

**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, 2011 to December 31, 2011



**FILED**  
11/19/2012



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Director	William M. McElhaney	01-01-11 to 12-31-12
Office Manager	Mendy S. Cox	01-01-11 to 12-31-12
Controller	Cindy Wright	01-01-11 to 12-31-12
Mayor	Wayne W. Seybold	01-01-08 to 12-31-15
President of the Utility Service Board	Robert J. Logan	01-01-11 to 12-31-12
President of the Board of Public Works and Safety	Ray Harris Thomas J. Reto	01-01-11 to 11-26-11 11-27-11 to 12-31-12
President of the Common Council	Bradley N. Luzadder Donald W. Batchelor	01-01-11 to 12-31-11 01-01-12 to 12-31-12



**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 Water Utility, Wastewater Utility, and Storm Water Utility, major enterprise funds and departments of the City of Marion (Utilities), as of and for the year ended December 31, 2011. 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 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, 2011, 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 Utilities, as of December 31, 2011, 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 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

August 27, 2012

CITY OF MARION MUNICIPAL UTILITIES  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 629,952	\$ 207,581	\$ 160,832
Accounts receivable (net of allowance)	406,179	305,406	297,168
Inventories	112,883	4,356	31,379
Prepaid items	34,324	24,014	7,152
Other accounts receivable	13,519	3,535	2,093
	<u>1,196,857</u>	<u>544,892</u>	<u>498,624</u>
<b>Noncurrent assets:</b>			
Restricted cash, cash equivalents and investments:			
Depreciation cash and investments	743,824	215,221	149,634
Bond and interest cash and investments	-	-	275,609
Bond and interest reserve cash and investments	-	-	429,920
Construction cash and investments	576,368	500,154	373,704
Customer deposits cash and investments	237,436	216,225	-
Quail Hollow cash and investments	21,700	-	-
Equipment reserve cash and investments	-	-	258,201
Accounts receivable (construction)	1,434	-	-
	<u>1,580,762</u>	<u>931,600</u>	<u>1,487,068</u>
<b>Capital assets:</b>			
Land, improvements to land and construction in progress	1,007,853	25,025	-
Other capital assets (net of accumulated depreciation)	23,071,732	24,358,665	8,942,155
	<u>24,079,585</u>	<u>24,383,690</u>	<u>8,942,155</u>
<b>Total noncurrent assets</b>	<u>25,660,347</u>	<u>25,315,290</u>	<u>10,429,223</u>
<b>Total assets</b>	<u>26,857,204</u>	<u>25,860,182</u>	<u>10,927,847</u>
<b><u>Liabilities</u></b>			
<b>Current liabilities:</b>			
Accounts payable	55,770	73,448	13,164
Taxes payable	20,977	-	-
Accrued payroll and withholdings	33,456	41,667	21,274
Compensated absences	72,766	64,370	42,895
Current liabilities payable from restricted assets:			
Contracts payable	21,758	-	-
Customer deposits	237,436	216,225	-
Loan payable	-	-	322,994
	<u>442,163</u>	<u>395,710</u>	<u>400,327</u>
<b>Noncurrent liabilities:</b>			
Loan payable	-	-	2,147,642
<b>Total liabilities</b>	<u>442,163</u>	<u>395,710</u>	<u>2,547,969</u>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	24,079,585	24,383,690	6,471,519
Restricted for debt service	-	-	705,529
Unrestricted	2,335,456	1,080,782	1,202,830
<b>Total net assets</b>	<u>\$ 26,415,041</u>	<u>\$ 25,464,472</u>	<u>\$ 8,379,878</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, 2011

