

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

FINANCIAL STATEMENTS AUDIT REPORT

CITY OF MARION MUNICIPAL UTILITIES

GRANT COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
09/05/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-4
Basic Financial Statements and Accompanying Notes:	
Fund Financial Statements:	
Statement of Net Position	6
Statement of Revenues, Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements.....	9-18
Other Reports.....	19

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Retha S. Hicks	01-01-15 to 12-31-15
	Julie L. Flores	01-01-16 to 12-31-17
Mayor	Wayne W. Seybold	01-01-12 to 12-31-15
	Jess Alumbaugh	01-01-16 to 12-31-19
President of the Utility Service Board	Robert J. Logan	01-01-15 to 12-31-17
President of the Board of Public Works and Safety	Bryan K. Harris	01-01-15 to 01-24-16
	Joselyn M. Whitticker (interim)	01-25-16 to 04-17-16
	Alex D. Huskey	04-18-16 to 12-31-16
	Adam Binkerd	01-01-17 to 06-19-17
	(Vacant)	06-20-17 to 07-02-17
	Cindy Cunningham	07-03-17 to 12-31-17
President of the Common Council	Joselyn M. Whitticker	01-01-15 to 12-31-15
	James Brunner	01-01-16 to 12-31-17
Utilities Director	John C. Binkerd	01-01-15 to 12-31-17
Utility Office Manager	Mendy S. Cox	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the City of Marion Municipal Utilities (Utilities), departments of the City of Marion, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT
(Continued)


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unmodified Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utilities, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

July 3, 2017

BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

CITY OF MARION MUNICIPAL UTILITIES
STATEMENT OF NET POSITION
December 31, 2015

<u>Assets</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>	<u>Solid Waste Utility</u>
Current assets:				
Cash and cash equivalents	\$ 453,217	\$ 283,742	\$ 188,339	\$ 439,977
Accounts receivable (net of allowance)	418,069	458,759	382,995	159,542
Inventories	128,637	18,744	25,722	-
Prepaid items	30,878	25,378	13,092	-
Loan receivable	250,000	100,000	-	-
Other receivables	1,155	500	-	-
	<u>1,281,956</u>	<u>887,123</u>	<u>610,148</u>	<u>599,519</u>
Noncurrent assets:				
Restricted cash and cash equivalents:				
Depreciation cash and cash equivalents	390,491	585,703	7,101	-
Bond and interest cash and cash equivalents	-	6,366,576	210,258	-
Bond and interest reserve cash and cash equivalents	-	608,513	429,920	-
Construction cash and cash equivalents	356,108	576,555	554,004	-
Customer deposits cash and cash equivalents	262,952	232,766	-	34,861
Quail Hollow cash and cash equivalents	21,700	-	-	-
LTCP cash and cash equivalents	-	2,187,962	-	-
Equipment reserve cash and cash equivalents	-	-	113,188	-
H2O cash and cash equivalents	-	2,134	-	-
Interest receivable	-	6,178	-	-
Loan receivable	300,000	1,450,000	100,000	-
	<u>1,331,251</u>	<u>12,016,387</u>	<u>1,414,471</u>	<u>34,861</u>
Capital assets:				
Land and construction in progress	443,492	1,500,306	29,384	-
Other capital assets (net of accumulated depreciation)	24,418,372	24,115,967	9,517,648	-
	<u>24,861,864</u>	<u>25,616,273</u>	<u>9,547,032</u>	<u>-</u>
Total noncurrent assets	<u>26,193,115</u>	<u>37,632,660</u>	<u>10,961,503</u>	<u>34,861</u>
Total assets	<u>27,475,071</u>	<u>38,519,783</u>	<u>11,571,651</u>	<u>634,380</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	106,179	72,092	12,137	103,863
Wages payable	18,023	20,026	8,465	5,600
Taxes payable	18,673	-	-	-
Compensated absences payable	100,183	137,365	72,810	17,143
Interest payable	-	-	-	1,118
Current liabilities payable from restricted assets:				
Accounts payable	-	-	8,148	-
Contracts payable	22,880	78,527	42,250	-
Customer deposits	262,952	232,766	-	34,861
Interest payable	5,060	-	-	-
Due to H2O Community Fund	-	2,134	-	-
Loan payable	300,000	-	362,724	200,000
	<u>833,950</u>	<u>542,910</u>	<u>506,534</u>	<u>362,585</u>
Total current liabilities	<u>833,950</u>	<u>542,910</u>	<u>506,534</u>	<u>362,585</u>
Noncurrent liabilities:				
Bonds payable (net of unamortized premium and discount)	-	8,700,582	-	-
Loan payable	-	-	757,782	-
	<u>-</u>	<u>-</u>	<u>757,782</u>	<u>-</u>
Total liabilities	<u>833,950</u>	<u>9,243,492</u>	<u>1,264,316</u>	<u>362,585</u>
<u>Net position</u>				
Net investment in capital assets	24,861,864	16,915,691	8,426,526	-
Restricted for debt service	-	6,975,089	640,178	-
Unrestricted	1,779,257	5,385,511	1,240,631	271,795
	<u>26,641,121</u>	<u>29,276,291</u>	<u>10,307,335</u>	<u>271,795</u>
Total net position	<u>\$ 26,641,121</u>	<u>\$ 29,276,291</u>	<u>\$ 10,307,335</u>	<u>\$ 271,795</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 NET POSITION
As Of And For The Year Ended December 31, 2015

