

**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, 2010 to December 31, 2010



**FILED**  
07/18/2011



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OFFICIALS

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



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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, 2010. 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, 2010, 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, 2010, 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 14, 2011

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2010

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Current assets:			
Cash and cash equivalents	\$ 454,364	\$ 191,005	\$ 233,451
Accounts receivable (net of allowance)	337,100	170,844	274,894
Inventories	97,294	2,316	32,192
Prepaid items	37,260	23,577	5,715
Other accounts receivable	<u>2,111</u>	<u>250,589</u>	<u>1,787</u>
 Total current assets	 <u>928,129</u>	 <u>638,331</u>	 <u>548,039</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	242,090	11,593	81,717
Bond and interest cash and investments	114,767	-	289,098
Bond and interest reserve cash and investments	97,500	-	429,920
Construction cash and investments	1,052,178	90,159	375,220
Customer deposits cash and investments	234,982	208,785	-
Quail Hollow cash and investments	21,700	-	-
Equipment reserve cash and investments	-	-	233,201
Cash with fiscal agent	<u>18,485</u>	<u>-</u>	<u>-</u>
 Total restricted assets	 <u>1,781,702</u>	 <u>310,537</u>	 <u>1,409,156</u>
Capital assets:			
Land, improvements to land and construction in progress	825,630	305,543	234,955
Other capital assets (net of accumulated depreciation)	<u>23,160,075</u>	<u>24,678,043</u>	<u>9,159,522</u>
 Total capital assets	 <u>23,985,705</u>	 <u>24,983,586</u>	 <u>9,394,477</u>
 Total noncurrent assets	 <u>25,767,407</u>	 <u>25,294,123</u>	 <u>10,803,633</u>
 Total assets	 <u>26,695,536</u>	 <u>25,932,454</u>	 <u>11,351,672</u>
 <u>Liabilities</u>			
Current liabilities:			
Accounts payable	154,405	214,790	38,012
Taxes payable	19,364	-	-
Accrued payroll and withholdings	46,059	48,965	26,432
Compensated absences	78,667	56,168	42,531
Current liabilities payable from restricted assets:			
Contracts payable	19,540	22,447	28,946
Customer deposits	234,982	208,785	-
Loan payable	<u>-</u>	<u>-</u>	<u>313,761</u>
 Total current liabilities	 553,017	 551,155	 449,682
Noncurrent liabilities:			
Loan payable	<u>-</u>	<u>-</u>	<u>2,470,636</u>
 Total liabilities	 <u>553,017</u>	 <u>551,155</u>	 <u>2,920,318</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	23,985,705	24,983,586	6,610,080
Restricted for debt service	-	-	719,018
Unrestricted	<u>2,156,814</u>	<u>397,713</u>	<u>1,102,256</u>
 Total net assets	 <u>\$ 26,142,519</u>	 <u>\$ 25,381,299</u>	 <u>\$ 8,431,354</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, 2010

