

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, 2013 to December 31, 2013



FILED
08/01/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Utilities Director	John C. Binkerd	01-01-13 to 12-31-14
Office Manager	Mendy S. Cox	01-01-13 to 12-31-14
Controller	Cindy Wright (Vacant) Tamera N. Miller	01-01-13 to 03-08-13 03-09-13 to 03-31-13 04-01-13 to 12-31-14
Mayor	Wayne W. Seybold	01-01-12 to 12-31-15
President of the Utility Service Board	Robert J. Logan	01-01-13 to 12-31-14
President of the Board of Public Works and Safety	Thomas J. Reto Bryan K. Harris	01-01-13 to 12-31-13 01-01-14 to 12-31-14
President of the Common Council	Donald W. Batchelor Henry L. Smith	01-01-13 to 12-31-13 01-01-14 to 12-31-14



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 (Utilities), major enterprise funds, and departments of the City of Marion, as of and for the year ended December 31, 2013. 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, 2013, 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, 2013, 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

June 11, 2014

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF NET POSITION
December 31, 2013

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Current assets:			
Cash and cash equivalents	\$ 187,064	\$ 497,524	\$ 220,918
Accounts receivable (net of allowance)	393,607	399,104	322,667
Inventories	130,766	9,430	33,660
Prepaid items	31,807	22,633	7,781
Loan receivable	250,000	100,000	-
Other receivables	1,317	2,504	2,143
	<hr/>	<hr/>	<hr/>
Total current assets	994,561	1,031,195	587,169
Noncurrent assets:			
Restricted cash and cash equivalents:			
Depreciation cash and cash equivalents	784,625	420,762	141,017
Bond and interest cash and cash equivalents	-	-	249,906
Bond and interest reserve cash and cash equivalents	-	-	429,920
Construction cash and cash equivalents	68,454	483,294	370,429
Customer deposits cash and cash equivalents	257,070	238,170	-
Quail Hollow cash and cash equivalents	21,700	-	-
LTCP cash and cash equivalents	-	717,969	-
Equipment reserve cash and cash equivalents	-	-	57,414
City trash billings cash and cash equivalents	-	26,974	-
Accounts receivable - city trash billings	-	97,657	-
Loan receivable	300,000	950,000	100,000
	<hr/>	<hr/>	<hr/>
Total restricted assets	1,431,849	2,934,826	1,348,686
Capital assets:			
Land and construction in progress	1,877,014	543,561	-
Other capital assets (net of accumulated depreciation)	23,146,625	24,351,539	9,034,312
	<hr/>	<hr/>	<hr/>
Total capital assets	25,023,639	24,895,100	9,034,312
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	26,455,488	27,829,926	10,382,998
	<hr/>	<hr/>	<hr/>
Total assets	27,450,049	28,861,121	10,970,167
	<hr/>	<hr/>	<hr/>
Liabilities			
Current liabilities:			
Accounts payable	79,116	74,450	13,083
Wages payable	50,046	57,555	21,473
Taxes payable	19,108	-	-
Compensated absences payable	63,482	47,881	15,053
Current liabilities payable from restricted assets:			
Accounts payable	7,145	1,000	4,950
Contracts payable	201,035	81,763	79,343
Customer deposits payable	257,070	238,170	-
Due to city - trash billings	-	124,631	-
Loan payable	-	-	342,283
	<hr/>	<hr/>	<hr/>
Total current liabilities	677,002	625,450	476,185
Noncurrent liabilities:			
Loan payable	-	-	1,472,861
	<hr/>	<hr/>	<hr/>
Total liabilities	677,002	625,450	1,949,046
	<hr/>	<hr/>	<hr/>
Net Position			
Net investment in capital assets	25,023,639	24,895,100	7,219,168
Restricted for debt service	-	-	679,826
Unrestricted	1,749,408	3,340,571	1,122,127
	<hr/>	<hr/>	<hr/>
Total net position	\$ 26,773,047	\$ 28,235,671	\$ 9,021,121

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 NET POSITION
As of and for the Year Ended December 31, 2013

