

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, 2009 to December 31, 2009



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Director	William M. McElhaney	01-01-09 to 12-31-10
Office Manager	Mendy S. Cox	01-01-09 to 12-31-10
Controller	Cindy Wright	01-01-09 to 12-31-10
Mayor	Wayne W. Seybold	01-01-08 to 12-31-11
President of the Utility Service Board	Robert J. Logan	01-01-09 to 12-31-10
President of the Board of Public Works and Safety	Ray Harris	01-01-09 to 12-31-10
President of the Common Council	James F. Brunner Madonna French	01-01-09 to 12-31-09 01-01-10 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2009. 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 statement 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, 2009, 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, 2009, 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

June 21, 2010

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
December 31, 2009

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Current assets:			
Cash and cash equivalents	\$ 524,227	\$ 123,663	\$ 166,352
Interest receivable	3,194	1,758	2,477
Accounts receivable (net of allowance)	405,538	165,839	285,727
Inventories	89,757	2,316	34,499
Prepaid items	26,791	26,973	8,889
Other accounts receivable	<u>2,434</u>	<u>19,628</u>	<u>1,898</u>
 Total current assets	 <u>1,051,941</u>	 <u>340,177</u>	 <u>499,842</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	112,402	367,462	280,239
Bond and interest cash and investments	114,767	-	292,013
Bond and interest reserve cash and investments	97,500	-	429,920
Construction cash and investments	948,422	473,266	268,570
Customer deposits cash and investments	231,457	203,660	-
Quail Hollow cash and investments	21,700	-	-
Equipment reserve cash and investments	-	-	208,201
Cash with fiscal agent	<u>31,988</u>	<u>-</u>	<u>-</u>
 Total restricted assets	 <u>1,558,236</u>	 <u>1,044,388</u>	 <u>1,478,943</u>
Capital assets:			
Land, improvements to land and construction in progress	1,765,942	25,000	69,439
Other capital assets (net of accumulated depreciation)	<u>21,901,878</u>	<u>25,506,580</u>	<u>9,437,470</u>
 Total capital assets	 <u>23,667,820</u>	 <u>25,531,580</u>	 <u>9,506,909</u>
 Total noncurrent assets	 <u>25,226,056</u>	 <u>26,575,968</u>	 <u>10,985,852</u>
 Total assets	 <u>26,277,997</u>	 <u>26,916,145</u>	 <u>11,485,694</u>
 <u>Liabilities</u>			
Current liabilities:			
Accounts payable	80,698	64,267	18,369
Taxes payable	19,804	-	-
Accrued payroll and withholdings	43,503	43,472	22,774
Compensated absences	96,609	55,749	46,158
Current liabilities payable from restricted assets:			
Contracts payable	36,325	-	38,524
Customer deposits	231,457	203,660	-
Loan payable	<u>220,000</u>	<u>-</u>	<u>304,792</u>
 Total current liabilities	 728,396	 367,148	 430,617
Noncurrent liabilities:			
Loan payable	<u>-</u>	<u>-</u>	<u>2,784,397</u>
 Total liabilities	 <u>728,396</u>	 <u>367,148</u>	 <u>3,215,014</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	23,667,820	25,531,580	6,417,720
Restricted for debt service	212,267	-	721,933
Unrestricted	<u>1,669,514</u>	<u>1,017,417</u>	<u>1,131,027</u>
 Total net assets	 <u>\$ 25,549,601</u>	 <u>\$ 26,548,997</u>	 <u>\$ 8,270,680</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, 2009

