

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

EXAMINATION REPORT
OF
CITY OF MARION MUNICIPAL UTILITIES
GRANT COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
10/29/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Statement of Net Assets.....	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7-15
Required Supplementary Information:	
Schedule of Funding Progress	16
Examination Results and Comments:	
Capital Asset Deletions	17
Customer Meter Deposits.....	17
Exit Conference.....	18

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Director	William M. McElhaney	01-01-08 to 12-31-09
Office Manager	Mendy S. Cox	01-01-08 to 12-31-09
Controller	Cindy Wright	01-01-08 to 12-31-09
Mayor	Wayne W. Seybold	01-01-08 to 12-31-11
President of the Utility Service Board	Robert Logan	01-01-08 to 12-31-09
President of the Board of Public Works and Safety	Ray Harris	01-01-08 to 12-31-09
President of the Common Council	Reggial E. Nevels James F. Brunner	01-01-08 to 12-31-08 01-01-09 to 12-31-09



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the City of Marion Municipal Utilities (Utilities), departments of the City of Marion, as of and for the year ended December 31, 2008. The Utilities management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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, 2008, 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, 2008, 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 provide postemployment benefits to eligible retirees through the City of Marion. The City has not provided an actuarial study to determine the annual postemployment benefit costs in accordance with GASB Statement 45.

The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

September 29, 2009

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2008

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Current assets:			
Cash and cash equivalents	\$ 341,432	\$ 131,183	\$ 200,475
Interest receivable	11,684	6,274	7,336
Accounts receivable (net of allowance)	344,257	140,184	474,444
Inventories	114,970	1,296	33,714
Prepaid items	35,225	20,480	9,370
Other accounts receivable	<u>6,172</u>	<u>12,071</u>	<u>4,940</u>
Total current assets	<u>853,740</u>	<u>311,488</u>	<u>730,279</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	420,901	248,863	209,945
Bond and interest cash and investments	114,767	-	271,549
Bond and interest reserve cash and investments	97,500	-	429,920
Construction cash and investments	1,161,765	358,690	418,759
Customer deposits and investments	225,678	192,900	-
Quail Hollow cash and investments	21,700	-	-
EPA cash and investments	-	576,809	-
Equipment reserve cash and investments	<u>-</u>	<u>-</u>	<u>183,201</u>
Total restricted assets	<u>2,042,311</u>	<u>1,377,262</u>	<u>1,513,374</u>
Capital assets:			
Land, improvements to land and construction in progress	929,698	393,609	107,574
Other capital assets (net of accumulated depreciation)	<u>17,808,359</u>	<u>24,558,652</u>	<u>13,129,679</u>
Total capital assets	<u>18,738,057</u>	<u>24,952,261</u>	<u>13,237,253</u>
Total noncurrent assets	<u>20,780,368</u>	<u>26,329,523</u>	<u>14,750,627</u>
Total assets	<u>21,634,108</u>	<u>26,641,011</u>	<u>15,480,906</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	83,049	73,040	23,190
Taxes payable	21,067	-	-
Accrued payroll	32,274	38,049	16,873
Compensated absences	78,082	50,915	27,965
Current liabilities payable from restricted assets:			
Accounts payable	29,530	16,000	-
Contracts payable	21,924	70,937	24,857
Customer deposits	225,678	192,900	-
Loan payable	<u>-</u>	<u>-</u>	<u>296,079</u>
Total current liabilities	491,604	441,841	388,964
Noncurrent liabilities:			
Loan payable	<u>-</u>	<u>-</u>	<u>3,089,189</u>
Total liabilities	<u>491,604</u>	<u>441,841</u>	<u>3,478,153</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	18,738,057	24,952,261	9,851,985
Restricted for debt service	212,267	-	701,469
Unrestricted	<u>2,192,180</u>	<u>1,246,909</u>	<u>1,449,299</u>
Total net assets	<u>\$ 21,142,504</u>	<u>\$ 26,199,170</u>	<u>\$ 12,002,753</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
As Of And For The Year Ended December 31, 2008