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Operating revenues:			
Unmetered revenue	\$ 8,111	\$ -	\$ -
Measured revenue:			
Residential	2,138,328	2,419,307	608,521
Industrial	161,734	188,467	296,232
Commercial	591,808	798,826	668,101
Institutional	450,739	716,091	314,653
Other	23,140	55,835	-
Fire protection revenue	782,768	-	-
Forfeited discounts	34,455	95,229	33,160
Other	47,755	162,387	-
	<u>4,238,838</u>	<u>4,436,142</u>	<u>1,920,667</u>
Total operating revenues			
Operating expenses:			
Wells - operation	99,039	-	-
Wells - maintenance	94,059	-	-
Treatment plant - operation	717,405	978,890	-
Treatment plant - maintenance	543,246	530,761	-
Distribution - operation	94,103	-	-
Distribution - maintenance	716,675	-	-
Sewer - operation	-	-	77,735
Sewer - maintenance	-	14,531	466,293
Laboratory expenses	-	290,182	-
Customer accounts	316,396	328,902	59,450
Administration and general	586,391	366,299	313,966
Bad debt expense	18,195	1,788	36,615
Depreciation	1,001,803	1,033,682	311,824
Taxes	50,507	-	-
	<u>4,237,819</u>	<u>3,545,035</u>	<u>1,265,883</u>
Total operating expenses			
Operating income	<u>1,019</u>	<u>891,107</u>	<u>654,784</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	4,921	8,064	5,217
Miscellaneous revenue	74,668	-	12,823
Gain on disposal of capital assets	8,529	-	20,500
Interest expense	-	-	(57,460)
	<u>88,118</u>	<u>8,064</u>	<u>(18,920)</u>
Total nonoperating revenues (expenses)			
Income before contributions	89,137	899,171	635,864
Capital contributions to Wastewater Utility	(137,999)	445,204	(307,205)
Capital contributions to Storm Water Utility	-	(195,495)	195,495
Capital contributions from private development	41,250	602,351	-
	<u>(7,612)</u>	<u>1,751,231</u>	<u>524,154</u>
Change in net position			
Total net position - beginning	<u>26,780,659</u>	<u>26,484,440</u>	<u>8,496,967</u>
Total net position - ending	<u>\$ 26,773,047</u>	<u>\$ 28,235,671</u>	<u>\$ 9,021,121</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, 2013

	Water Utility	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:			
Receipts from customers and users	\$ 4,227,157	\$ 4,412,316	\$ 1,887,996
Payments to suppliers and contractors	(1,611,371)	(841,437)	(272,023)
Payments to employees for wages and benefits	<u>(1,666,120)</u>	<u>(1,695,630)</u>	<u>(683,823)</u>
Net cash provided by operating activities	<u>949,666</u>	<u>1,875,249</u>	<u>932,150</u>
Cash flows from noncapital financing activities:			
Loans to the City of Marion	(400,000)	(1,200,000)	-
Loan repayments from the City of Marion	400,000	500,000	-
City of Marion trash billings	<u>-</u>	<u>26,974</u>	<u>-</u>
Net cash used by noncapital financing activities	<u>-</u>	<u>(673,026)</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,262,353)	(891,010)	(289,704)
Principal paid on capital debt	-	-	(332,498)
Interest paid on capital debt	-	-	(57,460)
Capital contributions	-	90,738	-
Nonoperating receipts	<u>74,668</u>	<u>-</u>	<u>12,823</u>
Net cash used by capital and related financing activities	<u>(1,187,685)</u>	<u>(800,272)</u>	<u>(666,839)</u>
Cash flows from investing activities:			
Interest received	<u>4,921</u>	<u>8,064</u>	<u>5,217</u>
Net increase (decrease) in cash and cash equivalents	(233,098)	410,015	270,528
Cash and cash equivalents, January 1	<u>1,552,011</u>	<u>1,974,678</u>	<u>1,199,076</u>
Cash and cash equivalents, December 31	<u>\$ 1,318,913</u>	<u>\$ 2,384,693</u>	<u>\$ 1,469,604</u>
Unrestricted cash and cash equivalents	\$ 187,064	\$ 497,524	\$ 220,918
Restricted cash and cash equivalents	<u>1,131,849</u>	<u>1,887,169</u>	<u>1,248,686</u>
Cash and cash equivalents, December 31	<u>\$ 1,318,913</u>	<u>\$ 2,384,693</u>	<u>\$ 1,469,604</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 1,019</u>	<u>\$ 891,107</u>	<u>\$ 654,784</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	1,001,803	1,033,682	311,824
Bad debt expense	18,195	1,788	36,615
(Increase) decrease in assets:			
Accounts receivable	(22,831)	(35,239)	(32,698)
Inventories	(25,224)	(2,313)	697
Prepaid items	16,800	(2,320)	(576)
Other receivables	(676)	(352)	27
Increase (decrease) in liabilities:			
Accounts payable	(44,861)	(34,591)	(16,046)
Wages payable	8,415	16,863	(389)
Taxes payable	(1,758)	-	-
Compensated absences payable	(13,042)	(5,141)	(27,038)
Contracts payable	-	-	4,950
Customer deposits payable	<u>11,826</u>	<u>11,765</u>	<u>-</u>
Total adjustments	<u>948,647</u>	<u>984,142</u>	<u>277,366</u>
Net cash provided by operating activities	<u>\$ 949,666</u>	<u>\$ 1,875,249</u>	<u>\$ 932,150</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through accounts payable	\$ 7,145	\$ 1,000	\$ -
Capital assets acquired through contracts payable	201,035	81,763	79,343
Capital assets acquired through trade-ins	8,529	-	20,500
Capital assets acquired through private contributions	41,250	511,613	-
Transfer of capital assets (net)	<u>(137,999)</u>	<u>249,709</u>	<u>(111,710)</u>