	Water Utility	Wastewater Utility	Storm Water Utility
Operating revenues:			
Unmetered water revenue	\$ 17,340	\$ -	\$ -
Metered revenue:			
Residential	2,305,222	1,145,290	617,034
Commercial	1,093,157	716,151	968,708
Industrial	201,769	81,461	254,880
Fire protection revenue	768,803	-	-
Penalties	36,387	45,115	28,465
Other	42,691	155,822	3,214
	<u>4,465,369</u>	<u>2,143,839</u>	<u>1,872,301</u>
Total operating revenues			
Operating expenses:			
Well - operation	113,945	-	-
Well - maintenance	181,569	-	-
Treatment plant - operation	646,960	950,551	-
Treatment plant - maintenance	412,709	461,313	-
Distribution - operation	78,203	-	-
Distribution - maintenance	547,361	-	-
Sewer - operation	-	-	89,492
Sewer - maintenance	-	-	995,015
Laboratory expenses	-	232,836	-
Customer accounts	312,032	246,134	54,402
Administration and general	479,977	327,443	404,056
Bad debt expense	2,994	2,181	4,545
Depreciation	848,325	940,799	287,615
Miscellaneous expenses	60,179	2,160	-
	<u>3,684,254</u>	<u>3,163,417</u>	<u>1,835,125</u>
Total operating expenses			
Operating income (loss)	<u>781,115</u>	<u>(1,019,578)</u>	<u>37,176</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	34,518	19,446	29,280
Miscellaneous revenue	21,825	-	-
Gain (Loss) on sale of capital assets	(17,962)	8,500	1,718
Interest expense	-	-	(93,880)
	<u>38,381</u>	<u>27,946</u>	<u>(62,882)</u>
Total nonoperating revenues (expenses)			
Income (loss) before contributions and change in accounting estimates	819,496	(991,632)	(25,706)
Capital contributions	832,923	426,315	327,660
Change in accounting estimates (Note III. B)	<u>2,754,678</u>	<u>915,144</u>	<u>(4,034,027)</u>
Change in net assets	4,407,097	349,827	(3,732,073)
Total net assets - beginning	<u>21,142,504</u>	<u>26,199,170</u>	<u>12,002,753</u>
Total net assets - ending	<u>\$ 25,549,601</u>	<u>\$ 26,548,997</u>	<u>\$ 8,270,680</u>

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

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2009

	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,410,611	\$ 2,119,206	\$ 2,059,515
Payments to suppliers and contractors	(1,400,707)	(734,187)	(723,423)
Payments to employees	<u>(1,427,936)</u>	<u>(1,492,279)</u>	<u>(793,751)</u>
Net cash provided (used) by operating activities	<u>1,581,968</u>	<u>(107,260)</u>	<u>542,341</u>
Cash flows from capital and related financing activities:			
Capital contributions	276,629	-	-
Acquisition and construction of capital assets	(2,230,210)	(257,096)	(255,075)
Principal paid on capital debt	-	-	(296,079)
Interest paid on capital debt	-	-	(93,880)
Proceeds from sales of capital assets	5,500	-	-
Nonoperating receipts	<u>21,825</u>	<u>-</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,926,256)</u>	<u>(257,096)</u>	<u>(645,034)</u>
Cash flows from investing activities:			
Interest received	<u>43,008</u>	<u>23,962</u>	<u>34,139</u>
Net decrease in cash and cash equivalents	(301,280)	(340,394)	(68,554)
Cash and cash equivalents, January 1	<u>2,383,743</u>	<u>1,508,445</u>	<u>1,713,849</u>
Cash and cash equivalents, December 31	<u>\$ 2,082,463</u>	<u>\$ 1,168,051</u>	<u>\$ 1,645,295</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 781,115</u>	<u>\$ (1,019,578)</u>	<u>\$ 37,176</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	848,325	940,799	287,615
Bad debt expense	2,994	2,181	4,545
(Increase) decrease in assets:			
Accounts receivable - customers	(64,275)	(27,836)	184,172
Accounts receivable - other	3,738	(7,557)	3,042
Inventories	(30,283)	(1,020)	(785)
Prepaid items	8,434	(6,493)	481
Increase (decrease) in liabilities:			
Accounts payable	(2,352)	(8,773)	(4,821)
Accrued payroll and withholdings	11,229	5,423	5,901
Contracts payable	-	-	6,822
Taxes payable	(1,263)	-	-
Compensated absences	18,527	4,834	18,193
Customer deposits	<u>5,779</u>	<u>10,760</u>	<u>-</u>
Total adjustments	<u>800,853</u>	<u>912,318</u>	<u>505,165</u>
Net cash provided (used) by operating activities	<u>\$ 1,581,968</u>	<u>\$ (107,260)</u>	<u>\$ 542,341</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through loans payable	\$ 220,000	\$ -	\$ -
Capital assets acquired through accounts payable	36,325	-	-
Capital assets acquired through contracts payable	-	-	16,395
Capital assets acquired through inventories	55,496	-	-
Capital asset trade-ins	19,300	8,500	3,450
Contributions of capital assets	556,294	426,315	327,660
Change in capital assets (net of accumulated depreciation) due to change in accounting estimates	2,754,678	915,144	(4,034,027)