	Water Utility	Wastewater Utility	Storm Water Utility
Operating revenues:			
Unmetered water revenue	\$ 23,499	\$ -	\$ -
Measured revenue:			
Residential	2,240,251	1,716,363	617,421
Industrial	253,611	120,973	642,963
Commercial	616,086	560,761	304,275
Institutional	435,734	459,758	310,792
Other	22,545	38,930	-
Fire protection revenue	778,847	-	-
Forfeited discounts	37,289	67,242	36,649
Other	45,005	149,251	6,926
	<u>4,452,867</u>	<u>3,113,278</u>	<u>1,919,026</u>
Total operating revenues			
Operating expenses:			
Well - operation	106,732	-	-
Well - maintenance	240,799	-	-
Treatment plant - operation	661,998	904,610	-
Treatment plant - maintenance	489,966	511,737	-
Distribution - operation	170,129	-	-
Distribution - maintenance	767,478	-	-
Sewer - operation	-	-	73,856
Sewer - maintenance	-	2,028	833,044
Laboratory expenses	-	226,560	-
Customer accounts	330,459	275,426	43,943
Administration and general	436,684	444,380	355,153
Bad debt expense	20,299	7,141	10,855
Depreciation	927,910	964,402	279,824
Taxes	60,276	-	-
	<u>4,212,730</u>	<u>3,336,284</u>	<u>1,596,675</u>
Total operating expenses			
Operating income (loss)	<u>240,137</u>	<u>(223,006)</u>	<u>322,351</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	13,003	4,070	8,185
Miscellaneous revenue	25,002	1,300	-
Loss on disposal of capital assets	(11,345)	(4,700)	(1,140)
Interest expense	-	-	(76,198)
	<u>26,660</u>	<u>670</u>	<u>(69,153)</u>
Total nonoperating revenues (expenses)			
Income (loss) before contributions	266,797	(222,336)	253,198
Capital contributions	5,725	835	-
Capital contributions from Storm Water Utility	-	304,674	(304,674)
	<u>272,522</u>	<u>83,173</u>	<u>(51,476)</u>
Change in net assets			
Total net assets - beginning	<u>26,142,519</u>	<u>25,381,299</u>	<u>8,431,354</u>
Total net assets - ending	<u>\$ 26,415,041</u>	<u>\$ 25,464,472</u>	<u>\$ 8,379,878</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, 2011

	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,353,101	\$ 3,226,070	\$ 1,885,591
Payments to suppliers and contractors	(1,979,533)	(981,605)	(622,566)
Payments to employees	<u>(1,413,167)</u>	<u>(1,526,052)</u>	<u>(713,696)</u>
Net cash provided by operating activities	<u>960,401</u>	<u>718,413</u>	<u>549,329</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,025,192)	(86,144)	(162,262)
Principal paid on capital debt	-	-	(313,761)
Interest paid on capital debt	-	-	(76,198)
Nonoperating receipts	<u>25,002</u>	<u>1,300</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,000,190)</u>	<u>(84,844)</u>	<u>(552,221)</u>
Cash flows from investing activities:			
Interest received	<u>13,003</u>	<u>4,070</u>	<u>8,185</u>
Net increase (decrease) in cash and cash equivalents	(26,786)	637,639	5,293
Cash and cash equivalents, January 1	<u>2,236,066</u>	<u>501,542</u>	<u>1,642,607</u>
Cash and cash equivalents, December 31	<u>\$ 2,209,280</u>	<u>\$ 1,139,181</u>	<u>\$ 1,647,900</u>
Unrestricted cash and cash equivalents	\$ 629,952	\$ 207,581	\$ 160,832
Restricted cash and cash equivalents	<u>1,579,328</u>	<u>931,600</u>	<u>1,487,068</u>
Cash and cash equivalents, December 31	<u>\$ 2,209,280</u>	<u>\$ 1,139,181</u>	<u>\$ 1,647,900</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ 240,137</u>	<u>\$ (223,006)</u>	<u>\$ 322,351</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	927,910	964,402	279,824
Bad debt expense	20,299	7,141	10,855
(Increase) decrease in assets:			
Accounts receivable - customers	(89,378)	(141,703)	(33,129)
Accounts receivable - other	(11,408)	247,054	(306)
Accounts receivable (construction)	(1,434)	-	-
Inventories	(15,589)	(2,040)	813
Prepaid items	2,936	(437)	(1,437)
Increase (decrease) in liabilities:			
Accounts payable	(98,635)	(141,342)	(24,849)
Accrued payroll and withholdings	(12,603)	(7,298)	(5,156)
Taxes payable	1,613	-	-
Compensated absences	(5,901)	8,202	363
Customer deposits	<u>2,454</u>	<u>7,440</u>	<u>-</u>
Total adjustments	<u>720,264</u>	<u>941,419</u>	<u>226,978</u>
Net cash provided by operating activities	<u>\$ 960,401</u>	<u>\$ 718,413</u>	<u>\$ 549,329</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contracts payable	\$ 21,758	\$ -	\$ -
Capital assets acquired through contributions	5,725	835	-
Transfer of capital assets	-	304,674	(304,674)