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Operating revenues:			
Unmetered water revenue	\$ 14,821	\$ -	\$ -
Measured revenue:			
Residential	2,341,794	1,167,575	625,708
Commercial	1,058,317	702,529	967,888
Industrial	245,864	98,531	319,951
Fire protection revenue	716,582	-	-
Penalties	36,085	44,166	37,299
Other	<u>29,155</u>	<u>96,173</u>	<u>12,343</u>
Total operating revenues	<u>4,442,618</u>	<u>2,108,974</u>	<u>1,963,189</u>
Operating expenses:			
Well operation	105,573	-	-
Well maintenance	111,957	-	-
Water treatment plant operation	639,312	-	-
Water treatment plant maintenance	431,457	-	-
Distribution operation	73,485	-	-
Distribution maintenance	592,589	-	-
Sewer operation	-	-	85,195
Sewer maintenance	-	1,876	545,853
Treatment plant operation	-	906,709	-
Treatment plant maintenance	-	540,099	-
Laboratory expenses	-	219,830	-
Customer accounts	336,156	235,302	54,036
Administrative	464,548	278,783	367,966
Bad debt expense	2,854	-	-
Depreciation	665,464	756,833	286,234
Other	<u>61,239</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>3,484,634</u>	<u>2,939,432</u>	<u>1,339,284</u>
Operating income (loss)	<u>957,984</u>	<u>(830,458)</u>	<u>623,905</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	103,653	68,117	68,173
Miscellaneous revenue	24,365	-	-
Interest expense	(44,955)	-	(102,343)
Amortization of bond issue costs	<u>(22,424)</u>	<u>-</u>	<u>-</u>
Total no operating revenues (expenses)	<u>60,639</u>	<u>68,117</u>	<u>(34,170)</u>
Income (loss) before contributions and prior period adjustment	1,018,623	(762,341)	589,735
Capital contributions	164,110	105,306	119,525
Prior period adjustment (Note III.B)	<u>-</u>	<u>-</u>	<u>(1,475,738)</u>
Change in net assets	1,182,733	(657,035)	(766,478)
Total net assets - beginning	<u>19,959,771</u>	<u>26,856,205</u>	<u>12,769,231</u>
Total net assets - ending	<u>\$ 21,142,504</u>	<u>\$ 26,199,170</u>	<u>\$ 12,002,753</u>

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

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2008

	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,533,479	\$ 2,169,463	\$ 1,866,233
Payments to suppliers and contractors	(1,386,168)	(633,544)	(250,842)
Payments to employees	(1,379,426)	(1,465,097)	(788,593)
Net cash provided by operating activities	<u>1,767,885</u>	<u>70,822</u>	<u>826,798</u>
Cash flows from capital and related financing activities:			
Capital contributions	86,635	81,355	14,225
Acquisition and construction of capital assets	(734,950)	(470,980)	(332,953)
Principal paid on capital debt	(835,000)	-	(287,616)
Interest paid on capital debt	(18,825)	-	(102,343)
Nonoperating receipts	24,365	-	-
Net cash used by capital and related financing activities	<u>(1,477,775)</u>	<u>(389,625)</u>	<u>(708,687)</u>
Cash flows from investing activities:			
Interest received	<u>94,863</u>	<u>64,395</u>	<u>63,055</u>
Net increase (decrease) in cash and cash equivalents	384,973	(254,408)	181,166
Cash and cash equivalents, January 1	<u>1,998,770</u>	<u>1,762,853</u>	<u>1,532,683</u>
Cash and cash equivalents, December 31	<u>\$ 2,383,743</u>	<u>\$ 1,508,445</u>	<u>\$ 1,713,849</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ 957,984</u>	<u>\$ (830,458)</u>	<u>\$ 623,905</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	665,464	756,833	286,234
Bad debt expense	2,854	692	1,190
(Increase) decrease in assets:			
Accounts receivable - customers	93,058	61,077	(93,188)
Accounts receivable - other	(2,197)	(588)	(3,768)
Inventories	(19,176)	1,156	(10,501)
Prepaid items	4,619	3,098	1,973
Increase (decrease) in liabilities:			
Accounts payable	50,452	60,150	15,894
Accrued payroll	9,168	13,697	3,099
Contracts payable	-	-	12,874
Taxes payable	2,597	-	-
Compensated absence payable	12,992	(2,565)	(10,914)
Customer deposits	(9,930)	7,730	-
Total adjustments	<u>809,901</u>	<u>901,280</u>	<u>202,893</u>
Net cash provided by operating activities	<u>\$ 1,767,885</u>	<u>\$ 70,822</u>	<u>\$ 826,798</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through accounts payable	\$ 29,530	\$ 16,000	\$ -
Capital assets acquired through contracts payable	21,924	70,937	9,550
Capital assets acquired through inventories	20,788	-	-
Capital assets acquired through contributions	77,475	23,950	105,300

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.

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

2. Inventories and Prepaid Items

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

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 1,000	Composite rate	1.5% - 20%
Machinery and equipment	1,000	Composite rate	1.5% - 20%
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. Annual Leave – Utility employees earn annual leave at rates from 11 days to 31 days per year based upon the number of years of service. Annual leave may be accumulated to a maximum of the current year's entitlement. Accumulated annual leave is paid to employees through cash payments upon termination/retirement.