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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.

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.

The financial statements report restricted net assets of \$1,558,236; \$1,044,388; and \$1,478,943 for water, wastewater, and storm water, respectively, of which \$1,002,172 is restricted for storm water by enabling legislation.

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	\$ 5,000	Straight Line	50 years
Infrastructure	5,000	Straight Line	15-50 years
Machinery and equipment	5,000	Straight Line	5-20 years
Transportation equipment	5,000	Straight Line	5-10 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.

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

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.

Sick and annual leave are accrued when incurred and reported as a liability.

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

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2009, the Utilities had combined deposit balances in the amount of \$4,895,809.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Statutory Authorization for Investments

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal

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

government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Change in Accounting Estimate	Ending Balance
Water Utility:					
Capital assets, not being depreciated:					
Land	\$ 308,453	\$ -	\$ -	\$ 31,721	\$ 340,174
Construction in progress	621,245	2,302,577	1,498,054	-	1,425,768
Total capital assets, not being depreciated	929,698	2,302,577	1,498,054	31,721	1,765,942
Capital assets, being depreciated:					
Buildings	-	-	-	9,233,721	9,233,721
Infrastructure	-	-	-	33,286,298	33,286,298
Buildings and improvements	23,058,297	1,769,623	-	(24,827,920)	-
Machinery and equipment	6,105,017	399,538	93,292	(5,757,792)	653,471
Transportation equipment	580,808	92,488	66,401	(28,186)	578,709
Totals	29,744,122	2,261,649	159,693	11,906,121	43,752,199
Less accumulated depreciation for:					
Buildings	-	181,207	-	4,794,033	4,975,240
Infrastructure	-	570,175	-	15,610,782	16,180,957
Buildings and improvements	8,911,323	-	-	(8,911,323)	-
Machinery and equipment	2,586,760	55,486	54,576	(2,303,841)	283,829
Transportation equipment	437,680	41,457	62,355	(6,487)	410,295
Totals	11,935,763	848,325	116,931	9,183,164	21,850,321
Total capital assets, being depreciated, net	17,808,359	1,413,324	42,762	2,722,957	21,901,878
Total capital assets, net	\$ 18,738,057	\$ 3,715,901	\$ 1,540,816	\$ 2,754,678	\$ 23,667,820
Wastewater Utility:					
Capital assets, not being depreciated:					
Land	\$ 213,763	\$ -	\$ -	\$ (188,763)	\$ 25,000
Construction in progress	179,846	120,789	300,635	-	-
Total capital assets, not being depreciated	393,609	120,789	300,635	(188,763)	25,000
Capital assets, being depreciated:					
Buildings	-	-	-	22,701,278	22,701,278
Infrastructure	-	-	-	24,768,382	24,768,382
Buildings and improvements	32,706,617	724,790	-	(33,431,407)	-
Machinery and equipment	5,507,931	10,304	-	(5,148,451)	369,784
Transportation equipment	753,240	49,726	33,204	(67,806)	701,956
Totals	38,967,788	784,820	33,204	8,821,996	48,541,400