	Water Utility	Wastewater Utility	Storm Water Utility
Operating revenues:			
Unmetered water revenue	\$ 18,214	\$ -	\$ -
Measured revenue:			
Residential	2,246,268	1,124,076	619,554
Commercial	1,088,975	718,978	973,412
Industrial	210,679	87,832	302,320
Fire protection revenue	776,865	-	-
Forfeited discounts	38,161	46,265	34,610
Other	34,953	148,305	14,730
	<u>4,414,115</u>	<u>2,125,456</u>	<u>1,944,626</u>
Total operating revenues			
Operating expenses:			
Well - operation	110,840	-	-
Well - maintenance	181,549	-	-
Treatment plant - operation	688,884	1,026,409	-
Treatment plant - maintenance	508,093	706,679	-
Distribution - operation	77,578	-	-
Distribution - maintenance	856,567	-	-
Sewer - operation	-	-	87,289
Sewer - maintenance	-	22,785	688,393
Laboratory expenses	-	266,645	-
Customer accounts	334,567	324,070	62,976
Administration and general	535,320	359,056	477,077
Bad debt expense	34,656	8,124	15,543
Depreciation	923,135	935,046	277,948
Taxes	58,065	-	-
	<u>4,309,254</u>	<u>3,648,814</u>	<u>1,609,226</u>
Total operating expenses			
Operating income (loss)	<u>104,861</u>	<u>(1,523,358)</u>	<u>335,400</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	21,446	8,150	14,093
Miscellaneous revenue	23,979	-	-
Gain (Loss) on disposal of capital assets	9,448	(4,292)	-
Interest expense	-	-	(85,167)
	<u>54,873</u>	<u>3,858</u>	<u>(71,074)</u>
Total nonoperating revenues (expenses)			
Income (loss) before contributions	159,734	(1,519,500)	264,326
Capital contributions	433,184	248,150	-
Capital contributions from Storm Water Utility	-	103,652	(103,652)
	<u>592,918</u>	<u>(1,167,698)</u>	<u>160,674</u>
Change in net assets			
Total net assets - beginning	<u>25,549,601</u>	<u>26,548,997</u>	<u>8,270,680</u>
Total net assets - ending	<u>\$ 26,142,519</u>	<u>\$ 25,381,299</u>	<u>\$ 8,431,354</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, 2010

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,451,745	\$ 2,134,641	\$ 1,940,027
Payments to suppliers and contractors	(1,650,611)	(764,330)	(359,366)
Payments to employees	<u>(1,660,977)</u>	<u>(1,781,483)</u>	<u>(931,213)</u>
Net cash provided (used) by operating activities	<u>1,140,157</u>	<u>(411,172)</u>	<u>649,448</u>
Cash flows from capital and related financing activities:			
Capital contributions	213,184	-	-
Acquisition and construction of capital assets	(1,248,357)	(274,093)	(278,746)
Principal paid on capital debt	-	-	(304,792)
Interest paid on capital debt	-	-	(85,167)
Proceeds from sales of capital assets	-	8,848	-
Nonoperating receipts	<u>23,979</u>	<u>-</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,011,194)</u>	<u>(265,245)</u>	<u>(668,705)</u>
Cash flows from investing activities:			
Interest received	<u>24,640</u>	<u>9,908</u>	<u>16,569</u>
Net increase (decrease) in cash and cash equivalents	153,603	(666,509)	(2,688)
Cash and cash equivalents, January 1	<u>2,082,463</u>	<u>1,168,051</u>	<u>1,645,295</u>
Cash and cash equivalents, December 31	<u>\$ 2,236,066</u>	<u>\$ 501,542</u>	<u>\$ 1,642,607</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 104,861</u>	<u>\$ (1,523,358)</u>	<u>\$ 335,400</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	923,135	935,046	277,948
Bad debt expense	34,656	8,124	15,543
(Increase) decrease in assets:			
Accounts receivable - customers	33,782	(13,129)	(4,710)
Accounts receivable - other	323	17,189	111
Inventories	(7,537)	-	2,307
Prepaid items	(10,469)	3,396	3,174
Increase (decrease) in liabilities:			
Accounts payable	73,707	150,523	19,643
Accrued payroll and withholdings	2,556	5,493	3,658
Taxes payable	(440)	-	-
Compensated absences	(17,942)	419	(3,626)
Customer deposits	3,525	5,125	-
Total adjustments	<u>1,035,296</u>	<u>1,112,186</u>	<u>314,048</u>
Net cash provided (used) by operating activities	<u>\$ 1,140,157</u>	<u>\$ (411,172)</u>	<u>\$ 649,448</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contracts payable	\$ 19,540	\$ 22,447	\$ 28,946
Contribution from loan payable forgiven	220,000	-	-
Contributions through grant receivable	-	248,150	-
Transfer of capital assets	-	103,652	(103,652)

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 \$1,781,702; \$310,537; and \$1,409,156 for water, wastewater, and storm water, respectively, of which \$719,018 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	50 years
Machinery and equipment	5,000	Straight Line	5-20 years
Transportation equipment	5,000	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.