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Operating revenues:				
Unmetered revenue	\$ 5,499	\$ -	\$ -	\$ -
Measured revenue:				
Residential	2,055,208	2,694,678	607,326	1,359,331
Industrial	178,434	263,291	278,354	-
Commercial	581,051	916,801	645,211	-
Institutional	432,853	787,342	312,107	-
Other	22,380	132,505	-	9
Fire protection revenue	766,587	-	-	-
Forfeited discounts	33,044	104,055	32,932	132,381
Other	40,915	267,444	13,631	-
Total operating revenues	4,115,971	5,166,116	1,889,561	1,491,721
Operating expenses:				
Wells - operation	109,215	-	-	-
Wells - maintenance	148,761	-	-	-
Treatment plant - operation	938,449	1,349,313	-	-
Treatment plant - maintenance	497,667	618,680	-	-
Distribution - operation	84,242	-	-	-
Distribution - maintenance	704,899	-	-	-
Storm Water - operation	-	-	103,710	-
Storm Water - maintenance	-	-	583,340	-
Solid Waste - operation	-	-	-	1,087,999
Solid Waste - maintenance	-	-	-	47,310
Laboratory expenses	-	335,953	-	-
Customer accounts	238,134	335,702	80,617	7,950
Administration and general	465,073	811,489	401,222	76,492
Depreciation	1,076,793	1,078,276	355,969	-
Taxes	51,400	-	-	-
Total operating expenses	4,314,633	4,529,413	1,524,858	1,219,751
Operating income	(198,662)	636,703	364,703	271,970
Nonoperating revenues (expenses):				
Interest and investment revenue	3,650	12,769	4,503	943
Miscellaneous revenue	46,383	-	8,391	-
Gain on disposal of capital assets	1,500	-	8,000	-
Interest expense	(5,393)	(1,107)	(37,857)	(1,118)
Total nonoperating revenues (expenses)	46,140	11,662	(16,963)	(175)
Income before contributions	(152,522)	648,365	347,740	271,795
Capital contributions to Wastewater Utility	-	205,845	(205,845)	-
Capital contributions to Storm Water Utility	-	(641,680)	641,680	-
Change in net position	(152,522)	212,530	783,575	271,795
Total net position - beginning	26,793,643	29,063,761	9,523,760	-
Total net position - ending	\$ 26,641,121	\$ 29,276,291	\$ 10,307,335	\$ 271,795