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

	Beginning Balance	Increases	Decreases	Change in Accounting Estimate	Ending Balance
Wastewater Utility:					
Less accumulated depreciation for:					
Buildings	-	444,510	-	11,769,491	12,214,001
Infrastructure	-	422,752	-	9,562,082	9,984,834
Buildings and improvements	11,659,553	-	-	(11,659,553)	-
Machinery and equipment	2,258,677	10,241	-	(1,934,205)	334,713
Transportation equipment	490,906	63,296	33,204	(19,726)	501,272
	14,409,136	940,799	33,204	7,718,089	23,034,820
Totals					
Total capital assets, being depreciated, net	24,558,652	(155,979)	-	1,103,907	25,506,580
Total capital assets, net	\$ 24,952,261	\$ (35,190)	\$ 300,635	\$ 915,144	\$ 25,531,580
Storm Water Utility:					
Capital assets, not being depreciated:					
Land	\$ 81,571	\$ -	\$ -	\$ (81,571)	\$ -
Construction in progress	26,003	181,836	138,400	-	69,439
	107,574	181,836	138,400	(81,571)	69,439
Total capital assets, not being depreciated					
Capital assets, being depreciated:					
Infrastructure	-	-	-	13,292,486	13,292,486
Buildings and improvements	14,173,066	498,893	-	(14,671,959)	-
Machinery and equipment	321,794	15,096	-	(108,144)	228,746
Transportation equipment	648,923	35,605	34,249	-	650,279
	15,143,783	549,594	34,249	(1,487,617)	14,171,511
Totals					
Less accumulated depreciation for:					
Infrastructure	-	238,614	-	3,879,515	4,118,129
Buildings and improvements	1,548,361	-	-	(1,548,361)	-
Machinery and equipment	92,489	8,996	-	74,776	176,261
Transportation equipment	373,254	40,005	32,517	58,909	439,651
	2,014,104	287,615	32,517	2,464,839	4,734,041
Totals					
Total capital assets, being depreciated, net	13,129,679	261,979	1,732	(3,952,456)	9,437,470
Total capital assets, net	\$ 13,237,253	\$ 443,815	\$ 140,132	\$ (4,034,027)	\$ 9,506,909

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

	2009
Water	\$ 848,325
Wastewater	940,799
Storm Water	287,615
Total depreciation expense	\$ 2,076,739

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2009	
	Expended to December 31,	Committed
Water Utility:		
Water CO2 Rehabilitation Project	\$ 8,209	\$ 20,000
Water STAG Grant Project	789,231	965,000
Water 14th and Virginia Streets	97	90,000
Water 4th and Lenfesty Streets	1,000	40,000
Water Meridian Street Tank	50,087	300,000
Water Storage Analysis Project	18,000	18,000
Water Lime Slaker Project	550,144	570,000
Water SCADA Conversion Project	9,000	70,000
 Totals	 \$ 1,425,768	 \$ 2,073,000
 Storm Water Utility:		
Storm Water STAG Grant Project	\$ 27,004	\$ 29,200
Storm Water	42,435	110,400
 Totals	 \$ 69,439	 \$ 139,600

D. 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 was \$2,676. The following is a schedule by years of future minimum rental payments as of December 31, 2009:

	Water Utility
2010	\$ 2,676
2011	2,676
Total	\$ 5,352

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

E. Short-Term Liabilities

The Water Utility entered into a forgivable loan with the State Revolving Fund Loan program of \$220,000 to finance construction of a water lime slaker. The loan becomes forgivable on July 17, 2010, one year after issuance.