Annual 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, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 308,453	\$ -	\$ -	\$ 308,453
Construction in progress	554,296	562,113	495,164	621,245
Total capital assets, not being depreciated	862,749	562,113	495,164	929,698
Capital assets, being depreciated:				
Buildings and improvements	22,880,546	255,043	77,292	23,058,297
Machinery and equipment	5,596,828	516,050	7,861	6,105,017
Transportation equipment	580,808	-	-	580,808
Totals	29,058,182	771,093	85,153	29,744,122
Less accumulated depreciation for:				
Buildings and improvements	8,527,357	461,258	77,292	8,911,323
Machinery and equipment	2,434,380	160,241	7,861	2,586,760
Transportation equipment	393,715	43,965	-	437,680
Totals	11,355,452	665,464	85,153	11,935,763
Total capital assets, being depreciated, net	17,702,730	105,629	-	17,808,359
Total Water Utility capital assets, net	\$ 18,565,479	\$ 667,742	\$ 495,164	\$ 18,738,057

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	9,827	411,687	241,668	179,846
	<u>223,590</u>	<u>411,687</u>	<u>241,668</u>	<u>393,609</u>
Capital assets, being depreciated:				
Buildings and improvements	32,342,406	364,911	700	32,706,617
Machinery and equipment	6,019,134	45,787	556,990	5,507,931
Transportation equipment	753,240	-	-	753,240
	<u>39,114,780</u>	<u>410,698</u>	<u>557,690</u>	<u>38,967,788</u>
Less accumulated depreciation for:				
Buildings and improvements	11,160,230	500,023	700	11,659,553
Machinery and equipment	2,620,742	194,925	556,990	2,258,677
Transportation equipment	429,021	61,885	-	490,906
	<u>14,209,993</u>	<u>756,833</u>	<u>557,690</u>	<u>14,409,136</u>
Total capital assets, being depreciated, net	<u>24,904,787</u>	<u>(346,135)</u>	<u>-</u>	<u>24,558,652</u>
Total Wastewater Utility capital assets, net	<u>\$ 25,128,377</u>	<u>\$ 65,552</u>	<u>\$ 241,668</u>	<u>\$ 24,952,261</u>
Storm Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 81,571	\$ -	\$ -	\$ 81,571
Construction in progress	26,003	279,571	279,571	26,003
	<u>107,574</u>	<u>279,571</u>	<u>279,571</u>	<u>107,574</u>
Capital assets, being depreciated:				
Buildings and improvements	15,526,803	431,336	1,785,073	14,173,066
Machinery and equipment	311,396	10,398	-	321,794
Transportation equipment	642,854	6,069	-	648,923
	<u>16,481,053</u>	<u>447,803</u>	<u>1,785,073</u>	<u>15,143,783</u>
Less accumulated depreciation for:				
Buildings and improvements	1,650,255	207,441	309,335	1,548,361
Machinery and equipment	72,078	20,411	-	92,489
Transportation equipment	314,872	58,382	-	373,254
	<u>2,037,205</u>	<u>286,234</u>	<u>309,335</u>	<u>2,014,104</u>
Total capital assets, being depreciated, net	<u>14,443,848</u>	<u>161,569</u>	<u>1,475,738</u>	<u>13,129,679</u>
Total Storm Water Utility capital assets, net	<u>\$ 14,551,422</u>	<u>\$ 441,140</u>	<u>\$ 1,755,309</u>	<u>\$ 13,237,253</u>

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

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

Water Utility	\$ 665,464
Wastewater Utility	756,833
Storm Water Utility	<u>286,234</u>
 Total depreciation expense	 <u><u>\$ 1,708,531</u></u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed	Required Future Funding
Water Administrative Building Remodel	\$ 401,000	\$ 35,823	\$ 365,177	\$ -
Water STAG Grant Project	965,000	103,914	861,086	-
Water Boots/Spencer/8th Streets	312,000	311,838	162	-
Water 33rd/Meridian Streets	28,278	9,382	18,896	-
Water D/Spencer/4th/Gall Streets	810,000	67,365	742,635	-
Water Crestview/Vickery Lane Project	120,000	33,954	86,046	-
Water Storage Analysis Project	18,000	18,000	-	-
Water Lime Slaker Project	550,000	32,402	517,598	-
Water Meridian Street Tank	300,000	8,567	291,433	-
Wastewater 13th/16th/Forester Sanitary Sewers	280,000	177,846	102,154	-
Wastewater Lyons/Locust Streets	18,500	2,000	16,500	-
Storm Water STAG Grant Project	<u>26,925</u>	<u>26,003</u>	<u>922</u>	<u>-</u>
 Totals	 <u><u>\$ 3,829,703</u></u>	 <u><u>\$ 827,094</u></u>	 <u><u>\$ 3,002,609</u></u>	 <u><u>\$ -</u></u>