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

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 or 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.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

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, 2010, the Utilities had deposit balances in the amount of \$4,380,215.

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.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utilities may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the Utilities' purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Utilities do not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal investment policy for interest rate risk for investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Utilities do not have a formal investment policy for credit risk for investments.

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The Utilities do not have a formal policy in regards to foreign currency risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

<u>Water Utility:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 340,174	\$ -	\$ -	\$ 340,174
Construction in progress	<u>1,425,768</u>	<u>1,184,007</u>	<u>2,124,319</u>	<u>485,456</u>
Total capital assets, not being depreciated	<u>1,765,942</u>	<u>1,184,007</u>	<u>2,124,319</u>	<u>825,630</u>
Capital assets, being depreciated:				
Buildings	9,233,721	289,577	-	9,523,298
Infrastructure	33,286,298	1,128,590	9,174	34,405,714
Machinery and equipment	653,471	706,152	-	1,359,623
Transportation equipment	<u>578,709</u>	<u>61,860</u>	<u>23,982</u>	<u>616,587</u>
Totals	<u>43,752,199</u>	<u>2,186,179</u>	<u>33,156</u>	<u>45,905,222</u>
Less accumulated depreciation for:				
Buildings	4,975,240	186,998	-	5,162,238
Infrastructure	16,180,957	571,985	4,327	16,748,615
Machinery and equipment	283,829	126,001	-	409,830
Transportation equipment	<u>410,295</u>	<u>38,151</u>	<u>23,982</u>	<u>424,464</u>
Totals	<u>21,850,321</u>	<u>923,135</u>	<u>28,309</u>	<u>22,745,147</u>
Total capital assets, being depreciated, net	<u>21,901,878</u>	<u>1,263,044</u>	<u>4,847</u>	<u>23,160,075</u>
Total capital assets, net	<u>\$ 23,667,820</u>	<u>\$ 2,447,051</u>	<u>\$ 2,129,166</u>	<u>\$ 23,985,705</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Wastewater Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	-	280,543	-	280,543
	<u>25,000</u>	<u>280,543</u>	<u>-</u>	<u>305,543</u>
Total capital assets, not being depreciated				
	25,000	280,543	-	305,543
Capital assets, being depreciated:				
Buildings	22,701,278	-	-	22,701,278
Infrastructure	24,768,382	103,652	8,220	24,863,814
Machinery and equipment	369,784	-	8,100	361,684
Transportation equipment	701,956	15,997	23,000	694,953
	<u>48,541,400</u>	<u>119,649</u>	<u>39,320</u>	<u>48,621,729</u>
Totals				
	48,541,400	119,649	39,320	48,621,729
Less accumulated depreciation for:				
Buildings	12,214,001	444,509	-	12,658,510
Infrastructure	9,984,834	422,446	6,580	10,400,700
Machinery and equipment	334,713	7,542	8,100	334,155
Transportation equipment	501,272	60,549	11,500	550,321
	<u>23,034,820</u>	<u>935,046</u>	<u>26,180</u>	<u>23,943,686</u>
Totals				
	23,034,820	935,046	26,180	23,943,686
Total capital assets, being depreciated, net				
	<u>25,506,580</u>	<u>(815,397)</u>	<u>13,140</u>	<u>24,678,043</u>
Total capital assets, net				
	<u>\$ 25,531,580</u>	<u>\$ (534,854)</u>	<u>\$ 13,140</u>	<u>\$ 24,983,586</u>
<u>Storm Water Utility:</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 69,439	\$ 165,516	\$ -	\$ 234,955
Capital assets, being depreciated:				
Infrastructure	13,292,486	-	594	13,291,892
Machinery and equipment	228,746	-	-	228,746
Transportation equipment	650,279	-	-	650,279
	<u>14,171,511</u>	<u>-</u>	<u>594</u>	<u>14,170,917</u>
Totals				
	14,171,511	-	594	14,170,917
Less accumulated depreciation for:				
Infrastructure	4,118,129	230,443	594	4,347,978
Machinery and equipment	176,261	7,499	-	183,760
Transportation equipment	439,651	40,006	-	479,657
	<u>4,734,041</u>	<u>277,948</u>	<u>594</u>	<u>5,011,395</u>
Totals				
	4,734,041	277,948	594	5,011,395
Total capital assets, being depreciated, net				
	<u>9,437,470</u>	<u>(277,948)</u>	<u>-</u>	<u>9,159,522</u>
Total capital assets, net				
	<u>\$ 9,506,909</u>	<u>\$ (112,432)</u>	<u>\$ -</u>	<u>\$ 9,394,477</u>