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 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.

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.

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

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 because their use is limited by applicable bond covenants.

The financial statements report restricted net assets of \$0; \$0; and \$705,529 for water, waste-water, and storm water, respectively, of which \$705,529 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 leave 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, 2011, the Utilities had deposit balances in the amount of \$4,996,361 (Water Utility \$2,209,280, Wastewater Utility \$1,139,181 and Storm Water Utility \$1,647,900).

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 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.

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

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 percent 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.

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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 340,174	\$ -	\$ -	\$ 340,174
Construction in progress	485,456	947,215	764,992	667,679
Total capital assets, not being depreciated	<u>825,630</u>	<u>947,215</u>	<u>764,992</u>	<u>1,007,853</u>
Capital assets, being depreciated:				
Buildings	9,523,298	-	-	9,523,298
Infrastructure	34,405,714	764,993	49,730	35,120,977
Machinery and equipment	1,359,623	85,919	2,495	1,443,047
Transportation equipment	616,587	-	-	616,587
Totals	<u>45,905,222</u>	<u>850,912</u>	<u>52,225</u>	<u>46,703,909</u>
Less accumulated depreciation for:				
Buildings	5,162,238	186,999	-	5,349,237
Infrastructure	16,748,615	586,782	39,882	17,295,515
Machinery and equipment	409,830	127,716	998	536,548
Transportation equipment	424,464	26,413	-	450,877
Totals	<u>22,745,147</u>	<u>927,910</u>	<u>40,880</u>	<u>23,632,177</u>
Total capital assets, being depreciated, net	<u>23,160,075</u>	<u>(76,998)</u>	<u>11,345</u>	<u>23,071,732</u>
Total capital assets, net	<u>\$ 23,985,705</u>	<u>\$ 870,217</u>	<u>\$ 776,337</u>	<u>\$ 24,079,585</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	280,543	10,113	290,631	25
Total capital assets, not being depreciated	<u>305,543</u>	<u>10,113</u>	<u>290,631</u>	<u>25,025</u>
Capital assets, being depreciated:				
Buildings	22,701,278	-	-	22,701,278
Infrastructure	24,863,814	319,306	14,194	25,168,926
Machinery and equipment	361,684	322,692	-	684,376
Transportation equipment	694,953	7,726	9,400	693,279
Totals	<u>48,621,729</u>	<u>649,724</u>	<u>23,594</u>	<u>49,247,859</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Wastewater Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for (continued):				
Buildings	12,658,510	442,352	-	13,100,862
Infrastructure	10,400,700	428,360	14,194	10,814,866
Machinery and equipment	334,155	39,812	-	373,967
Transportation equipment	<u>550,321</u>	<u>53,878</u>	<u>4,700</u>	<u>599,499</u>
Totals	<u>23,943,686</u>	<u>964,402</u>	<u>18,894</u>	<u>24,889,194</u>
Total capital assets, being depreciated, net	<u>24,678,043</u>	<u>(314,678)</u>	<u>4,700</u>	<u>24,358,665</u>
Total capital assets, net	<u>\$ 24,983,586</u>	<u>\$ (304,565)</u>	<u>\$ 295,331</u>	<u>\$ 24,383,690</u>
Storm Water Utility:				
Capital assets, not being depreciated:				
Construction in progress	<u>\$ 234,955</u>	<u>\$ 94,467</u>	<u>\$ 329,422</u>	<u>\$ -</u>
Capital assets, being depreciated:				
Infrastructure	13,291,892	24,749	-	13,316,641
Machinery and equipment	228,746	38,847	15,063	252,530
Transportation equipment	<u>650,279</u>	<u>-</u>	<u>-</u>	<u>650,279</u>
Totals	<u>14,170,917</u>	<u>63,596</u>	<u>15,063</u>	<u>14,219,450</u>
Less accumulated depreciation for:				
Infrastructure	4,347,978	230,939	-	4,578,917
Machinery and equipment	183,760	11,384	13,924	181,220
Transportation equipment	<u>479,657</u>	<u>37,501</u>	<u>-</u>	<u>517,158</u>
Totals	<u>5,011,395</u>	<u>279,824</u>	<u>13,924</u>	<u>5,277,295</u>
Total capital assets, being depreciated, net	<u>9,159,522</u>	<u>(216,228)</u>	<u>1,139</u>	<u>8,942,155</u>
Total capital assets, net	<u>\$ 9,394,477</u>	<u>\$ (121,761)</u>	<u>\$ 330,561</u>	<u>\$ 8,942,155</u>