D. Leases

Operating Lease

The Water Utility has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a mailing system. Rental expenditures for this lease were \$2,676. The following is a schedule by years of future minimum rental payments as of December 31, 2008:

2009	\$ 2,676
2010	2,676
2011	<u>2,676</u>
 Total	 <u><u>\$ 8,028</u></u>

E. Long-Term Liabilities

1. 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 \$514,320, are as follows:

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

2009	\$ 345,165
2010	394,378
2011	394,508
2012	394,642
2013	394,780
2014-2018	<u>1,976,115</u>
 Total	 <u><u>\$ 3,899,588</u></u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 835,000	\$ -	\$ 835,000	\$ -	\$ -
Less deferred amount on refunding	(37,504)	-	(37,504)	-	-
Add bond premium	<u>11,374</u>	<u>-</u>	<u>11,374</u>	<u>-</u>	<u>-</u>
Total revenue bonds payable	808,870	-	808,870	-	-
Loan payable:					
Storm Water Utility	<u>3,672,884</u>	<u>-</u>	<u>287,616</u>	<u>3,385,268</u>	<u>296,079</u>
Total long-term liabilities	<u><u>\$ 4,481,754</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,096,486</u></u>	<u><u>\$ 3,385,268</u></u>	<u><u>\$ 296,079</u></u>

F. Restricted Assets

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

	Water Utility	Wastewater Utility	Storm Water Utility
Customer deposits	\$ 225,678	\$ 192,900	\$ -
Revenue bond debt service accounts	212,267	-	701,469
Revenue bond depreciation account	420,901	248,863	209,945
Other restricted assets	<u>1,183,465</u>	<u>935,499</u>	<u>601,960</u>
Total restricted assets	<u><u>\$ 2,042,311</u></u>	<u><u>\$ 1,377,262</u></u>	<u><u>\$ 1,513,374</u></u>

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

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. Prior Period Adjustment

In 1995, the Storm Water Utility capitalized \$2,409,073 in assets for a project that was partially funded by the City. The City's portion of the project was \$1,785,073 which was recorded as a contribution by the Utility. During 2008, the Utility discovered that the City's portion was not storm water related. The Storm Water Utility removed the original contributed assets (\$1,785,073) and the related accumulated depreciation (\$309,335) as a \$1,475,738 prior period adjustment.

C. Postemployment Benefits

In addition to the pension benefits described below, the City, including the Utilities, provide post-employment 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, five retirees meet these eligibility requirements. The Utilities and retirees provided 85% and 15%, 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, 2008, expenditures of \$11,495 were recognized for postemployment benefits. The City has not provided an actuarial study to determine the Utilities annual postemployment benefits costs in accordance with GASB Statement 45.

D. 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 11,179 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on December 17, 1991. The Utility has approximately 10,952 customers.

3. Storm Water Utility

The current rate structure was approved by the Common Council on November 16, 1994. The Utility has approximately 12,318 customers.

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

E. 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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 327,907
Interest on net pension obligation	(7,283)
Adjustment to annual required contribution	8,300
Annual pension cost	328,924
Contributions made	350,778
Increase in net pension obligation	(21,854)
Net pension obligation, beginning of year	(100,455)
Net pension obligation, end of year	\$ (122,309)

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

	PERF
Contribution rates:	
Utilities	6.25%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 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	06-30-06	\$ 350,828	89%	\$ (148,938)
	06-30-07	360,253	87%	(100,455)
	06-30-08	328,924	107%	(122,309)

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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 7,154,625	\$ 7,475,880	\$ (321,255)	96%	\$ 5,864,730	(5%)
07-01-07	7,968,267	7,841,775	126,492	102%	5,709,285	2%
07-01-08	8,196,604	8,366,119	(169,515)	98%	5,795,606	(3%)

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

CITY OF MARION MUNICIPAL UTILITIES
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET DELETIONS

The Utilities recorded building renovations and plant improvements (replacements and/or renovations) during the audit period, but corresponding disposals of old building renovations and plant improvements were not recorded. When the Utility disposes of a capital asset, the cost of the asset and the related accumulated depreciation should also be recorded as a deletion. A similar comment appeared in prior Report 32367.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER METER DEPOSITS

Daily deposits were not made for meter deposit collections. These collections were deposited approximately once a week. On July 28, 2009, meter deposit collections on hand totaled \$2,412 which dated back to July 21, 2009.

IC 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

CITY OF MARION MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on September 29, 2009, with William M. McElhane, Utilities Director; Mendy S. Cox, Office Manager; and Robert Logan, President of the Utility Service Board. The officials concurred with our examination findings.