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

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

	2010
Water	\$ 923,135
Wastewater	935,046
Storm Water	277,948
Total depreciation expense	\$ 2,136,129

C. Construction Commitments

Construction work in progress is composed of the following:

	2010	
<u>Project</u>	Expended to December 31,	Committed
Water Utility:		
Filter Upgrade	\$ 10,904	\$ 639,096
NE-2 Well Upgrade	18,835	30,165
14th/Nebraska/Wabash/McClure	418,899	51,102
25th/Race/Selby	36,818	1,182
Totals	\$ 485,456	\$ 721,545
Wastewater Utility:		
North Blower Project	\$ 280,543	\$ 10,088
Storm Water Utility:		
Stag Grant Project	\$ 27,004	\$ 18,997
Boots Creek CSO	70,956	39,544
Sewer System Flows	93,019	73,981
14th and Western	23,976	24,024
Horton and Blaine	20,000	20,000
Totals	\$ 234,955	\$ 176,546

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 were \$2,676. The following is a schedule by years of future minimum rental payments as of December 31, 2010:

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

	Water Utility
2011	\$ <u>2,676</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 \$335,273, are as follows:

	Storm Water Utility	
	Principal	Interest
2011	\$ 313,761	\$ 40,374
2012	322,994	71,648
2013	332,498	62,282
2014	342,283	52,639
2015	352,355	42,713
2016-2018	1,120,506	65,617
Totals	\$ 2,784,397	\$ 335,273

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan payable:					
Storm Water Utility	\$ 3,089,189	\$ -	\$ 304,792	\$ 2,784,397	\$ 313,761

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	\$ 234,982	\$ 208,785	\$ -
Bond and interest	-	-	289,098
Bond and interest reserve	-	-	429,920
Internally restricted	1,546,720	101,752	690,138
Total restricted assets	\$ 1,781,702	\$ 310,537	\$ 1,409,156

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

G. Revenues Pledged

The Storm Water Utility has pledged future operating revenues, net of specified operating expenditures, to repay the State Revolving Fund loan received in 2001. Proceeds from the loan provided financing for storm water improvements. The loan is payable solely from net operating revenues and is payable through 2018. Annual principal and interest payments are expected to require less than 20 percent of net revenues.

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 3 years. There were no significant reductions in insurance by major category of risk.

B. 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.

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, 2010, the Utilities contributed \$14,528 to the plan.

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 11,134 customers.

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

2. Wastewater Utility

The current rate structure was approved by the City of Marion Common Council on February 15, 2011. The Utility has approximately 10,910 customers.

3. Storm Water Utility

The current rate structure was approved by the City of Marion Common Council on November 16, 1994. The Utility has approximately 12,005 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 three percent 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

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 2010, the Utilities' annual pension cost of \$156,331 for PERF was equal to the Utilities' required and actual contributions.

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

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

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  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of July 1, 2009, the most recent actuarial valuation date is as follows:

	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)
PERF	\$ 6,704,775	\$ 8,285,035	\$ (1,580,260)	81%	\$ 6,285,782	(25%)

The Schedule of Funding Progress, presented as RSI for the above plan following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 14, 2011, with William M. McElhaney, Utilities Director; Robert J. Logan, President of the Utility Service Board; and Marjorie Miller, Accounting Bookkeeper. Our examination disclosed no material items that warrant comment at this time.