Capital assets, being depreciated:				
Buildings and improvements	14,333,462	783,005	-	15,116,467
Machinery and equipment	289,613	17,647	-	307,260
Transportation equipment	590,552	215,128	162,826	642,854
Totals	15,213,627	1,015,780	162,826	16,066,581

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Storm Water Utility (continued):				
Capital assets, being depreciated:				
Less accumulated depreciation for:				
Buildings and improvements	1,207,945	215,563	-	1,423,508
Machinery and equipment	23,010	11,083	-	34,093
Transportation equipment	<u>362,725</u>	<u>56,629</u>	<u>162,826</u>	<u>256,528</u>
Totals	<u>1,593,680</u>	<u>283,275</u>	<u>162,826</u>	<u>1,714,129</u>
Total capital assets, being depreciated, net	<u>13,619,947</u>	<u>732,505</u>	<u>-</u>	<u>14,352,452</u>
Total Storm Water Utility capital assets, net	<u>\$ 13,701,929</u>	<u>\$ 1,539,678</u>	<u>\$ 781,581</u>	<u>\$ 14,460,026</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Water NE 4 well rehabilitation	\$ 59,150	\$ 4,300	\$ 54,850	\$ -
Water filter building remodel	100,000	34,704	65,296	-
Water 26th street tank painting	355,000	4,495	350,505	-
Water STAG grant project	23,000	22,677	323	-
Wastewater LTCP wet weather project	100,000	3,814	96,186	-
Wastewater boots street (11th - 12th)	48,550	32,020	16,530	-
Storm Water STAG grant project	<u>26,925</u>	<u>26,003</u>	<u>922</u>	<u>-</u>
Totals	<u>\$ 712,625</u>	<u>\$ 128,013</u>	<u>\$ 584,612</u>	<u>\$ -</u>

D. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
2003 Waterworks refunding revenue bonds	2.5% to 3%	<u>\$ 1,650,000</u>

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2007	\$ 405,000	\$ 23,737
2008	825,000	31,200
2009	420,000	6,300
Totals	<u>\$ 1,650,000</u>	<u>\$ 61,237</u>

2. Loan Payable

The Storm Water Utility has entered into a State Revolving Fund Loan. Annual debt service requirements to maturity for the loan, including interest of \$727,228, are as follows:

2007	\$ 336,702
2008	394,130
2009	394,252
2010	394,378
2011	394,508
2012-2016	1,974,631
2017-2018	<u>790,905</u>
Total	<u>\$ 4,679,506</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 2,445,000	\$ -	\$ 795,000	\$ 1,650,000	\$ 405,000
Less deferred amount on refunding	(112,510)	-	(37,503)	(75,007)	-
Add bond premium	<u>37,123</u>	-	<u>12,541</u>	<u>24,582</u>	-
Total revenue bonds payable	2,369,613	-	770,038	1,599,575	405,000
Loan payable:					
Storm Water Utility	<u>4,223,685</u>	-	<u>271,407</u>	<u>3,952,278</u>	<u>279,394</u>
Total long-term liabilities	<u>\$ 6,593,298</u>	<u>\$ -</u>	<u>\$ 1,041,445</u>	<u>\$ 5,551,853</u>	<u>\$ 684,394</u>

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water Utility	Wastewater Utility	Storm Water Utility
Customer deposits	\$ 231,268	\$ 177,150	\$ -
Revenue bond debt service accounts	480,301	-	863,497
Revenue bond depreciation account	264,648	-	299,042
Other restricted assets	938,971	1,572,204	123,729
 Total restricted assets	 \$ 1,915,188	 \$ 1,749,354	 \$ 1,286,268

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Postemployment Benefits

In addition to the pension benefits described below, the Utilities provide postemployment health insurance, vision insurance and life insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utilities after qualifying for the pension benefits described below. Currently, three retirees meet these eligibility requirements. The Utilities and retirees provided 62% and 38%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of \$11,434 were recognized for postemployment benefits.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 30, 2005. The Utility has approximately 10,640 customers.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Wastewater Utility

The current rate structure was approved by the Common Council on December 17, 1991. The Utility has approximately 10,620 customers.

3. Storm Water Utility

The current rate structure was approved by the Common Council on November 16, 1994. The Utility has approximately 11,340 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 275,748
Interest on net pension obligation	(13,126)
Adjustment to annual required contribution	14,958
Annual pension cost	277,580
Contributions made	285,272
Decrease in net pension obligation	(7,692)
Net pension obligation, beginning of year	(181,051)
Net pension obligation, end of year	\$ (188,743)
Contribution rates:	
Utilities	5.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 313,953	79%	\$ (179,824)
	06-30-04	266,525	100%	(181,051)
	06-30-05	277,580	107%	(188,743)

CITY OF MARION MUNICIPAL UTILITIES  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 5,792,608	\$ 5,857,789	\$ (65,181)	99%	\$ 5,535,923	(1%)
07-01-04	5,854,545	6,026,559	(172,014)	97%	5,567,291	(3%)
07-01-05	6,079,068	6,935,712	(856,644)	88%	5,630,762	(15%)

Note: Information to segregate the amounts between the City and the Utilities is not available.

CITY OF MARION MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on May 9, 2007, with William M. McElhane, Utilities Director. Our audit disclosed no material items that warrant comment at this time.