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

	<u>2011</u>
Water Utility	\$ 927,910
Wastewater Utility	964,402
Storm Water Utility	<u>279,824</u>
Total depreciation expense	<u>\$ 2,172,136</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	2011	
	Expended to December 31	Committed
Water Utility:		
Filter Upgrade	\$ 349,375	\$ 300,625
Claricone Cover	114,340	482,610
NE Well Field Electrical Upgrade	74,885	2,245
Terrace Avenue	129,079	66,720
Totals	\$ 667,679	\$ 852,200
Wastewater Utility:		
HVAC Administration Building	\$ 25	\$ 297,975

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 \$2,064. The following is a schedule by years of future minimum rental payments as of December 31, 2011:

	Water Utility
2012	\$ 2,064
2013	2,064
2014	2,064
2015	2,064
2016	2,064
Total	\$ 10,320

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 \$259,076, are as follows:

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

	Storm Water Utility	
	Principal	Interest
2012	\$ 322,994	\$ 35,824
2013	332,498	62,282
2014	342,283	52,639
2015	352,355	42,713
2016	362,724	32,495
2017-2018	757,782	33,123
 Totals	 \$ 2,470,636	 \$ 259,076

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan payable:					
Storm Water Utility	\$ 2,784,397	\$ -	\$ 313,761	\$ 2,470,636	\$ 322,994

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	\$ 237,436	\$ 216,225	\$ -
Bond and interest	-	-	275,609
Bond and interest reserve	-	-	429,920
Internally restricted	1,343,326	715,375	781,539
 Total restricted assets	 \$ 1,580,762	 \$ 931,600	 \$ 1,487,068

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 infrastructure 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.

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
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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. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 30, 2005. The Utility has 10,401 customers.

2. Wastewater Utility

The current rate structure was approved by the City of Marion Common Council on February 15, 2011. The Utility has 10,163 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 10,980 customers.

C. 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 Indiana Public Retirement System (INPRS) Board, most requirements of the system and give the City 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 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.

INPRS 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:

CITY OF MARION MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
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Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

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 and is not presented as an asset/liability of the proprietary funds.

CITY OF MARION MUNICIPAL UTILITIES  
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2012, with William M. McElhaney, Utilities Director. Our examination disclosed no material items that warrant comment at this time.