Short-term debt activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Water Utility:				
Forgivable Loan	\$ -	\$ 220,000	\$ -	\$ 220,000

F. 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 \$420,440, are as follows:

	Storm Water Utility	
	Principal	Interest
2010	\$ 304,792	\$ 44,793
2011	313,761	80,748
2012	322,994	71,648
2013	332,498	62,282
2014	342,283	52,639
2015-2019	1,472,861	108,330
Totals	\$ 3,089,189	\$ 420,440

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan payable:					
Storm Water Utility	\$ 3,385,268	\$ -	\$ 296,079	\$ 3,089,189	\$ 304,792

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

G. Restricted Assets

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

	<u>Water</u>	<u>Wastewater</u>	<u>Storm Water</u>
Customer deposits	\$ 231,457	\$ 203,660	\$ -
Bond and interest	-	-	292,013
Bond and interest reserve	-	-	429,920
Depreciation	-	-	280,239
Internally restricted	<u>1,326,779</u>	<u>840,728</u>	<u>476,771</u>
 Total restricted assets	 <u>\$ 1,558,236</u>	 <u>\$ 1,044,388</u>	 <u>\$ 1,478,943</u>

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.

B. Change in Accounting Estimate

The Utilities contracted with a private vendor to perform an inventory and valuation of all capital assets as of December 31, 2009. As a result of the inventory and valuation, adjustments were made to capital assets, depreciation expense, and accumulated depreciation. The adjustments were reported on the Statement of Revenues, Expenses, and Changes in Fund Net Assets as Change in Accounting Estimates.

C. Subsequent Events

The City of Marion borrowed \$1,000,000 in April of 2010 from the Water Utility Construction Fund. The loan is to be repaid by December 31, 2010.

D. Other Postemployment Benefits

Defined Contribution Healthcare Plan

Plan Description

Blue Access Healthcare Plan is a defined contribution healthcare plan administered by Anthem. The plan provides medical benefits to eligible retirees and their spouses. The Utility Service Board assigns the authority to establish and amend benefit provisions to the Utilities.

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

Funding Policy

The contribution requirements of plan members for the Healthcare Plan are established by the Utilities governing board. The Utilities provide eligible retirees medical, vision, and life insurance benefits for six months after retirement at no cost to the retiree. The Utilities will continue to provide 100% of medical benefits to retirees with at least 20 years of service until they are eligible for Medicare. For the year ended December 31, 2009, the Utilities contributed \$23,906 to the plan.

E. 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 11,135 customers.

2. Wastewater Utility

The current rate structure was approved by the Common Council on December 17, 1991. The Utility has approximately 10,906 customers.

3. Storm Water Utility

The current rate structure was approved by the Common Council on November 16, 1994. The Utility has approximately 12,019 customers.

F. 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

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

Funding Policy

PERF members are required to contribute 3% percent of their annual covered salary. The Utilities are required to contribute at an actuarially determined rate; the current rate is 6.25% percent of annual covered payroll. The contribution requirements of plan members and the Utilities are established and may be amended by the PERF Board of Trustees.

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.

Annual Pension Cost

For 2009, the Utilities annual pension cost of \$363,463 for PERF was less than the Utilities required and actual contributions.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	362,225
Interest on net pension obligation		(8,867)
Adjustment to annual required contribution		10,105
Annual pension cost		363,463
Contributions made		377,787
Decrease in net pension obligation		(14,324)
Net pension obligation, beginning of year		(122,309)
Net pension obligation, end of year	\$	(136,633)
Contribution rates:		
Utilities		6.25%
Plan members		3%
Actuarial valuation date		07-01-09
Actuarial cost method		Entry age normal cost
Amortization method		Level dollar, closed amortization period
Amortization period		30 years
Amortization period (from date)		07-01-07
Asset valuation method		75% of expected actuarial value plus 25% of market value

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

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4.00%
Cost-of-living adjustments	1.50%

Three Year Trend Information				
	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-07	\$ 360,253	87%	\$ (100,455)
	06-30-08	328,924	107%	(122,309)
	06-30-09	363,463	104%	(136,633)

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)
07-01-07	\$ 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%)
07-01-09	6,704,775	8,285,035	(1,580,260)	81%	6,285,782	(25%)

CITY OF MARION MUNICIPAL UTILITIES
EXIT CONFERENCE

The contents of this report were discussed on June 21, 2010, with William M. McElhaney, Utilities Director; Mendy S. Cox, Office Manager; and Robert J. Logan, President of the Utility Service Board. Our examination disclosed no material items that warrant comment at this time.