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 Position; Statement of Revenues, Expenses, and Changes in Net Position; 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.

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 Position or Equity

1. Deposits and Investments

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

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

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

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

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

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

The financial statements report assets restricted by bond covenants of \$0; \$0; and \$679,826 for the Water, Wastewater, and Storm Water Utilities, respectively, of which \$679,826 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.

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.

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

- 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 vacation leave is paid to employees through cash payments upon termination or retirement.

Sick leave and annual leave is 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 Position. Bond premiums and discounts 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.

II. Detailed Notes on All Funds

A. Deposits and Investments

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, 2013, the deposit balances were \$1,318,913, \$2,384,693 and \$1,469,604 for the Water, Wastewater, and Storm Water Utilities, respectively.

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.

B. Loans Receivable

Loans receivable from the City of Marion (City) were \$1,000,000 at December 31, 2012. Loans totaling \$1,600,000 were made to the City in 2013. The City repaid \$900,000 during the year. At December 31, 2013, the Utilities had loans receivable of \$1,700,000 (Water Operating \$250,000; Water Construction \$300,000; Wastewater Operating \$100,000; Wastewater Depreciation \$100,000; Wastewater Construction \$350,000; Wastewater Long-Term Control Plan \$500,000; Storm Water Construction \$100,000).

C. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 340,174	\$ -	\$ -	\$ 340,174
Construction in progress	<u>1,754,311</u>	<u>1,203,522</u>	<u>1,420,993</u>	<u>1,536,840</u>
Total capital assets, not being depreciated	<u>2,094,485</u>	<u>1,203,522</u>	<u>1,420,993</u>	<u>1,877,014</u>
Capital assets, being depreciated:				
Buildings	9,606,317	710,296	-	10,316,613
Infrastructure	35,365,501	613,949	5,847	35,973,603
Machinery and equipment	1,449,814	116,709	-	1,566,523
Transportation equipment	<u>790,498</u>	<u>74,581</u>	<u>37,896</u>	<u>827,183</u>
Totals	<u>47,212,130</u>	<u>1,515,535</u>	<u>43,743</u>	<u>48,683,922</u>
Less accumulated depreciation for:				
Buildings	5,537,396	202,365	-	5,739,761
Infrastructure	17,880,562	603,782	5,847	18,478,497
Machinery and equipment	674,282	145,684	-	819,966
Transportation equipment	<u>486,997</u>	<u>49,972</u>	<u>37,896</u>	<u>499,073</u>
Totals	<u>24,579,237</u>	<u>1,001,803</u>	<u>43,743</u>	<u>25,537,297</u>
Total capital assets, being depreciated, net	<u>22,632,893</u>	<u>513,732</u>	<u>-</u>	<u>23,146,625</u>
Total capital assets, net	<u>\$ 24,727,378</u>	<u>\$ 1,717,254</u>	<u>\$ 1,420,993</u>	<u>\$ 25,023,639</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$ 2,443	\$ -	\$ 27,443
Construction in progress	<u>579,016</u>	<u>834,065</u>	<u>896,963</u>	<u>516,118</u>
Total capital assets, not being depreciated	<u>604,016</u>	<u>836,508</u>	<u>896,963</u>	<u>543,561</u>
Capital assets, being depreciated:				
Buildings	22,701,278	786,298	-	23,487,576
Infrastructure	25,361,986	951,178	-	26,313,164
Machinery and equipment	697,158	-	-	697,158
Transportation equipment	<u>629,179</u>	<u>-</u>	<u>-</u>	<u>629,179</u>
Totals	<u>49,389,601</u>	<u>1,737,476</u>	<u>-</u>	<u>51,127,077</u>
Less accumulated depreciation for:				
Buildings	13,543,214	481,667	-	14,024,881
Infrastructure	11,243,544	489,583	-	11,733,127
Machinery and equipment	409,829	40,862	-	450,691
Transportation equipment	<u>545,269</u>	<u>21,570</u>	<u>-</u>	<u>566,839</u>
Totals	<u>25,741,856</u>	<u>1,033,682</u>	<u>-</u>	<u>26,775,538</u>
Total capital assets, being depreciated, net	<u>23,647,745</u>	<u>703,794</u>	<u>-</u>	<u>24,351,539</u>
Total capital assets, net	<u>\$ 24,251,761</u>	<u>\$ 1,540,302</u>	<u>\$ 896,963</u>	<u>\$ 24,895,100</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>
Storm Water Utility:				
Capital assets, not being depreciated:				
Construction in progress	\$ 140,866	\$ 272,508	\$ 413,374	\$ -
Capital assets, being depreciated:				
Infrastructure	13,371,091	236,663	-	13,607,754
Machinery and equipment	252,530	-	-	252,530
Transportation equipment	<u>749,895</u>	<u>182,040</u>	<u>49,410</u>	<u>882,525</u>
Totals	<u>14,373,516</u>	<u>418,703</u>	<u>49,410</u>	<u>14,742,809</u>
Less accumulated depreciation for:				
Infrastructure	4,810,945	245,025	-	5,055,970
Machinery and equipment	192,246	10,427	-	202,673
Transportation equipment	<u>442,892</u>	<u>56,372</u>	<u>49,410</u>	<u>449,854</u>
Totals	<u>5,446,083</u>	<u>311,824</u>	<u>49,410</u>	<u>5,708,497</u>
Total capital assets, being depreciated, net	<u>8,927,433</u>	<u>106,879</u>	<u>-</u>	<u>9,034,312</u>
Total capital assets, net	<u>\$ 9,068,299</u>	<u>\$ 379,387</u>	<u>\$ 413,374</u>	<u>\$ 9,034,312</u>