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, 2015

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 4,085,837	\$ 5,154,156	\$ 1,835,948	\$ 1,367,040
Payments to suppliers and contractors	(1,657,760)	(1,514,098)	(382,813)	(1,063,029)
Payments to employees for wages and benefits	(1,587,778)	(1,969,369)	(766,838)	(30,116)
Net cash provided by operating activities	<u>840,299</u>	<u>1,670,689</u>	<u>686,297</u>	<u>273,895</u>
Cash flows from noncapital financing activities:				
Loan from/to other utilities	(300,000)	100,000	-	200,000
Interest from/to other utilities	(2,638)	-	(253)	-
City of Marion trash billings	-	(44,167)	-	-
Net cash used by noncapital financing activities	<u>(302,638)</u>	<u>55,833</u>	<u>(253)</u>	<u>200,000</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(379,034)	(2,059,840)	(591,742)	-
Proceeds from sale of capital assets	1,500	-	-	-
Proceeds from capital debt	-	8,700,582	-	-
Principal paid on capital debt	-	-	(352,355)	-
Interest paid on capital debt	-	(92,278)	(37,604)	-
Nonoperating receipts	46,383	-	8,391	-
Net cash used by capital and related financing activities	<u>(331,151)</u>	<u>6,548,464</u>	<u>(973,310)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	3,650	8,896	4,503	943
Net increase (decrease) in cash and cash equivalents	210,160	8,283,882	(282,763)	474,838
Cash and cash equivalents, January 1	<u>1,274,308</u>	<u>2,560,069</u>	<u>1,785,573</u>	<u>-</u>
Cash and cash equivalents, December 31	<u>\$ 1,484,468</u>	<u>\$ 10,843,951</u>	<u>\$ 1,502,810</u>	<u>\$ 474,838</u>
Unrestricted cash and cash equivalents	\$ 453,217	\$ 283,742	\$ 188,339	\$ 439,977
Restricted cash and cash equivalents	<u>1,031,251</u>	<u>10,560,209</u>	<u>1,314,471</u>	<u>34,861</u>
Cash and cash equivalents, December 31	<u>\$ 1,484,468</u>	<u>\$ 10,843,951</u>	<u>\$ 1,502,810</u>	<u>\$ 474,838</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (198,662)	\$ 636,703	\$ 364,703	\$ 271,970
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	1,076,793	1,078,276	355,969	-
(Increase) decrease in assets:				
Accounts receivable	(33,166)	(11,246)	(55,263)	(159,542)
Inventories	5,869	(12,740)	9,942	-
Prepaid items	(2,504)	(952)	(4,725)	-
Other receivables	3,642	4,905	1,650	-
Increase (decrease) in liabilities:				
Accounts payable	(6,022)	(19,093)	(2,300)	103,863
Wages payable	(37,177)	(47,647)	(19,017)	5,600
Taxes payable	(314)	-	-	-
Compensated absences payable	26,655	66,961	49,905	17,143
Accounts payable - restricted	-	(18,859)	653	-
Other liabilities - restricted	(1,050)	2,134	-	-
Contracts payable - restricted	6,530	-	(15,220)	-
Customer deposits	(295)	(7,754)	-	34,861
Total adjustments	<u>1,038,961</u>	<u>1,033,985</u>	<u>321,594</u>	<u>1,925</u>
Net cash provided by operating activities	<u>\$ 840,299</u>	<u>\$ 1,670,688</u>	<u>\$ 686,297</u>	<u>\$ 273,895</u>
Noncash investing, capital and financing activities:				
Capital assets acquired through accounts payable - restricted	\$ -	\$ -	\$ 7,495	\$ -
Capital assets acquired through contracts payable - restricted	16,350	76,757	42,250	-
Capital assets acquired through trade-ins	-	-	8,000	-

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; \$6,975,089; \$640,178 and \$0 for the Water, Wastewater, Storm Water and Solid Waste Utilities, respectively, of which \$6,975,089 and \$640,178 are restricted for Wastewater and 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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 annual 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.

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

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, 2015, the deposit balances were \$1,484,468, \$10,843,951, \$1,502,810 and \$474,838 for the Water, Wastewater, Storm Water and Solid Waste 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 in 2013. There was no loan activity with the City during 2014 and 2015. At December 31, 2015, the Utilities had loans receivable from the City 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).

The Wastewater Utility loaned \$600,000 to the Water Utility in 2014 and \$200,000 to the Solid Waste Utility in 2015, \$300,000 of the Water Utility loan and the entire \$200,000 Solid Waste Utility loan is still outstanding at December 31, 2015.