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

Water	\$ 1,001,803
Wastewater	1,033,682
Storm Water	<u>311,824</u>
Total depreciation expense	<u>\$ 2,347,309</u>

D. Construction Commitments

Construction work in progress is composed of the following:

	<u>2013</u>	
<u>Project</u>	<u>Expended to December 31</u>	<u>Committed</u>
Water Utility:		
Filter Upgrade	\$ 1,531,989	\$ 1,441,923
SR 18 Booster Station	<u>4,851</u>	<u>50,149</u>
Totals	<u>\$ 1,536,840</u>	<u>\$ 1,492,072</u>

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

<u>Project</u>	2013	
	Expended to December 31	Committed
Wastewater Utility:		
Screening Project	\$ 482,454	\$ 67,546
Pump Station Headworks	10,447	1,989,553
38th Street Lift Station	23,217	49,783
Totals	\$ 516,118	\$ 2,106,882

E. 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, 2013:

	Water Utility
2014	\$ 2,064
2015	2,064
2016	2,064
Total	\$ 6,192

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 \$134,651, are as follows:

	Storm Water Utility	
	Principal	Interest
2014	\$ 342,283	\$ 26,320
2015	352,355	42,713
2016	362,724	32,495
2017	373,397	21,976
2018	384,385	11,147
Totals	\$ 1,815,144	\$ 134,651

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

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan payable:					
Storm Water Utility	\$ 2,147,642	\$ -	\$ 332,498	\$ 1,815,144	\$ 342,283

G. Restricted Assets

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

	Water Utility	Wastewater Utility	Storm Water Utility
Customer deposits	\$ 257,070	\$ 238,170	\$ -
Bond and interest	-	-	249,906
Bond and interest reserve	-	-	429,920
City trash billings	-	124,631	-
Internally restricted	<u>1,174,779</u>	<u>2,572,025</u>	<u>668,860</u>
Total restricted assets	<u>\$ 1,431,849</u>	<u>\$ 2,934,826</u>	<u>\$ 1,348,686</u>

H. 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.

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.

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

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 approximately 11,486 customers.

2. Wastewater Utility

The current rate structure was approved by the City of Marion Common Council on February 15, 2011. The rate structure has a rate increase built in each year from 2011 to 2026. The average increase for 2013 was approximately 9 percent. The Utility has approximately 11,034 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 11,864 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 this 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 members' 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. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capitol 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 June 11, 2014, with John C. Binkerd, Utilities Director, and Shana J. Martin, Accounting Specialist.