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

C. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Water Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 340,174	\$ -	\$ -	\$ 340,174
Construction in progress	2,970,025	268,447	3,135,154	103,318
Total capital assets, not being depreciated	<u>3,310,199</u>	<u>268,447</u>	<u>3,135,154</u>	<u>443,492</u>
Capital assets, being depreciated:				
Buildings	10,316,613	3,135,154	-	13,451,767
Infrastructure	36,020,733	-	1,188	36,019,545
Machinery and equipment	1,656,131	41,017	-	1,697,148
Transportation equipment	847,283	30,000	11,657	865,626
Totals	<u>48,840,760</u>	<u>3,206,171</u>	<u>12,845</u>	<u>52,034,086</u>
Less accumulated depreciation for:				
Buildings	(5,942,126)	(265,068)	-	(6,207,194)
Infrastructure	(19,083,848)	(605,351)	(1,188)	(19,688,011)
Machinery and equipment	(974,611)	(151,267)	-	(1,125,878)
Transportation equipment	(551,180)	(55,107)	(11,657)	(594,630)
Totals	<u>(26,551,765)</u>	<u>(1,076,793)</u>	<u>(12,845)</u>	<u>(27,615,713)</u>
Total capital assets, being depreciated, net	<u>22,288,995</u>	<u>2,129,378</u>	<u>-</u>	<u>24,418,373</u>
Total capital assets, net	<u>\$ 25,599,194</u>	<u>\$ 2,397,825</u>	<u>\$ 3,135,154</u>	<u>\$ 24,861,865</u>
<u>Wastewater Utility:</u>				
Capital assets, not being depreciated:				
Land	\$ 27,963	\$ 572	\$ -	\$ 28,535
Construction in progress	637,704	2,084,222	1,250,155	1,471,771
Total capital assets, not being depreciated	<u>665,667</u>	<u>2,084,794</u>	<u>1,250,155</u>	<u>1,500,306</u>
Capital assets, being depreciated:				
Buildings	23,555,565	521,441	-	24,077,006
Infrastructure	26,572,417	205,845	669	26,777,593
Machinery and equipment	1,331,434	99,667	-	1,431,101
Transportation equipment	629,179	97,461	-	726,640
Totals	<u>52,088,595</u>	<u>924,414</u>	<u>669</u>	<u>53,012,340</u>
Less accumulated depreciation for:				
Buildings	(14,459,454)	(459,571)	-	(14,919,025)
Infrastructure	(12,227,895)	(490,825)	(669)	(12,718,051)
Machinery and equipment	(550,730)	(110,006)	-	(660,736)
Transportation equipment	(580,688)	(17,874)	-	(598,562)
Totals	<u>(27,818,767)</u>	<u>(1,078,276)</u>	<u>(669)</u>	<u>(28,896,374)</u>
Total capital assets, being depreciated, net	<u>24,269,828</u>	<u>(153,862)</u>	<u>-</u>	<u>24,115,966</u>
Total capital assets, net	<u>\$ 24,935,495</u>	<u>\$ 1,930,932</u>	<u>\$ 1,250,155</u>	<u>\$ 25,616,272</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>
<u>Storm Water Utility:</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 323	\$ 341,171	\$ 312,110	\$ 29,384
Capital assets, being depreciated:				
Infrastructure	13,643,471	747,944	599	14,390,816
Machinery and equipment	253,730	2,490	5,995	250,225
Transportation equipment	947,625	304,626	25,039	1,227,212
 Totals	 <u>14,844,826</u>	 <u>1,055,060</u>	 <u>31,633</u>	 <u>15,868,253</u>
Less accumulated depreciation for:				
Infrastructure	(5,301,710)	(260,381)	(599)	(5,561,492)
Machinery and equipment	(213,219)	(10,795)	(5,995)	(218,019)
Transportation equipment	(511,340)	(84,793)	(25,039)	(571,094)
 Totals	 <u>(6,026,269)</u>	 <u>(355,969)</u>	 <u>(31,633)</u>	 <u>(6,350,605)</u>
 Total capital assets, being depreciated, net	 <u>8,818,557</u>	 <u>699,091</u>	 <u>-</u>	 <u>9,517,648</u>
 Total capital assets, net	 <u>\$ 8,818,880</u>	 <u>\$ 1,040,262</u>	 <u>\$ 312,110</u>	 <u>\$ 9,547,032</u>

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

Water	\$ 1,076,793
Wastewater	1,078,276
Storm Water	<u>355,969</u>
Total depreciation expense	<u>\$ 2,511,038</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2015</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
Water Utility:		
CUSI Software Milestones	\$ 69,098	\$ 6,752
CIP W0-14-13 Lagoon Renovation	<u>34,220</u>	<u>215,780</u>
 Totals	 <u>\$ 103,318</u>	 <u>\$ 222,532</u>

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

Wastewater Utility:

CUSI Software Milestones	\$ 79,605	\$ 16,745
CIP WW00-15-01 Aeration Improvements	7,676	92,324
CIP 06-15-10 1300 N. Washington Street Improvements	320,600	245,550
CIP 22-15-01 Boots Creek CSO Separation	900,723	2,599,277
CIP 06-15-29 Wet Well project	132,416	1,967,584
CIP 06-15-30 Aeration Upgrades	7,756	242,244
CIP 06-15-28 1400 N Washington St	<u>22,994</u>	<u>727,006</u>

Totals	<u>\$ 1,471,770</u>	<u>\$ 5,890,730</u>
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Storm Water Utility:

CUSI Software Milestones	<u>\$ 29,384</u>	<u>\$ 3,416</u>
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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, 2015:

	Water Utility
2016	\$ 2,064
2017	1,931
2018	1,931
2019	1,931
2020	1,931
2021-2022	<u>2,414</u>
Total	<u>\$ 12,202</u>

F. Long-Term Liabilities

1. Revenue Bonds

The Wastewater Utility issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Balance at 12/31/15	Plus: Unamortized Bond Premium	Less: Unamortized Bond Discount	Amount
2015 Sewage Works Revenue Bonds	3% to 3.5%	<u>\$ 8,610,000</u>	<u>\$ 148,324</u>	<u>\$ 57,742</u>	<u>\$ 8,700,582</u>

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

Revenue bonds debt service requirements to maturity are as follows:

	Wastewater Utility	
	Principal	Interest
2016	\$ -	\$ 136,756
2017	335,000	273,513
2018	335,000	263,463
2019	340,000	253,413
2020	350,000	243,213
2021-2025	1,875,000	1,054,062
2026-2030	2,180,000	755,150
2031-2035	2,610,000	379,011
2036	585,000	20,475
Totals	\$ 8,610,000	\$ 3,379,056

2. 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 \$49,370 are as follows:

	Storm Water Utility	
	Principal	Interest
2016	362,724	16,247
2017	373,397	21,976
2018	384,385	11,147
Totals	\$ 1,120,506	\$ 49,370

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Wastewater Utility:					
Revenue bonds payable	\$ -	\$ 8,610,000	\$ -	\$ 8,610,000	\$ -
Storm Water Utility:					
Loan payable	\$ 1,472,861	\$ -	\$ 352,355	\$ 1,120,506	\$ 362,724

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

G. Restricted Assets

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

	Water Utility	Wastewater Utility	Storm Water Utility	Solid Waste Utility
Customer deposits	\$ 262,952	\$ 232,766	\$ -	\$ 34,861
Bond and interest	-	6,366,576	210,258	-
Bond and interest reserve	-	608,513	429,920	-
Internally restricted	<u>1,068,299</u>	<u>4,808,532</u>	<u>774,293</u>	<u>-</u>
Total restricted assets	<u>\$ 1,331,251</u>	<u>\$ 12,016,387</u>	<u>\$ 1,414,471</u>	<u>\$ 34,861</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.

The Wastewater Utility has pledged future operating revenues, net of specified operating expenditures, to repay revenue bonds issued in 2015. Proceeds from the bonds provided financing for wastewater improvement projects. The bonds are payable solely from net operating revenues and are payable through 2036. Annual principal and interest payments are expected to require less than 12 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. 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 10,761 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 rate structure has a rate increase built in each year from 2011 to 2026. The average increase for 2015 was approximately 7.5 percent. The Utility has approximately 11,002 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 11,901 customers.

4. Solid Waste Utility

The current rate structure was approved by the City of Marion Common Council on December 2, 2014. The Utility has approximately 9,121 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. On July 1, 2013, PERF changed from an agent multiple-employer to a cost-sharing multiple-employer retirement plan. 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
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Subsequent Events

A lease of \$2,006,948 dated February 29, 2016 was entered into for the acquisition of equipment necessary to operate the Solid Waste Utility.

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.